

Vaulted gold

Product schematic

*Shari'ah-compliant gold savings
and investments*





Vaulted gold is investment gold which is stored in professional vaults on behalf of investors. Buyers of vaulted gold acquire outright ownership in gold without the need to provide for its storage. Customers of vaulted gold are primarily private investors, ranging from mass market clients to high net worth individuals.

Vaulted gold offers:

- Easy accessibility of gold ownership
- Safe storage
- High convenience
- Low costs

There are alternative terms used for vaulted gold, depending on the respective providers. Other terms include gold storage/custody accounts, gold deposit accounts and gold investment accounts.

Vaulted gold

Vaulted gold is investment gold stored in professional vaults. By purchasing vaulted gold, investors obtain outright ownership in physical gold without having to take actual possession.

Banks have long offered vaulted gold to their high net worth clients. These include many private banks or globally operating wealth managers. The last decade has seen more innovation in the market place and new banks and non-bank financial institutions have started offering vaulted gold solutions. The trend is to now offer vaulted gold products to a broader consumer profile, including the mass market segment. Investment in physical gold is broadly accessible, and appeals to a wide range of consumers. There is also a trend towards the provision of a wider range of product features, including online trading facilities and regular gold savings plans (also known as gold accumulation plans - GAPs). Vaulted gold holdings have grown significantly since 2000. One non-bank provider alone stores assets of approximately US\$ 2 billion on behalf of clients.

Vaulted gold combines the benefits of directly investing in physical gold with those of modern financial investment products. Vaulted gold frees investors of physically dealing with the precious metal on their own. The providers of vaulted gold offer integrated solutions, typically encompassing the buying and selling of gold, storage, optional withdrawal or delivery as well as security measures like insurance, audit, and inspection.

By purchasing vaulted gold, investors acquire physical gold typically in the form of investment bars or investment coins. This investment gold meets internationally recognised standards such as the LBMA Good Delivery bar specifications. Besides trading and storing the gold through the provider, investors often have the option of taking physical possession of their holdings either by withdrawal or delivery.

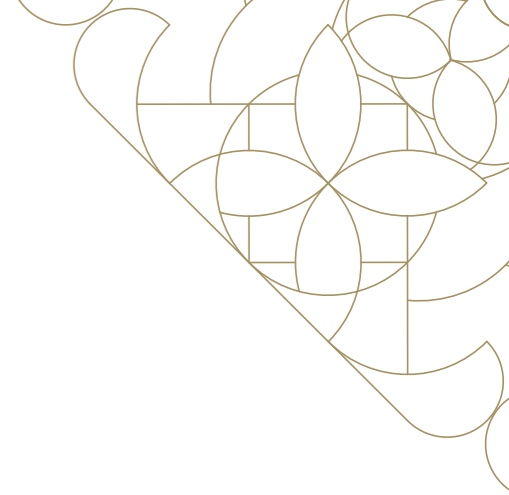


Depending on the provider or customer choice, different options of ownership are offered: simple allocated, segregated allocated, or pooled allocated. In the case of segregated allocated ownership, the customer's own pieces of metal are stored separately from the provider's or other customers' holdings. Allocated ownership does not require physical segregation of assets, but allocation to a specific customer, by way of unique bar identification numbers. Pooled allocated ownership refers to shared ownership in a pool of assets by a group of customers.

Providers of vaulted gold typically charge various fees for their services. Such fees can include trading commissions, management or storage fees, fees for delivery or withdrawal of gold or fees for currency conversion. Customers normally pay a premium or discount for buying or selling gold.

The table below summarises key aspects of vaulted gold and compares it to other forms of gold investments:

	Shari'ah-compliant vaulted gold		Shari'ah-compliant gold savings plans		Shari'ah-compliant physical gold ETFs		Shari'ah-compliant gold undertakings (similar to futures)		Shari'ah-compliant gold certificates	
Value proposition	Own gold, which is stored in professional vaults		Accumulate gold in small amounts over a period of time and redeem for the physical metal or cash		Trade and own gold like an exchange-traded financial security		Hedge the price of gold		Own gold, evidenced and guaranteed by an individual certificate	
Target customers	individual	Institutional	Individual	Institutional	Individual	Institutional	Individual	Institutional	Individual	Institutional
	✓	(✓)	✓	✗	✓	✓	(✓)	✓	✓	✗
	\$ - \$\$\$ Corporate/institutional investors		\$ - \$\$		\$ - \$\$\$ Corporate/institutional investors		\$\$\$ Corporate/institutional investors		\$\$\$	
Minimum investment	\$/\$\$		\$		\$		\$\$\$		\$\$\$	
Convenience	⊕⊕⊕		⊕⊕		⊕⊕⊕		⊕		⊕	
Cost efficiency	⊕⊕		⊕		⊕⊕⊕		⊕⊕⊕		⊕⊕	
Additional aspects	+ Customer can often choose between different vault locations		+ Continuous accumulation + Cost average effect + Redemption as bullion/cash jewellery + Gift option		+ High liquidity + Traded like an exchange-traded financial security + Physical withdrawal permitted		+ Suitable for gold price hedging + Expert knowledge required		+ Added security through personalised certificate + High degree of confidentiality possible + Gift option	



The product benefit

Vaulted gold provides customers with a combination of advantages of physical gold ownership in the form of a modern investment product. These are simple products to offer, and are a new opportunity for market and brand differentiation.

Consumer proposition of vaulted gold

Vaulted gold provides customers with a combination of advantages of physical gold ownership in the form of modern investment products. Investors obtain direct ownership in gold but do not incur typical inconveniences of directly acquiring physical gold, including finding a trustworthy dealer, transporting and safely storing the gold, and proof of provenance and quality in the case of resale (removing the potential need for assaying). The provider of vaulted gold takes on these functions and the benefits of economies of scale and expertise can be passed to the consumer. Providers have access to professional markets with high liquidity and have agreements with reputable vault operators and other service providers in place. Investors in vaulted gold can quickly buy or sell holdings, as they wish. A safe private storage of gold could be risky or complex, while trustworthy providers of vaulted gold fulfil several criteria in order to protect their clients. Such criteria can include independent custody of assets, high transparency and third party audit/inspection or insurance.

Vaulted gold products are typically lower cost compared to buying and taking physical delivery of gold. The reasons for this include having access to the wholesale or institutional gold markets. In addition, providers can benefit from economies of scale implying higher efficiency, and from lower premiums/discounts, since they acquire larger, standard investment bars (which they offer to clients through pooled allocated ownership).

Commercial benefits of offering vaulted gold products

The provision of vaulted gold products offers a new opportunity for market and brand differentiation. This can lead to the acquisition of new customers, improved customer retention and cross-selling opportunities. Depending on the product configuration, varying customer segments can be addressed with a vaulted gold offering. These segments can range from mass market customers to high net worth individuals.

Vaulted gold products are one of the simplest gold products to offer, and established third party service providers can be used. Vaulted gold products are easy to understand and market, and have comparatively transparent structures.

There are a number of revenue drivers/sources of income. Other than with direct sales of gold to customers, providers of vaulted gold charge fees for the buying or selling of gold, the ongoing storage, and the management of holdings. These fees are recurring revenues for the bank.

An additional benefit for banks is that the assets continue to be managed by the bank. Vaulted gold held by customers remains in the bank's domain, whereas in the case of selling physical gold over the counter, client assets are leaving the bank's domain. This enables the bank to better understand the client and to potentially reallocate assets as client needs or market situations change. Banks can also benefit from offering vaulted gold business-to-business to other distributors. Distribution partners could be other banks/financial services institutions or other types of business.

Key product features and design considerations

Vaulted gold offerings are primarily marketed to private investors. Depending on the product characteristics, vaulted gold can be suitable for wealthy or mass market customers.

Typical target customers are:

- *Mass market*
- *Mass affluent*
- *High net worth*

While traditional private banks and global wealth managers are marketing to high net worth individuals, online providers market to both mass affluent and mass market customers.

Minimum investments:

Depending on provider and type of ownership, technical minimums are:

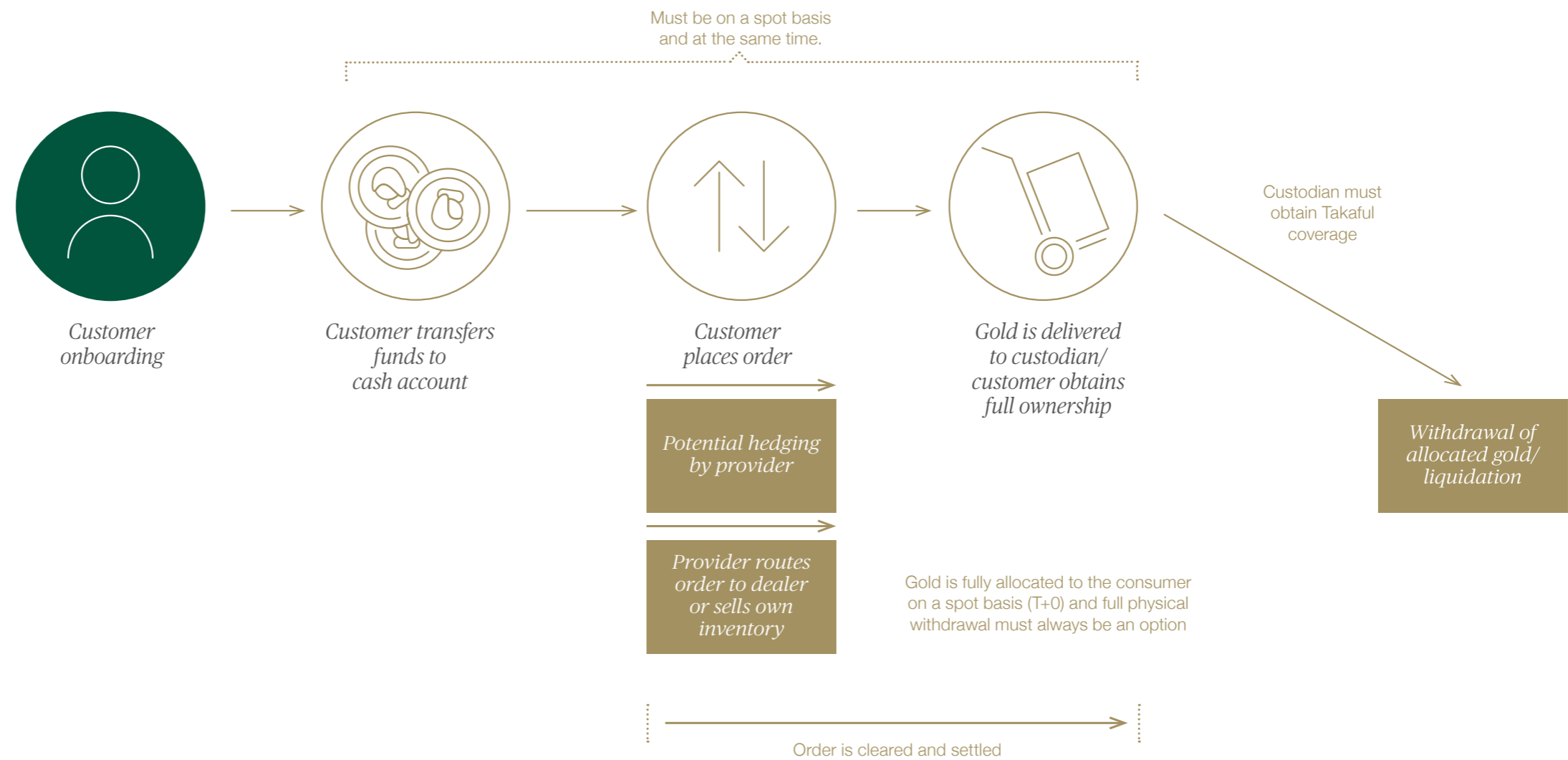
- *Allocated or segregated ownership: from 10g bars or 1oz coins*
- *Pooled allocated ownership: from 1g bars or 1US\$ investment*

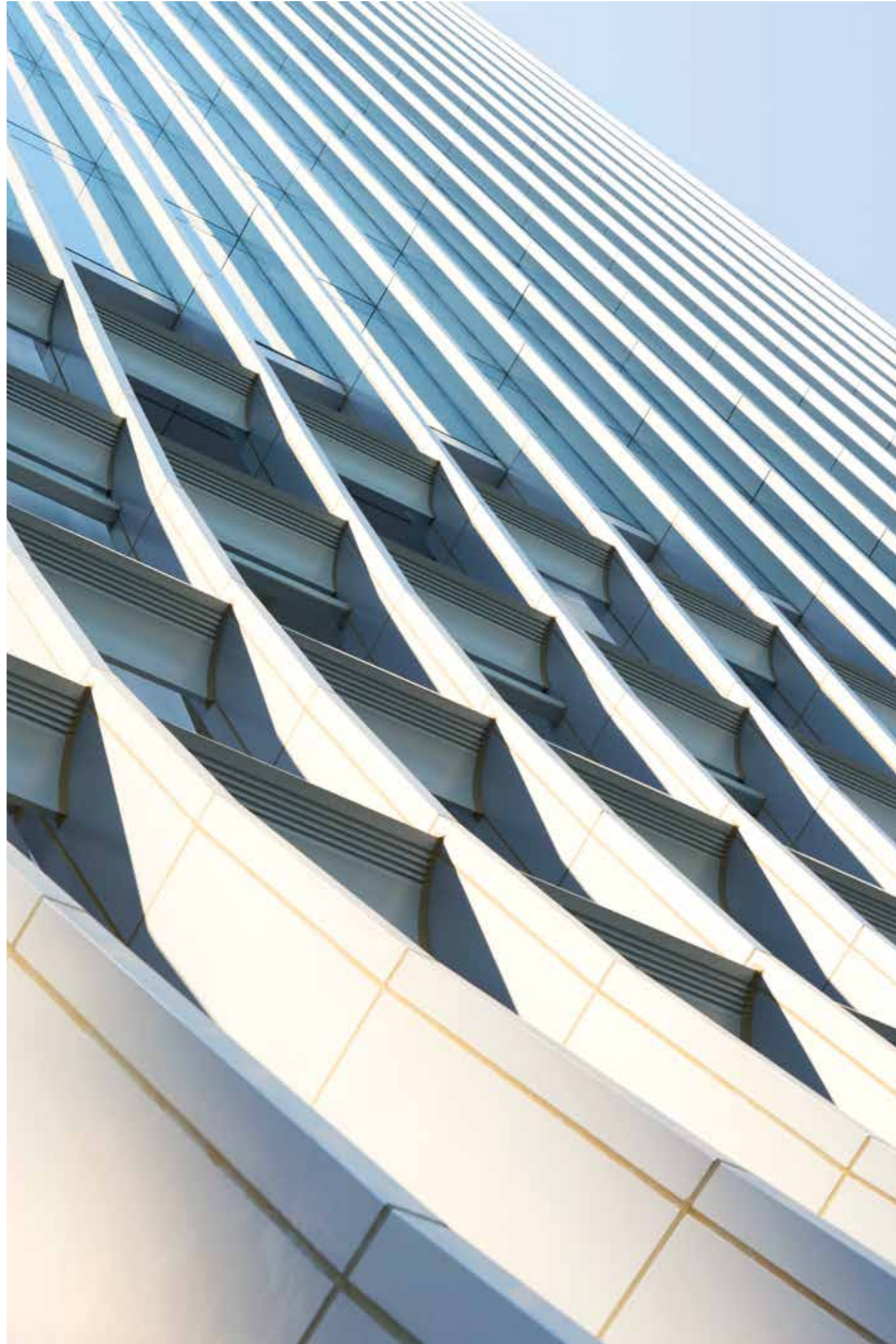
Vaulted gold is offered in many different configurations. The table below provides an overview of product features and design options.

Form of gold	Typically investment gold is offered in the form of: <ul style="list-style-type: none"> ○ Bullion (investment) bars, e.g., 1kg or 400 oz bars ○ Bullion (investment) coins, e.g., 1oz Krugerrand. 	Withdrawal/delivery	In addition to selling or buying back the customer's gold, providers of vaulted gold regularly allow the customer to take physical possession of the gold. This can be done by withdrawal or delivery. Some providers require a minimum amount to be withdrawn/delivered, e.g., 50 grams. Some providers charge a fabrication fee where pooled allocated ownership in large bars has to be exchanged for fully allocated ownership in specific bars or coins.
Type of storage	Usually one or several of the following storage options are offered: <ul style="list-style-type: none"> ○ Segregated: physical segregation of assets of one customer from assets of others ○ Allocated: clear allocation of assets to respective customers, for instance by bar number ○ Pooled allocated: customer owns a share of specified pool of assets. <p>Where the provider offers both segregated and pooled allocated storage, the provider may permit the customer to change from one to the other. This usually involves additional costs/fees.</p>	Other features	Other features which are offered by providers: <ul style="list-style-type: none"> ○ Savings plans, which allow continuous purchases of vaulted gold ○ Gift accounts ○ Pension plans/retirement accounts ○ Other precious metals like silver, platinum or palladium.
Buying/selling	Customers typically have to provide all funds for the purchase of the vaulted gold upfront to a cash account at/of the provider. Cash holdings at the provider sometimes pay interest/profit, typically when the provider is a bank. Depending on the provider, different trading options are used: <ul style="list-style-type: none"> ○ Closed exchange: customers can trade with other customers ○ Order placement through brokers ○ Trading with the provider as counterpart; with the provider trading in the wholesale market. <p>Providers regularly offer/guarantee to buy back gold.</p> <p>Customers can often choose between different currencies for trading in gold.</p> <p>Customers can often specify (price) limits for their orders.</p> <p>Execution of purchase/sale orders is done on a spot basis.</p>	Insurance	The custodian typically insures customers' gold against theft or damage.
Vaulting	Vaulting can be provided: <ul style="list-style-type: none"> ○ In-house (this is offered by some of the larger banks) ○ By an independent custodian. <p>There are globally operating vaulting providers and the typical vault locations offered by providers of vaulted gold include:</p> <ul style="list-style-type: none"> ○ Zurich ○ London ○ New York ○ Singapore. <p>Some providers offer various vault locations and let clients choose the vaulting location.</p>	Regulation	This varies among jurisdictions, whereas some providers are not subject to any financial services regulation, others such as banks are regulated.
		Fees	Providers of vaulted gold charge various costs/fees to customers: <ul style="list-style-type: none"> ○ Buying/selling commission fees – often charged as a percentage of gold value. Typical values range from 0.5% to more than 2.5% of the transaction amount ○ Management fees – often charged as a percentage of gold value. The management fees may include, e.g., storage and insurance costs or fees by the provider for its operations. Typical values range from 0.12% to 1.5% annually ○ Premiums/discounts – mark-ups or mark-downs due to spreads in the professional markets and margins for the production of bars/coins. Typical values could range from less than 0.2% to more than 2.5%. Some providers offer their customer spot prices and charge only commission fees ○ Production charges – in case of withdrawal or delivery of gold, which is not fully allocated to the customer, the customer has to bear the production costs of the required bars or coins. Smaller bars and coins have higher premiums than larger standard bars. Exemplary production charges are US\$ 27.50 for 10g gold bars and US\$ 62.50 for 1kg bars ○ Withdrawal/delivery fees, e.g., for logistics. Typical values range from 1% to 5% and can include production charges ○ Currency conversion fees ○ Operational charges, e.g., funds wire fees, SMS charges. <p>Depending on the provider, fees are paid in cash or settled through the sale of gold.</p>

Basic vaulted gold operation

Vaulted gold products are some of the easiest and quickest to develop. Payment, order execution and gold delivery must be undertaken on a spot basis in order to be Shari'ah-compliant.





Shari'ah considerations

In general, vaulted gold is very much Shari'ah neutral as the concept of owning gold and having a custodian store or safe keep it raises no objections from a Shari'ah perspective.

However, there are a few aspects or practices which are required to ensure Shari'ah compliance.

Firstly, the purchasing and selling of gold must be done at spot (T+0), whereby the customer or client, upon transferring the necessary funds to purchase the gold, receive at the same time the ownership over the gold held in custody, manifested by relevant documentary evidence. Neither the purchase price/funds nor the evidence of transfer of ownership can be delayed.

Secondly, it is typical that the custodian of the vaulted gold has either specific insurance over the amount directly owned by the customer or client, or general insurance which covers the entire contents of the vault. It is however impermissible to have conventional insurance cover as part of the Shari'ah-compliant product specifications and instead the custodian should seek a takaful operator who can offer participation in a takaful fund which could protect the customer or client in the event of a misfortune. In certain circumstances, takaful coverage may be unavailable and the decision to allow the use of conventional insurance in such circumstances will be at the absolute discretion of the responsible Shari'ah board or Shari'ah advisor.

Thirdly, the vaulted gold should be allocated and easily identifiable according to ownership. For example, there may be documentary evidence that certain bars of gold are owned jointly or separately by their respective owners. Such owners must also be given the right to take physical delivery of their owned gold as such right is manifestation of true ownership from a Shari'ah perspective. It is permissible for the custodian to charge fees according to the costs of providing such a service.

Finally, a custodian or sub-custodian bears the liabilities only applicable to it unless expressly agreed otherwise between the parties. Where sub-custodians are used, it is likewise required that the above provisions applicable to custodians are safeguarded and implemented by the sub-custodians.

The above are some of the key considerations in designing a Shari'ah compliant vaulted gold product and should be supplemented by other ancillary factors to ensure end to end Shari'ah compliance.



Operational considerations

The operating model of a vaulted gold provider comprises customer facing activities such as distribution and support as well as back-office activities such as precious metals trading, storage, and delivery. The following diagram provides an overview of operating model considerations.

There are service providers offering only specific elements of the operating model and others covering several/all activities.

For the implementation of an own vaulted gold offering, several options exist:

1. **Full in-house implementation.**
2. **Selected outsourcing** – some activities are undertaken in-house.
3. **Distribution only** – the product is sourced from an integrated provider with customer service and distribution only taken in-house.

For all implementation options, there are various established partners that can provide some or all of the services required. These services include:

- Precious metals trading – often undertaken by Bullion banks
- Vault operations – there are many international providers of vaulting services
- Delivery
- Audit – often undertaken by large accounting and audit firms
- Inspection
- Insurance

Whilst full outsourcing is possible and often more convenient to new product market entrants, implementing or coordinating the whole operating model in-house offers the possibility to re-sell vaulted gold business-to-business through distribution partners such as other banks.



Frequently asked questions

Who buys vaulted gold?

Customers of vaulted gold are primarily private investors, ranging from mass-market clients to high net worth individuals.

Why buy vaulted gold?

Vaulted gold offerings make gold ownership accessible to a wide range of customers. Customers obtain outright ownership in physical gold without the requirement to directly deal with the metal or arrange its safekeeping. Vaulted gold can be bought and sold easily and at relatively low costs.

What type of gold ownership does vaulted gold provide?

Investors, who buy vaulted gold, own allocated or pooled allocated gold, which is stored in professional vaults on behalf of the investors.

Can vaulted gold be fully allocated?

Vaulted gold is either fully allocated or pooled allocated.

Can the customer withdraw or take delivery his vaulted gold holdings?

Yes, investors who own vaulted gold can request delivery or collection of their gold holdings, usually for a fee.



How is the gold priced?

This varies among providers. Some providers offer wholesale spot prices and add their fees/commissions. Others offer vaulted gold at their own prices, which are based on spot prices and mark-ups by the provider. A third type of provider offers customers access to an exchange, where they can deal directly with other investors.

What are the costs and fees for vaulted gold?

The costs vary by provider. Typical fees for vaulted gold are buying and selling commissions and storage fees as well as optional withdrawal/delivery fees.

How much does it cost to deliver the gold/take possession?

Typical costs for withdrawing/delivering of vaulted gold range from 1% to 5% and often include production charges.

What happens in case of a default of the bank to the customer's vaulted gold?

The customer has outright ownership of where the gold is allocated or pooled allocated. Even in case of a default of the provider, the gold remains the customer's property, and the bank or its creditors have no rights to take ownership of the customer's gold.

Who bears the risk of a gold price decrease?

The risk is solely borne by the customer. Vaulted gold is the customer's property, so he bears



the risk of a price decrease or increase.

What is the average gold holding?

Depending on the provider and offering, gold holdings range from very low amounts of several grams to very large amounts worth millions of US\$.

What is the average tenure of gold holdings?

Investors, who purchase vaulted gold, are often long-term oriented. They value the safety and diversification aspects of physical gold holdings.

Is it possible to vault the gold overseas?

Various providers allow their customers to choose among several storage locations, which can include overseas vaults.

Which elements of a vaulted gold operating model can be outsourced?

Practically every element can be outsourced. Each service, including trading, storage and delivery, can be outsourced to a specialized service provider. Alternatively, an integrated service provider can be contracted to provide an end-to-end solution, which can also include information technology.

How much time is required to set-up a vaulted gold offering?

The required time depends very much on the chosen implementation option. The fastest option is a distribution-only model if a suitable provider is available, while the other options could present more attractive opportunities in the long run, since a bigger share of the value generation remains with the bank.



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