WORLD GOLD COUNCIL

London, 21 March 2024

Response to Basel Committee on Banking Supervision Consultative Document: Cryptoasset standard amendment

The World Gold Council welcomes the opportunity to comment on the Basel Committee on Banking Supervision consultative document amending its standard on the prudential treatment of banks' exposures to cryptoassets.

About the World Gold Council

The World Gold Council is dedicated to ensuring that gold remains an integral part of the global economy.

We are an association whose 32 members are the world's leading gold mining companies with operations in over 45 countries, and our initiatives impact every aspect of the gold industry. We aim at:

- Improving access to gold by tackling regulatory and infrastructure barriers to gold investment
- Improving understanding of the gold market and the role of gold as an investment asset
- Developing industry standards and improving integrity and trust in gold.

Since we were founded in 1987, the structure and size of the gold industry has changed dramatically. The gold market has almost doubled in size and grown seven-fold in value. Today, gold is increasingly recognised as a mainstream asset that meaningfully contributes to prosperity, financial market stability, and society as a whole.

The World Gold Council's ambition is to further the digital transformation of the global gold market to meet the expectations of today's consumers, investors, and the financial services community. The tokenisation of gold and digitalisation of trading and supply management processes, is essential to the modernisation of the market.

The World Gold Council is a Partner Member of the Financial Markets Standards Board (FMSB) in the United Kingdom, and our CEO, David Tait, chairs its Precious Metals Working Group.

Below we provide our feedback to the consultation and remain at your disposal should you have any questions.

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Yours sincerely,
The World Gold Council

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Feedback to the consultation

The World Gold Council very much appreciates the BCBS's work on the prudential treatment of cryptoasset exposures and the resulting changes to the Basel Framework.

In section 2.1 of the consultative document on cryptoasset standard amendments, the BCBS classifies gold referenced tokens as Group 1b cryptoassets.

Considering the criteria outlined in paragraphs 60.6 to 60.19 (including the amendments made to 60.11, 60.12, 60.14, 60.15(2), and 60.18), the World Gold Council would like to point out that tokens referencing direct ownership in physical gold meet all the conditions for Group 1a stablecoins. Consequently, they should be classified as Group 1a stablecoins rather than being categorised as 1b stablecoins.

Tokens referencing direct ownership in physical gold are 1:1 backed by physical gold. They do not constitute the financial liability of the issuer. There are no risks from leverage, because physically backed tokens do not permit leverage by the issuer. They do not incur risks from asset-liability mismatch, nor maturity mismatch risks.

Below we examine the characteristics of tokens referencing direct ownership in physical gold in light of the criteria outlined in paragraphs 60.6 to 60.19 and illustrate how these tokens satisfy all the criteria for Group 1a stablecoins.

Classification condition 1:

60.8: A token referencing direct ownership in gold represents a tokenised traditional asset.

60.9(1): Tokens referencing physical gold are digital representations of physical gold, using DLT technology to record ownership.

60.9(2): They pose the same level of credit and market risks as physical gold. In fact, tokens representing direct ownership in gold bear no credit risk at all.

60.10(1): Tokens 1:1 backed by physical gold (tokens referencing direct ownership in physical gold) do not require conversion into physical gold to obtain the same legal rights as direct ownership of physical gold and

60.10(2) they do not involve additional counterparty credit risks relative to physical gold.

60.11. A token referencing ownership in custodied gold is a tokenised traditional asset, and not a cryptoasset with a stabilisation mechanism.[1]

60.12(1): As the token represents 1:1 ownership in the respective amount of gold, the value and composition of reserve assets (physical gold) equals the value of the token.

60.12(2): Criterion 60.12(2) concerns the asset quality criteria for reserves assets for cryptoassets pegged solely to currencies - and

60.12(3): the World Gold Council welcomes the addition of SCO60.12(3) regarding the asset quality criteria for reserve assets for cryptoassets not pegged to currencies. Tokens

[1] The majority of gold tokens available on the market grant purchasers direct ownership of custodied gold. Tokens referencing direct ownership in custodied gold are distinct from 'synthetic' gold tokens which merely track the price of gold.

referencing direct ownership in custodied gold meet this requirement. The reserve asset presents the same risk profile as the reference asset.

60.12(4): The fulfilment of governance arrangements relating to the management of reserve assets is directly related to the fact that the reserve asset is the reference asset.

60.13: Tokens referencing direct ownership in custodied gold neither reference other cryptoassets (nor any other assets) as underlying assets, nor use protocols to increase or decrease the supply of the cryptoasset.

Classification condition 2

60.14: All rights and obligations arising from the gold token arrangement can be clearly defined and legally enforceable in the jurisdictions where the asset is issued and redeemed.

60.15(1): Gold token arrangements can guarantee transferability, settlement, legal claim against the issuer, and full redeemability.

According to this paragraph, to be deemed fully redeemable, a cryptoasset arrangement must permit redemption within 5 calendar days. We would like to suggest that the redemption period be agreed upon between the token issuer and the purchaser. A fixed 5-calendar-day redemption period, especially for assets involving logistics, may present challenges at times. This operational issue can be effectively resolved through contractual arrangements between the issuer and the buyer. [2]

60.15(2): Proper documentation of cryptoasset arrangements can be ensured.

Classification condition 3

60.16: The functions of the gold token and its operational network can be designed to mitigate material risks as specified in points 60.17(1) and 60.17(2), in which case:

60.17(1): the functions of the cryptoasset would not pose any material risks that could impair the transferability, settlement, or redeemability of the cryptoasset.

60.17(2): Key elements of the network can be structured to ensure traceability of transactions and participants.

Classification condition 4

60.18: Entities that execute redemptions, transfers, storage or settlement of the asset are/can be regulated (once regulation is in place), supervised, or subject to appropriate risk management standards, and have in place a comprehensive governance framework.

As demonstrated above, tokens referencing direct ownership in physical gold meet all requirements to be classified as Group 1a stablecoins. Therefore, they should be categorised as Group 1a stablecoins rather than Group 1b stablecoins. Enhancing clarity regarding this matter explicitly within chapter SCO60 would be beneficial.

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[2] The EU's Markets in Crypto Assets (MiCA) regulation follows a similar approach, with the regulation not specifying a minimum redemption period.