Agenda

• Gold as a Foreign Reserve Asset

• Issues Related to the Accounting for Monetary Gold

• Guidance on the Recommended Practice in Accounting for Monetary Gold
Gold as a Foreign Reserve Asset
Gold is the third largest reserve asset globally
Central bank demand highest since 1971

Annual net sales and purchases of gold by central banks

Source: Metals Focus, Refinitiv GFMS, World Gold Council
Gold reserves on the rise in emerging markets...

*Note: Developed and emerging market country classifications were taken from the IMF’s categorisation. Developed market data also includes gold held by the IMF and BIS.
Source: World Gold Council
Foreign reserves management

- Safety
  - Capital preservation
  - Risk mitigation
  - Valuable collateral

- Liquidity
  - Large market
  - Strong volumes
  - Universal acceptance

- Return
  - Strong performance
  - Portfolio enhancement

Portfolio diversification

World Gold Council | CEMLA| April 2019
Financial gold market rivals major sovereign debt

Market size of major government securities

United States
Japan
China
Gold*
United Kingdom
France
Germany
Australia

*Gold is the sum of the above-ground stock of bars and coins, ETPs and official sector (or "Financial Gold").
Source (date updated): BIS (Sep-18), Sifma (Feb-19), Japan Ministry of Finance (Dec-18), UK Debt Mgmt Office (Mar-19), German Finance Agency (Mar-19), Agence France Tresor (Jan-19), Australia Office of Financial Mgmt (Feb-19), World Gold Council (Dec-18)
Gold returns comparable to stocks, higher than bonds


Source: Bloomberg; ICE Benchmark Administration; World Gold Council
Issues Related to the Accounting for Monetary Gold
How did we get here?

Like many central banks, CBS’s law requires it to adopt IFRS as its framework.

But IFRS does not provide appropriate guidance for the accounting of monetary gold.

So, many central banks turn to the IMF’s Balance of Payments and International Investment Position Manual (BPM6) for assistance.

<table>
<thead>
<tr>
<th>GOLD</th>
<th>vs.</th>
<th>IFRS</th>
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</thead>
<tbody>
<tr>
<td><strong>Definition:</strong></td>
<td>Defines monetary and nonmonetary gold</td>
<td>Unequivocally defines gold as a commodity</td>
</tr>
<tr>
<td><strong>Financial instrument:</strong></td>
<td>Includes monetary gold in list of financial assets</td>
<td>States that gold is not a financial instrument</td>
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<tr>
<td><strong>Accounting:</strong></td>
<td>Monetary gold should be valued at prevailing market price.</td>
<td>Accounted for at lower of cost and net realizable value</td>
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</table>
What has been the Result?

- Multiple practices in accounting for monetary gold
- WGC commissioned report on practices
- Identified 7 broad approaches
- 1 used cost other 7 used market value
- Difference in 7 fair value was treatment of unrealized revaluations; eg
  - FVTPL
  - FVOCI
  - Direct to reserves
- Prompted WGC to produce guidance
WGC Guidance for the accounting of monetary gold

This Guidance represents recommended best practices in accounting for monetary gold, rather than a pronouncement on such practices.

There is no specific legal mandate associated with this Guidance.

This Guidance was prepared with reference to the IASB’s conceptual framework and uses similar terminology as far as possible.

The recommended approach is consistent with functional rationale for holding gold as an element in FX reserves.

Consistent with IMF BoP reporting requirements
  • All FX reserves are fair valued
Classification and application

Three classifications for gold:

• *Monetary gold* – meets IMF definition of monetary gold (not necessarily LGD)

• *Antique gold* – historic gold artifacts

• *Non-monetary gold* – residual gold holdings

Guidance applies only to *monetary gold*

• Antique and non monetary gold linked to general accounting framework

Treat monetary gold as financial instrument denominated in national currency

Guidance *does not apply* where a central bank has a fully historic cost framework
Measurement

*Monetary Gold* – initial measurement at **fair value**

- Subsequent measurements at fair value, but **based on cost of getting gold to market**
  - Cost-based adjustments could be applicable in the following cases:
    - **Refining** costs – gold may not be in LGD form
    - **Transport** costs – gold may not be held at recognized market location

*Non-monetary gold* – as a **commodity**

*Antique gold* – in accordance to bank’s **accounting policy for art**
Treatment of revaluations

Unrealised gains
- Treat price and FX movements as a single item
- Disclose through OCI or equivalent statement – e.g. statement of changes in equity
- Allocate to dedicated gold unrealized revaluation reserve in equity.

Unrealised losses
- Report in OCI
- Allocate to gold revaluation reserve until zero balance
- Report losses in excess of reserve balance through P&L

Realised gains and losses
- Report realized gains and losses through P&L
- Reverse realized gains and losses from revaluation reserve
Other Monetary Gold Transactions

Gold swaps
Location swaps
Gold deposits (loans, lending, leasing)
Gold commodity swaps
Gold forwards, futures, and options

Treatment of these are consistent with similar financial instrument transactions IFRS
Disclosures

Research showed **uneven level of disclosures** for gold holdings.

The objective of this *Guidance* is to **enable entities to provide disclosures** in their financial statements to enable users to evaluate:

- functional reasons for holding monetary gold and its significance
- functional reasons for holding non-monetary and antique gold
- accounting policies adopted when accounting for all classes of gold holdings.

The monetary authority should **harmonize the disclosures recommended** in this *Guidance with those required in its general financial reporting framework* for accounting policies, and those covering the nature and extent of risks arising from holding financial instruments, and how the entity manages these risks.
Summary

Benefits of this approach:

• Reports fair value on balance sheet (hedge effect) – consistent with IMF requirements

• Discloses unrealized revaluations in OCI as single revaluation

• Allocates revaluations to dedicated revaluation equity account
  o No split between FX and price
  o No offset to other revaluations

• Excludes revaluations from considerations for dividends

• Allows reporting of realized gains and losses through profit and loss

• Enhanced disclosures
  • Valuation movements through SOCI

Consistent with treating gold as a non-monetary FX asset (IAS 16)
# Summary of Findings

<table>
<thead>
<tr>
<th>Method</th>
<th>Number of Central Banks</th>
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<tbody>
<tr>
<td>1. Cost</td>
<td>9</td>
</tr>
<tr>
<td>2. Fair Value through Profit and Loss (FVTPL)</td>
<td>3</td>
</tr>
<tr>
<td>3. Fair Value to Reserves via Profit</td>
<td>11</td>
</tr>
<tr>
<td>4. Fair Value to Reserves though Other Comprehensive Income (FVOCI)</td>
<td>14</td>
</tr>
<tr>
<td>5. Fair Value Direct to Reserves</td>
<td>7</td>
</tr>
<tr>
<td>6. Fair Value Direct to Non-Equity Revaluation Account</td>
<td>25</td>
</tr>
<tr>
<td>7. “Financial” Fixed Asset</td>
<td>1</td>
</tr>
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</table>
Why the *Guidance* prevailed

According to the Central Bank of Somewhere, they ultimately decided to adopt the World Gold Council’s Guidance for the following reasons:

- **Clarity and precision of the language** used in the *Guidance*

- **Integration with other central bank reporting requirements** (IMF BOP requirements gained strong support from CBS’s statistics department)

- **Consistency** with the manner in which CBS manages its FX reserve assets (business model).

Other central banks are currently in the process of reviewing the *Guidance* with a view towards adopting it as well.

**Please don’t hesitate to contact us if you want to discuss the *Guidance* in further detail.**