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Statistical Treatment of Precious Metals Accounts

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Following the Balance of Payments and International Investment Position Manual, sixth edition (BPM6): i) allocated precious metals accounts other than monetary gold represent ownership of nonfinancial assets; and ii) unallocated precious metals accounts are treated as deposits in foreign currency. However, BPM6 and other macroeconomic statistics manuals provide no specific guidance on the recording of transactions/positions associated with these accounts. As agreed in the Twenty-Ninth Meeting of the IMF Committee on Balance of Payments Statistics (the Committee) in October 2016, this paper presents the proposed recording of allocated /unallocated account precious metal accounts in balance of payments and international investment position statistics for the consideration of the Committee. Further, the paper reaffirms that the classification of monetary gold as a financial asset within reserve assets is an exception among commodities because of the historic role of gold in the international financial system and the highly liquid and deep nature of gold markets

I. CURRENT GUIDANCE ON PRECIOUS METALS

1. **Precious metals² other than monetary gold are not financial assets and are treated as goods** (see Appendix). The following guidance is provided in Balance of Payments and International Investment Position Manual, sixth edition (BPM6):

- *In contrast to monetary gold, which is a financial asset, nonmonetary physical gold is a good. Similarly, other precious metals are goods, not financial assets (paragraph 5.78).*

2. **Institutional units may hold precious metals with them or in allocated/unallocated precious metal accounts with** deposit taking corporations and other institutional units.³ The allocated account⁴ provides the investor with a certificate indicating

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² A specific list of precious metals is not provided in BPM6 and other macroeconomic statistics manuals. rhodium, platinum, gold, ruthenium, iridium, osmium, palladium, rhenium, silver, indium are considered as most expensive precious metals in order of value (see <https://www.biltmoreloanandjewelry.com/blog/precious-metals-in-order-of-value/>).

³ For example, Perth Mint provides allocated/pool allocated/unallocated metal accounts for its clients (for details, see <https://www.perthmint.com/storage/help/faq-storage-options.html>)

⁴ A minor variant of allocated accounts is a pooled allocated account. The certificate for this account indicates that the investor own a specific amount of precious metal but that metal is pooled with that of other investors and is not in any specific form. Similar to allocated account, the investor has to pay an upfront certificate fee, along with ongoing fees for storage costs.

that specific bullion bars or bullion coins are held by the bank, on behalf of the investor. The investor has to pay an upfront certificate fee, as well as ongoing fees for storage of the physical precious metals. In the case of an unallocated account, the investor owns a part of pooled metal with no title to any particular bar. This metal can be considered part of the general pool of metal held by the bank/institutional unit providing the account and may be lent out or sold without the consent of investor.

3. **Allocated precious metals (other than gold) accounts are treated as representing ownership of a good; they are not financial assets** The *External Debt Statistics Guide for Compilers and Users 2013 (EDS Guide 2013), Appendix 1* clarifies the following:

- *Allocated precious metal accounts provide ownership of a specific piece of precious metals. The ownership of the precious metals remains with the entity placing it for safe custody. Allocated precious metals accounts have no counterpart liability. Allocated precious metals (other than gold) accounts are treated as representing ownership of a good, they are not financial assets.*

4. **Unallocated precious metals accounts⁵ are treated as deposits in foreign currency with claims against the account operator** as clarified in the *BPM6* and *EDS 2013*:

- *...unallocated precious metals accounts represent a claim against the account operator to deliver precious metals. For these accounts, the account provider holds title to a reserve base of physical (allocated) precious metals and issues claims to account holders denominated in precious metals. Unallocated precious metals account liabilities are debt liabilities of the account operator (EDS Guide 2013, Appendix 1).*
- *...unallocated accounts for precious metals are also deposits, except for unallocated gold accounts held by monetary authorities for reserve purposes, for which asset holding is included in monetary gold (BPM6, paragraph 5.39).*
- *...unallocated gold accounts and other unallocated accounts in precious metals giving title to claim the delivery of gold or precious metal are treated as denominated in foreign currency (BPM6, paragraph 3.96).*

5. However, *BPM6* and other macroeconomic statistics manuals provides no specific guidance on the recording of transactions/positions associated with precious metals accounts.

⁵ Allocated and unallocated precious metal accounts are generally available for the following four metals: gold, silver, platinum, and palladium.

Given the lack of guidance in *BPM6*, compilers sought clarifications on the recording of transactions/positions related to precious metals accounts. As agreed in the Twenty-Ninth Meeting of the IMF Committee on Balance of Payments Statistics (The Committee) in October 2016, this paper provides guidance on the treatment of deposits of precious metals and clarifies the recording of related transactions/positions for the consideration of the Committee.⁶

II. PROPOSED RECORDING OF DEPOSITS IN PRECIOUS METALS

6. Table 1 explains the possible transactions associated with precious metals accounts and proposed recording of in each case.

Table 1: Recording of Deposits in Precious Metals

Type of Transaction	Country A		Country B	
	BOP	IIP	BOP	IIP
1. Institutional unit in country A (Unit A) acquires an unallocated precious metal account with a unit resident in Country A.	No recording is required (as there is no international transaction).	No recording is required.	-----	-----
2 (a). Institutional unit in country A (Unit A) acquires an unallocated precious metal account with Unit B, resident in country B. Payment made to Unit B from Unit A's deposits (\$) in a bank resident in country B.	Record in the financial account: (i) a decrease in Unit A's deposit assets with country B bank; and (ii) a new deposit asset (for unallocated precious metal account) of the same amount against Unit B (issuer of the unallocated precious metal account).	Currency and deposit assets reflect same changes as in the BOP financial account.	Record in the financial account: (i) a decrease in deposit liabilities of country B bank against Unit A; and (ii) a new deposit liability of the same amount for Unit B (issuer of the unallocated precious metal account).	Currency and deposit liabilities reflect same changes as in the BOP financial account.

⁶ See “*Scope of the Research Agenda for External Sector Statistics (BOPCOM—16/08)*” (more specifically, per its Appendix I, Philippines raised the need to consider this topic to clarify what would be the debit and credit entries for a reporting economy if a resident unit deposits precious metals in a nonresident entity).

Type of Transaction	Country A		Country B	
	BOP	IIP	BOP	IIP
2 (b). Institutional unit in country A (Unit A) acquires an unallocated precious metal account with a nonresident unit (Unit B) of country B - payment made from Unit A's deposits in a resident bank.	Record in the financial account: (i) a decrease in deposit assets (\$) of the resident bank in its correspondent bank accounts abroad; and (ii) an increase in deposit assets of Unit A (for unallocated precious metal account).	Currency and deposit assets reflect same changes as in the BOP financial account.	Record in the financial account: (i) a decrease in deposit liabilities (\$) of country B against Country A bank; and (ii) an increase in deposit liabilities of Unit B (issuer of the unallocated precious metal account).	Currency and deposit liabilities reflect same changes as in the BOP financial account.
3. Institutional unit in country A (Unit A) deposits the precious metal it owns in an unallocated precious metals account with another resident unit.	No recording is required (as there is no international transaction).	No recording is required.	-----	-----
4. Institutional unit in country A (Unit A) deposits the precious metal it owns in an unallocated precious metals account with a nonresident unit (Unit B) of country B.	A transaction in precious metals is recorded in goods account of country A (credit) with a matching entry in financial account, increase in currency and deposits assets of country A (debit). ⁷	Currency and deposit assets of Unit A (country A) increase by same amount as in the financial account.	A transaction in precious metals is recorded in goods account of country B (debit) with a matching entry in financial account, increase in currency and deposits liabilities of country B (credit).	Currency and deposit liabilities of Unit B (country B) increase by same amount as in the financial account.
5. Institutional unit in country A (Unit A) deposits the precious metal it owns in an allocated precious metals account with a	No entries appear in balance of payments as there is no change of ownership.	-----	No entries appear in balance of payments as there is no change of ownership.	-----

⁷ The proposed treatment of the deposits of precious metals in unallocated accounts as transactions in goods with the matching increase in currency and deposits is in line with the treatment of gold in unallocated accounts described in *BPM6* paragraph 9.18, f): *If the monetary authorities deposit gold bullion that they own in an unallocated gold account, the gold bullion is demonetized immediately before the transaction. If the account is with a nonresident, a transaction in nonmonetary gold is recorded in the goods and services account with a corresponding entry in currency and deposits, and then a reclassification to monetary gold—unallocated gold accounts—if held as a reserve asset. However, if the deposit is with another monetary authority or an international financial institution, transactions in monetary gold are recorded.*

Type of Transaction	Country A		Country B	
	BOP	IIP	BOP	IIP
nonresident unit (Unit B) of country B.				
6. Institutional unit in country A (Unit A) converts an unallocated precious metal account with a nonresident unit (Unit B) of country B to an allocated account with the same unit.	Record in the financial account: a decrease in currency and deposits assets of country A (credit), with a matching entry in precious metals in the goods account of country A (debit).	Currency and deposit assets of Unit A (country A) decrease by same amount as in the financial account.	Record in the financial account: a decrease in currency and deposits liabilities of country B against country A (debit), with a matching entry in precious metals in the goods account of country B (credit).	Currency and deposit liabilities of Unit B (country B) decrease by same amount as in the financial account.

7. Changes in the price of precious metals give rise to changes in the position of unallocated precious metal accounts. These changes are not recorded as a balance of payments transaction, but should be reflected in IIP through the other changes in financial assets and liabilities account.

Questions for the Committee:

Do Committee members agree with the proposed recording of transactions/positions related to allocated /unallocated precious metals accounts explained in the paper?

Do Committee members have any other views/suggestions on the treatment of precious metal accounts?

APPENDIX: PRECIOUS METALS OTHER THAN GOLD ARE NOT RESERVE ASSETS

The IMF has been consulted on whether platinum and other precious metals (in addition to monetary gold) could be eligible for consideration as reserve assets. The classification of monetary gold as a financial asset within reserve assets is an exception among commodities because of the historic role of gold in the international financial system and the highly liquid and deep nature of gold markets. The same conditions do not apply to other precious metals, which in contrast are regarded as commodities rather than as financial assets.

The existing treatment allowing the inclusion of monetary gold, but not of other precious metals, in international reserves has been reaffirmed by the international community when updating the *BPM6* in 2009. Likewise, the *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template* (hereinafter “*the Guidelines*”), updated in early 2012, also confirmed this treatment.

BPM6 states that:

In contrast to monetary gold, which is a financial asset, nonmonetary physical gold is a good. Similarly, other precious metals are goods, not financial assets. Monetary gold is treated differently because of its role as a means of international payments and store of value for use in reserve assets (BPM6, paragraph 5.78).

.... Silver bullion, diamonds, and other precious metal and stones are not included in reserve assets because they are considered goods and not financial assets (BPM6, paragraph 6.105).

The *Guidelines* note that:

.... Holdings of silver bullion, diamonds, and other precious metals and stones are not reserve assets and should not be recorded in the Template.... These precious metals and stones are considered goods and not financial assets (Guidelines paragraph 98 and its footnote 19).