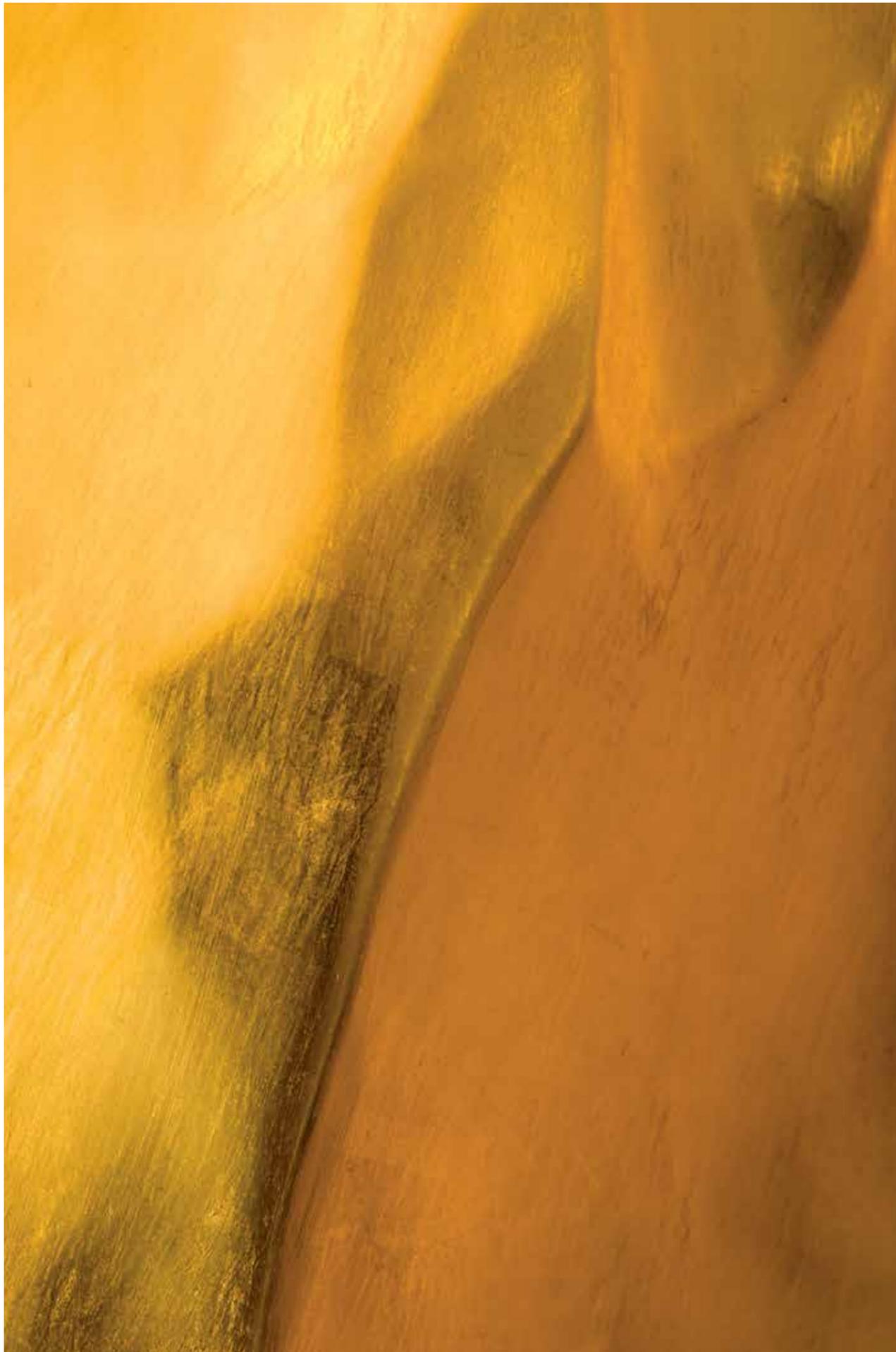


# Gold certificates

## Product schematic

*Shari'ah-compliant gold savings  
and investments*





Gold certificates provide ownership in allocated physical gold, which is stored in professional vaults on the customer's behalf. A buyer of a gold certificate receives a personalised certificate in their name, which evidences their ownership and is required for the sale or withdrawal of their holdings. Gold certificates are typically aimed at affluent or wealthy private investors.

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**Gold certificates offer:**

- Safe storage
- Additional security through a personalised certificate
- A potentially high degree of confidentiality

# Gold certificates

Gold certificates provide customers with ownership of allocated physical gold without the need to arrange the storage and safekeeping of their holdings. Purchasers are issued a gold certificate in their own name.

The certificate confirms the customer's legal title to gold, specifying the amount and quality of gold owned. The certificate provider (usually a bank) will store the gold on behalf of the customer, who can sell or withdraw their gold. Gold certificates are similar to vaulted gold products in that they offer ownership of gold stored professionally in vaults on the customer's behalf. The main difference is that the provider of a gold certificate will usually not liquidate or sell the customer's holdings unless the original certificate is produced for verification. Another difference is that some issuers allow the transfer of gold certificates to other individuals.

Historically, gold certificates were used as paper currency, for example in the United States of America from 1863 to 1933. Today, a gold certificate is a vehicle for investing in gold and evidencing ownership. Banks in Canada started offering gold certificates as a gold investment solution in the 1950s. These certificates were designed for the purpose of buying physical gold and to act as a transferable receipt for the gold, stored in the bank's vaults. The last decade has seen a resurgence in the appeal of gold certificates – including in Islamic finance – with Shari'ah-compliant versions being launched in 2010. The amount of gold held under certificates varies among gold certificate programmes, but the value of client metal under some of the larger programmes can exceed US\$ 2bn.



Gold certificates come in various forms, for instance storage/ownership can range from fully allocated to unallocated gold. In the latter case, the customer has no legal title to physical gold holdings but only a claim against the provider of the certificate.

Providers of gold certificates charge various fees for their services, including fees for certificate issuance, storage and selling or physical delivery.

The table below summarises key aspects of gold certificates and compares them 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	
<b>Value proposition</b>	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	
<b>Target customers</b>	Individual	Institutional	Individual	Institutional	Individual	Institutional	Individual	Institutional	Individual	Institutional
	✓	(✓)	✓	✗	✓	✓	(✓)	✓	✓	✗
	\$ - \$\$\$ Corporate/institutional investors		\$ - \$\$		\$ - \$\$\$ Corporate/institutional investors		\$\$\$ Corporate/institutional investors		\$\$\$	
<b>Minimum investment</b>	\$/\$\$		\$		\$		\$\$\$		\$\$\$	
<b>Convenience</b>	⊕⊕⊕		⊕⊕		⊕⊕⊕		⊕		⊕	
<b>Cost efficiency</b>	⊕⊕		⊕		⊕⊕⊕		⊕⊕⊕		⊕⊕	
<b>Additional aspects</b>	+ 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

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Gold certificates are a type of vaulted gold product. They offer a high degree of convenience to customers wanting ownership of physical gold and are easy products for banks to develop.

### Consumer proposition of gold certificates

Gold certificates offer a high degree of convenience to investors who want to own physical gold without taking (immediate) physical possession of it. Under Shari'ah rules, constructive possession takes place immediately once the certificate is issued, but physical delivery of the gold can take place later. The overall costs of this kind of gold investment are comparatively low because ownership is often provided in pooled allocated large bars, which are available at lower premiums. Costs can also be lower because professional and active market participants provide the trading and storage solutions.

The gold held under gold certificates is stored in professional vaults, often insured, and sometimes protected by a government guarantee (for example some of the certificate programmes offered by government mints). Gold certificates offer an additional security element in the form of the personalised and registered certificate, the provision of which is required for the selling or withdrawal of holdings.

In addition, gold certificates can provide a higher degree of confidentiality, since they are often not regulated as financial products, and provide an easy way to own gold in on- or off-shore locations.

### Commercial benefits of issuing product certificates

Providers of gold certificates can benefit in various ways, including market differentiation and a relatively simple vehicle to satisfy customer demand for physical gold. The provision of a wider range of products can result in better customer retention rates, cross selling opportunities, and the expansion of the customer base to previously underserved customers.

In addition to these benefits, providers offering gold certificates can earn various fees for their services. Typical fees charged for gold certificates include fees for issuing the certificates or opening accounts, trading fees, ongoing storage/management fees, fabrication, and logistics fees in case of physical delivery, as well as other operational charges. These new revenue streams can result in greater diversification and overall profitability.

Some providers utilise unallocated gold certificates for funding their operations in physical gold. For example, using customer funds from unallocated gold certificates to buy physical gold in the market for the production of investment bars and coins. Often in these cases the unallocated gold certificates are fully backed by physical gold, but a holder of a gold certificate has an unsecured legal claim against the provider in general, and not against specific gold holdings.

# Key product features and design considerations

Gold certificates are typically aimed at private investors. Due to usually high minimum investments, the target customers of gold certificates are affluent or wealthy individuals.

Minimum investments can vary among providers, and are expressed in either currency equivalent or weight:

\$10K

300 grams of gold

10 ounces of gold

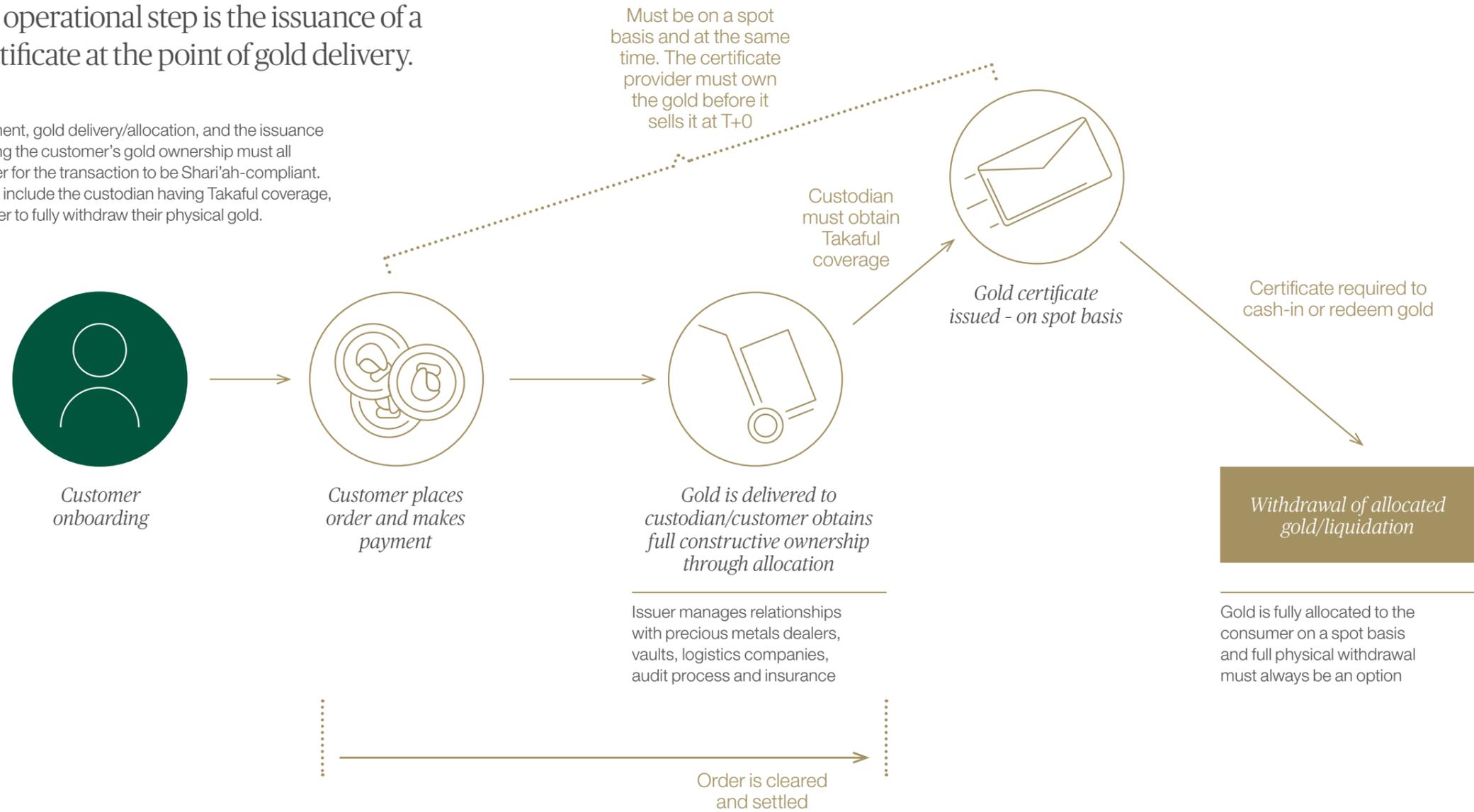
The table below provides an overview of product features and design options.

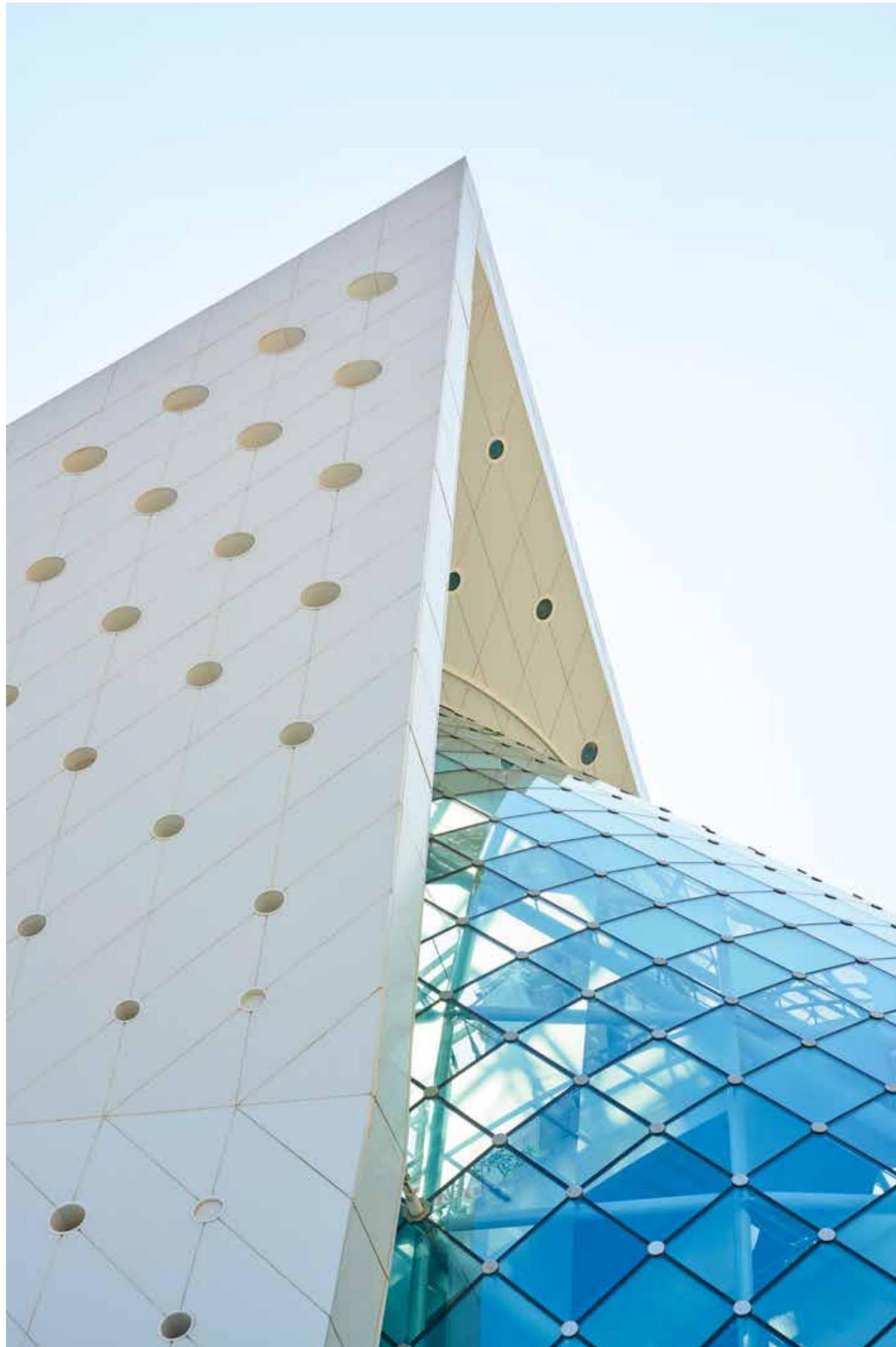
<b>Description of certificate</b>	Depending on the provider, a gold certificate could for example be structured as a non-negotiable warehouse receipt acknowledging the customer's title to gold stored with the provider. The certificate is typically registered to the owner, and is referenced by the client's name and a unique number.	<b>Auditing</b>	Depending on the respective provider of gold certificates, customers with allocated gold holdings or nominated third parties may inspect deposits at the storage location subject to satisfactory personal identification and account verification or presentation of an acceptable instruction.  Customers with unallocated or pooled allocated holdings may have the option to review the provider's audited annual reports or bar listings of pooled allocated holdings.
<b>Form of gold</b>	The gold holdings of gold certificates are usually comprised of standard gold bullion products: <ul style="list-style-type: none"> <li>○ Bullion bars, e.g., 1oz, 10oz, 1kg or 400 oz bars</li> <li>○ Bullion coins, e.g., 1oz Krugerrand</li> </ul>	<b>Insurance</b>	Physical gold holdings are often insured against damage or theft. At least one provider operates under a government guarantee.
<b>Type of storage</b>	Gold certificates typically provide one or several of the following storage options: <ul style="list-style-type: none"> <li>○ Allocated: clear allocation of specific bars or coins to each customer, for instance by bar number or segregation; the provider acts as a bailee</li> <li>○ Pooled allocated: the customer owns a share of a specified pool of gold bars; the provider acts as a bailee</li> <li>○ Unallocated: customers own undivided and unsecured interests in the provider's assets, e.g. including a pool of gold bars maintained in unsegregated storage</li> </ul> <p>Providers offering various types of storage usually allow the conversion of unallocated or pooled allocated gold to fully allocated coins or bars upon the payment of fees (fabrication charges).</p>	<b>Regulation</b>	Gold certificates are often structured in such a way that they are not deemed as securities or financial instruments. Whereas some providers of gold certificates are not subject to any financial services regulation, others, such as banks, are regulated entities.
<b>Buying/selling</b>	Trading could be done at spot prices or other agreed prices like, for example, the LBMA gold price. Gold certificates can typically be sold back through the provider or its distributors.	<b>Fees</b>	<ul style="list-style-type: none"> <li>○ Certificate issuing/account opening fees; typical values are, e.g., US\$ 40 or AED 50</li> <li>○ Buying/selling commission fees; values depend on provider/distributor; a sample value is a 0.25% transaction fee; one provider charges an exit fee of 0.5%</li> <li>○ Premiums/discounts; mark-ups or mark-downs due to buy/sell spreads, depending on the gold product (typically higher for smaller sizes and coins)</li> <li>○ Fabrication fees; in the case of allocated or pooled allocated storage, a fabrication fee applies for the respective coin or bar product. For unallocated metal, no fabrication fees apply. Common values range from 0.25% for 1kg bars to more than 5% for bullion coins</li> <li>○ Management/storage 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. Common values are around 1% for allocated gold</li> <li>○ Withdrawal/delivery fees; e.g., for logistics; one provider charges an exit fee of 0.5% plus an 0.3% charge for custody and insurance on redemption</li> <li>○ Currency conversion fees</li> <li>○ Operational charges, e.g., funds wire fees</li> <li>○ Minimum fees; some providers require a minimum fee of, e.g., US\$ 200</li> </ul>
<b>Vaulting</b>	Vaulting for gold certificates can be provided: <ul style="list-style-type: none"> <li>○ In-house (by government Mints or larger commercial banks)</li> <li>○ By a professional storage company/custodian</li> </ul>		
<b>Withdrawal/delivery</b>	Customers have the option of delivery unless otherwise agreed. This can be achieved through the delivery of the holdings to the customer or by collection of the holdings from a location defined by the provider.		
<b>Other features</b>	Other features, which are offered by some gold certificates, are: <ul style="list-style-type: none"> <li>○ Replacement of certificates; lost certificates can be replaced by filing a declaration and paying a re-issuance fee</li> <li>○ Gift certificates</li> </ul>		

# Gold certificates

Gold certificates operate in a similar way to bank-distributed vaulted gold accounts. The only major additional operational step is the issuance of a personalised certificate at the point of gold delivery.

Contracting, customer payment, gold delivery/allocation, and the issuance of a gold certificate confirming the customer's gold ownership must all occur on a spot basis in order for the transaction to be Shari'ah-compliant. Other Shari'ah requirements include the custodian having Takaful coverage, and the ability of the customer to fully withdraw their physical gold.





## Shari'ah considerations

Gold certificates, as much as they are similar to vaulted gold, raise few objections from a Shari'ah perspective. However, like vaulted gold, there are a few aspects or practices to take note of in product structuring.

Firstly, the purchasing and selling of gold must be done at spot (T+0), whereby the client, upon transferring the necessary funds to purchase the gold, receives at the same time the gold certificate. Neither the purchase price/funds nor the certificate can be delayed.

Secondly, it is typical that the custodian of the 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 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 gold should be allocated and easily identifiable according to the certificate of ownership. For example, the certificate may show which particular bars of gold are owned by the certificate owner. The certificate owner must also be given the right to take physical delivery of his 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.

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



# Operational considerations

The operating model of a gold certificate programme is similar to the operating model of a vaulted gold provider. Necessary activities can be grouped into customer facing activities such as distribution and support, and back-office activities such as the trading in gold and storage - see diagram on right.

The issuance and administration of certificates is an additional element specific to the operations of a gold certificate programme.

Banks considering offering gold certificates should in a first step decide whether to just distribute gold certificates by other providers or to build a full solution including operations on their own. Alternatively, by setting up their own certificate programmes and thereby covering additional steps of the value chain beyond pure distribution, providers may potentially capture additional value.

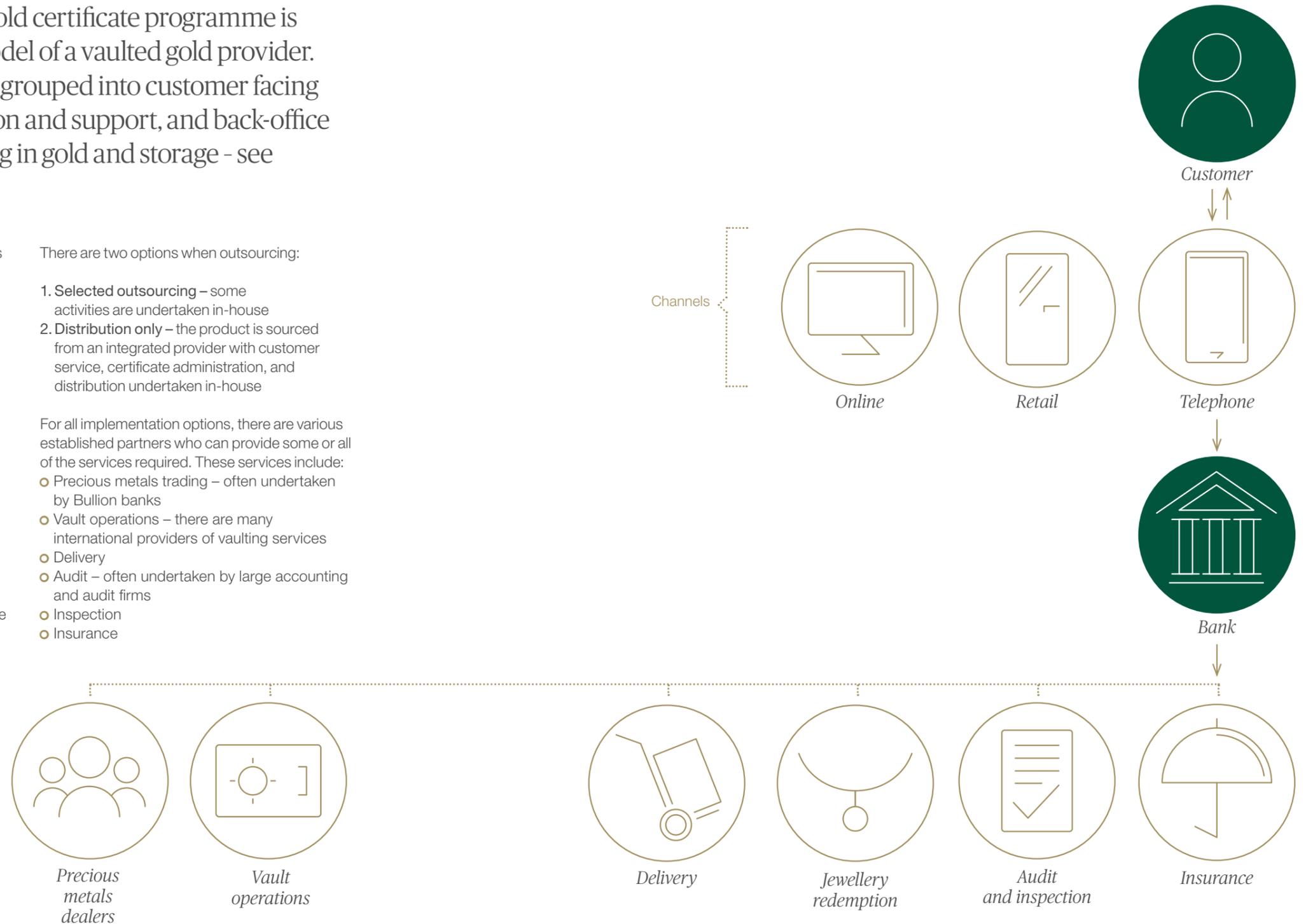
For the implementation and operation of a gold certificate programme, providers can access various specialised service providers available in the market. Typical activities that could be outsourced are precious metals trading, vaulting, and delivery. It is best practice to outsource audit, inspection and insurance to provide an additional level of security by involving independent external parties.

There are two options when outsourcing:

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

For all implementation options, there are various established partners who 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



# Frequently asked questions

## Who are the typical customers for gold certificates?

Gold certificates are marketed to affluent or wealthy private customers, who want to own physical gold without taking (immediate) possession of it, and who can afford the required minimum investments.

## What are the main benefits of gold certificates to customers?

Gold certificates provide customers with direct gold ownership without the hassles of directly dealing with physical gold, e.g., in terms of safe storage. In comparison to vaulted gold offerings, gold certificates provide an additional security feature in the form of the certificate, which is issued in the name of the customer. Gold holdings typically cannot be sold or withdrawn without the presentation of the certificate.

## What type of gold ownership do gold certificates provide?

The holder of a gold certificate has legal title to the gold holdings evidenced by the certificate. Depending on the particular certificate, the holder owns allocated or pooled allocated gold (or in some cases unallocated gold), which is stored by the certificate provider.

## Can the gold be fully allocated?

Gold certificates can offer fully allocated or pooled allocated storage. Some providers also offer unallocated storage, but in order to be Shari'ah compliant the gold must be fully allocated.



## Can the customer withdraw his physical gold holdings?

Yes, the holder of a gold certificate can request withdrawal/delivery of his gold holdings.

## What are the costs and fees for gold certificates?

The charged costs vary by provider. Typical fees are buying and selling fees, certificate issuance fees and storage fees as well as delivery fees.

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

Typical costs for withdrawing/delivering gold can range from about 1% to more than 5% if they include production charges.

## Is it possible to hold the gold overseas?

Some providers offer their customers overseas storage locations.

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

The legal position and protection of the customer depends on the type of gold certificate. In the case of allocated or pooled allocated gold holdings, the customer possesses outright ownership in gold holdings. This does not change in case of a default of the provider. The customer's holdings would be protected against creditors of the provider. In case of unallocated gold, the situation of the customer is different. The customer would only have an unsecured claim against the overall assets of the provider. This claim might be subordinate to claims of other creditors.



## Who bears the risk of a gold price decrease?

The risk is solely borne by the customer. He bears the risk of a price decrease or increase.

## Can a gold certificate be traded?

A gold certificate can typically be transferred to other individuals. This usually requires physical presentation of the original certificate as well as the issuance of a new certificate in the name of the new certificate-holder.

## What are the main differences between a gold certificate and a simple vaulted gold product?

Gold certificates provide an additional security feature in the form of the certificate, which is issued in the name of the customer. Gold holdings under a certificate can typically not be sold or withdrawn without the presentation of the certificate, which differs from simple vault gold products. Therefore, gold certificates provide an additional element of security while being less convenient, e.g., in terms of delivery or sale.

## Which elements of a gold certificate operating model can be outsourced?

Practically every element can be outsourced. Each service, including trading, storage and delivery can be outsourced to a specialised service provider. Alternatively, an integrated service provider can be contracted to provide a comprehensive solution covering multiple elements, including information technology.

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

The required time depends on the product configuration and the chosen implementation option. Since many required services may be outsourced to partners, an offering could be set-up within 6 months.



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