

# Retail Gold Investment: Investor Guidance



## About the World Gold Council

The World Gold Council is the market development organisation for the gold industry. Our purpose is to stimulate and sustain demand for gold, provide industry leadership, and be the global authority on the gold market.

We develop gold-backed solutions, services and products, based on authoritative market insight, and we work with a range of partners to put our ideas into action. As a result, we create structural shifts in demand for gold across key market sectors.

We provide insights into the international gold markets, helping people to understand the wealth preservation qualities of gold and its role in meeting the social and environmental needs of society.

Based in the UK, with operations in India, China, Singapore and the USA, the World Gold Council is an association whose members comprise the world's leading and most forward thinking gold mining companies.

## For more information

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# Introduction

Gold is a unique asset, valued by savers and investors around the world for its prized investment characteristics. First, gold is highly liquid so it can be easily bought and sold. Second, gold itself has no credit or counterparty risk, unlike shares, bonds and savings accounts. Third, gold acts as a diversifier due to its low correlation with other asset classes. In addition, it protects investors' money against inflation and currency depreciation because it is not tied to any monetary authority. These factors combined mean that including gold in a portfolio can diversify overall risks.

Over the past two decades, demand for gold as an investment asset has stepped up, increasing by an average of 15% annually since 2001. Today, retail investors own close to 40 thousand tonnes of gold,<sup>1</sup> valued currently at approximately US\$2,000 billion.

There are many ways to invest in gold, from traditional gold bars and coins to gold-backed Exchange Traded Funds (ETFs), which allow investors to participate in gold funds without taking physical delivery of gold.<sup>2</sup>

But the vast majority of retail gold investments are held in unregulated products, including traditional bars, coins and investment jewellery, as well as numismatics, gold pension and savings plans and tokenised gold.

While products such as ETFs are subject to financial market regulation, many other gold investment products are not. This could be why trust and understanding in the retail gold market is low. A comprehensive consumer survey from the World Gold Council, covering 18,000 participants worldwide, highlights this issue. It shows that almost half of prospective retail gold investors cite lack of trust as a barrier to purchase.<sup>3</sup>

The World Gold Council has created a set of principles for the retail gold market: the Retail Gold Investment Principles. These are designed to raise the bar for product providers across the market and encourage retail investors to place their trust in gold.

The aim of the Retail Gold Investment Investor Guidance is to help investors differentiate between providers and assess which products best meet their needs. We provide relevant questions to consider when making an investment decision, and background information for each question. This Investor Guidance is designed to be a starting point in the decision-making process. Investors have different requirements, so what could be essential for one investor may be much less relevant for another. We cannot cover all potentially relevant aspects of the market in a single document. Nonetheless, we hope our Investor Guidance offers investors a useful and important helping hand.

Retail gold investments offer many investors compelling opportunities to access the gold market. And, as with any investment, the more you know, the better able you are to make the right choice.

<sup>1</sup> Data as of December 2019; more information on above ground stocks can be found under [www.gold.org/goldhub/data/above-ground-stocks](http://www.gold.org/goldhub/data/above-ground-stocks)

<sup>2</sup> In March 2003 The World Gold Council helped to launch the first gold-backed ETF: [www.gold.org/goldhub/research/market-primer/gold-backed-etfs](http://www.gold.org/goldhub/research/market-primer/gold-backed-etfs)

<sup>3</sup> [www.retailinsights.gold](http://www.retailinsights.gold)

# Investor checklist

## The product you buy

- Do you obtain outright ownership of physical gold? ☐
- How do you store your gold safely? ☐
- Does the product meet your specific needs? ☐

## The company you buy from

- Is the product provider trustworthy? ☐
- Does the product provider adhere to any regulations or voluntary “standards”? ☐

## The fees and costs you pay

- What are the costs for buying/selling the gold? ☐
- Are there any other costs? ☐

## Marketing and sales efforts

- Are the potential returns and risks stated objectively? ☐
- Are you able to make investment decisions without undue pressure? ☐

## The operational management of the company

- How is the gold acquired? ☐
- Are you appropriately protected? ☐
- Is the provider using best practices in information technology? ☐
- Are the company’s gold sourcing and overall operations responsible? ☐

# Key product types



## Gold bullion bars and coins

Bullion gold comes in the form of bars and coins. The value of bullion gold is determined by the value of its physical gold content. Bullion gold can be described as investment gold in its narrowest sense.



## Gold investment jewellery

In many markets, such as India, China and Turkey, gold jewellery plays an important role as an investment product. Gold investment jewellery is characterised by its high purity, and therefore excludes gold-plated and similar items. Importantly, the price of gold investment jewellery is primarily determined by its gold content so investors should be able to exchange it for a price that is similar to or higher than its material value.



## Numismatic coins and other collectibles

Collector coins or numismatic coins do not qualify as bullion coins. They are often expected to have an additional value beyond the value of their precious metals content, based on factors such as scarcity or design. Collector coins are similar to investments in art and require additional expertise from investors.



## Managed gold products

Managed gold products are based on vaulted gold, allocated or pool allocated, which is stored in professional vaults on behalf of customers. This caters to investors who want outright ownership of gold and exposure to its price, but do not want to take physical possession of their holdings. Product variations include, for example, gold savings plans – which allow for the continuous accumulation of holdings – and tokenised gold, where ownership is represented by digital tokens on a blockchain.

# A. The product you buy





## Do you obtain outright ownership of physical gold?

There are many ways to invest in gold. One of the first questions to consider is whether a specific product gives you legal title to gold.

Under legal title, or outright ownership, the gold becomes your property. According to our definition, all retail gold investment products provide outright ownership.

Other gold investment products, such as unallocated gold accounts and some gold savings plans offered by banks, provide a claim to gold. They allow you to financially participate in the gold market and often include an option to exchange your claim for physical gold. But you are subject to the creditworthiness of the product provider.

### Key point



**Outright ownership in gold is a key feature of gold investments. It ensures that you are not exposed to any provider's creditworthiness and that you legally own your gold.**

## How do you store your gold safely?

Outright ownership is a key aspect of retail gold investment products. But outright ownership does not necessarily imply that you have to hold the gold in direct possession, in other words, store it yourself.

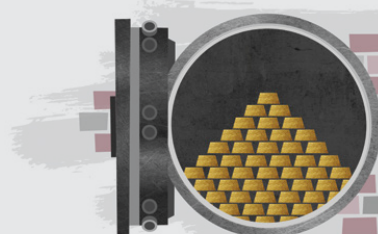
Retail gold investments can provide you with three basic options in terms of taking possession:

1. You can take direct possession and store the gold yourself.
2. You can rent a deposit box with a service provider in order to store the gold.
3. You can choose a solution that includes storage of your gold on your behalf.

Whichever option you choose, you should make sure that there is appropriate insurance coverage.

## Managed gold products

Integrated storage is a key feature of managed gold products. The providers of managed gold products store your gold holdings on your behalf in professional vaults. They do this in two different ways: through individually allocated physical gold or through pools of allocated gold. The former gives you ownership in dedicated bars or coins but typically incurs higher costs than the latter. It is best practice to arrange storage of the gold with an independent vault operator.



### Key point



**Safekeeping of your gold holdings is a key concern. Pay close attention to the secure storage of your gold and of maintaining adequate insurance coverage.**

## Does the product meet your specific needs?

All types of retail gold investment products differ in terms of characteristics. In addition, there are significant product variations within each category.

You should take time to understand the various options in order that your choice reflects your preferences.

Key product variations and implied questions are listed in the table below:

Bullion bars and coins	Collectibles	Investment jewellery	Managed gold products
<ul style="list-style-type: none"> <li>• Are you buying bullion bars or bullion coins? (See box below)</li> <li>• Coins are typically more expensive than bars and mark-ups are higher for smaller pieces</li> </ul>	<ul style="list-style-type: none"> <li>• What is the grade of a numismatic coin? This has a big influence on value</li> <li>• Demand and rarity are other key factors that affect the value of collectibles</li> </ul>	<ul style="list-style-type: none"> <li>• How pure is the gold jewellery, what is its melt value?</li> <li>• Does the piece of jewellery have a hallmark? (See box below)</li> <li>• Factors such as brand and design can also impact price</li> </ul>	<ul style="list-style-type: none"> <li>• What kind of gold are you buying? Do you own specific pieces or share ownership in a pool of allocated gold?</li> <li>• Can you withdraw your holdings in the form of physical gold or request delivery?</li> </ul>

## Bullion bars or gold bullion coins have to meet certain local requirements

In the European Union (EU), investment gold is defined as gold bars with a purity of 99.5 or higher, or gold coins that meet certain requirements. The coins must have a purity of at least 90%; they must have been minted after 1800; they must be or have been legal tender, and they are usually sold at a price which does not exceed the value of the gold contained in the coins by more than 80%. The EU regularly updates a list of coins that are considered investment gold.<sup>4</sup>

In the EU, investment gold is exempt from Value Added Tax (VAT). This legislation was introduced to promote the use of gold as a financial instrument.

In the United States (US), the term 'bullion' is used for a bulk quantity of a specific precious metal, such as gold, which is cast or minted as bars or coins, and whose value is based on the gold content. Rare and collectible coins, whose gold content value constitutes only a limited portion of the overall value of the coin, are not considered bullion.

In Singapore, the import and supply of investment precious metals (IPM) such as gold, which meet certain criteria, are exempt from the General Sales Tax.<sup>5</sup> The exact criteria vary by product; for example, bars must have a purity of at least 99.5% and be capable of being traded on the international bullion market – as well as other criteria.

When buying investment gold, investors should aim to purchase gold produced by reputable refineries or mints; the LBMA publishes the Good Delivery List for large gold and silver bars and includes the names of accredited refiners.<sup>6</sup>



<sup>4</sup> A list of gold coins considered by the EU as investment gold can be found at [eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52017XC1111\(01\)](http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52017XC1111(01))

<sup>5</sup> See <https://www.iras.gov.sg/irashome/GST/GST-registered-businesses/Working-out-your-taxes/When-is-GST-not-charged/Supplies-Exempt-from-GST/>

<sup>6</sup> The list of LBMA accredited refiners can be found here: [www.lbma.org.uk/good-delivery-list-refiners-gold-current](http://www.lbma.org.uk/good-delivery-list-refiners-gold-current)



## The grade of a numismatic coin is a key driver of its value <sup>7,8</sup>

Coin grading refers to how the condition of a numismatic coin is graded. There are different grading systems but, in general, the following criteria are considered in order to determine the grade of a coin:

- **Strike**
- **Preservation**
- **Lustre**
- **Colour**
- **Attractiveness**

Professional coin certification service providers determine the grade of a coin. A professional coin grading service should provide a serial number, which you can check online or by phone.



## Hallmarking of gold jewellery <sup>9</sup>

Gold hallmarks originated to show the purity of gold in a piece of gold jewellery and included the mark of the assaying office that certified the purity as well as the fineness or caratage of the gold. Later, trademarks that showed which goldsmith had manufactured the product were added.

In the UK, all gold products sold on the home market must be hallmarked at one of four assay offices.

Similar systems to clearly identify the caratage and origin of gold items have been introduced over time and around the world. Each nation has created its own distinctive gold hallmarks and markings to meet its requirements.

In the US, an item's caratage may be identified by independent signage close to the piece of jewellery or by verbal information. If an item is marked, it must also have a trademark stamp in close proximity to identify its origin. The fineness in parts per thousand is often used to indicate purity instead of caratage.

In India, the previously voluntary hallmarking will become mandatory from 15 January 2021.<sup>10</sup> The hallmarks, which include information on purity and the logo of the respective assaying centre, certify that pieces of jewellery conform to the standards set by the Bureau of Indian Standards.

In many other countries jewellery hallmarking is voluntary. Gold manufacturers apply their own marks to their creations to attest to their origin and caratage.



7 Source: [https://en.wikipedia.org/wiki/Coin\\_grading](https://en.wikipedia.org/wiki/Coin_grading)

8 See also the Federal Trade Commission's guidance on investing in collectible coins: [www.consumer.ftc.gov/articles/0136-investing-collectible-coins](http://www.consumer.ftc.gov/articles/0136-investing-collectible-coins)

9 More information at [www.gold.org/about-gold/about-gold-jewellery/gold-hallmarks](http://www.gold.org/about-gold/about-gold-jewellery/gold-hallmarks)

10 See [https://en.wikipedia.org/wiki/BIS\\_hallmark](https://en.wikipedia.org/wiki/BIS_hallmark)

You should also consider whether and how you will be able to return or sell back gold to the provider from which it was bought; this applies to all investment product types.

Environmental, Social and Governance (ESG) criteria are important for many consumers. These criteria aim to promote the protection of the environment, treat employees and other stakeholders fairly, and meet standards of good corporate governance. You should ask your provider whether they meet ESG criteria that are important to you.

### Key point



**Retail gold investment products vary widely in terms of characteristics. Understanding the specific product you want to buy, in relation to the alternatives, is essential.**

## B. The company you buy from



## Is the product provider trustworthy?

As with any investment product, it is important to check whether your retail gold investment provider is reliable and trustworthy. This is especially true if, for example, you are solicited by the provider via email or through advertisements on the internet.

### A simple checklist should consider:

- Does the provider have a proven track record?
- How long have they been in business?
- Where are they incorporated and what is their legal status?
- Are there any independent reviews or complaints about them?
- Are they subject to any local licensing or regulatory requirements?
- If they are based in another country, will you be able to enforce a legal claim?
- Are any other parties involved in the offer?
- Are there any warnings about them from regulators or consumer protection agencies?
- Who is the provider's intended client base, and do you fit into that category?

It is also important to make sure that you can contact the product provider, if need be. Providers should not just offer a P.O. Box address but have physical offices and provide addresses for them. Support staff should also be accessible by email and phone during office and/or trading hours.

### Specific sources of information include:

- Regulators and consumer protection agencies, such as the Financial Conduct Authority<sup>11</sup> (FCA) in the UK or the Commodities Futures Trading Commission<sup>12</sup> (CFTC), Securities Exchange Commission<sup>13</sup> (SEC) and Financial Industry Regulatory Authority<sup>14</sup> (FINRA) in the US
- Accreditations by third parties, such as the Better Business Bureau in North America
- Corporate registries for checking if and where the business is registered or to review company filings
- Internet Search Engines.



### Key point



**Look for the provider's name in reputable directories, such as the national company registry, and make sure they do not appear on warning lists. Check a provider or product name by searching for it on Internet search engines. Adding words like 'review', 'scam' or 'fraud' to your search will help you to find potentially critical articles or comments.**

<sup>11</sup> The FCA maintains a public warning list, which can be accessed at [www.fca.org.uk/scamsmart](http://www.fca.org.uk/scamsmart)

<sup>12</sup> The CFTC provides various information to protect investors, e.g. the CFTC Red List of companies to be avoided: [www.cftc.gov/ConsumerProtection/FraudAwarenessPrevention/index.htm](http://www.cftc.gov/ConsumerProtection/FraudAwarenessPrevention/index.htm)

<sup>13</sup> You can search for registered investment advisers with the SEC at [adviserinfo.sec.gov/](http://adviserinfo.sec.gov/)

<sup>14</sup> Brokers selling securities in the US must be registered. Information about brokers can be found using FINRA's BrokerCheck at [brokercheck.finra.org/](http://brokercheck.finra.org/)

## Does the product provider adhere to regulatory or voluntary standards?

Some retail gold investment products are regulated but many are not and, in particular, are not regulated as investment services.<sup>15</sup> This means that investors need to take extra care in deciding which providers to choose. In many jurisdictions, such as the UK or other EU countries, customers of regulated investment services are protected by investor compensation schemes in case the investment firm fails to return the investor's assets.<sup>16</sup> Claims typically arise in cases where there has been fraud or other administrative malpractice, or when an investment firm is unable to fulfil its obligations as a result of operational errors.

However, even unregulated retail gold investment providers may conform to voluntary standards, industry codes or sound practices.<sup>17</sup>

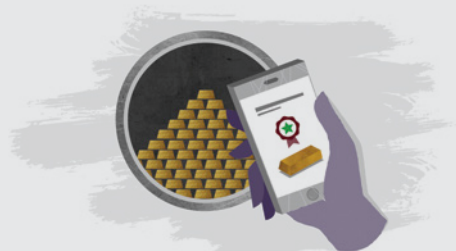
Gold providers that adhere to regulatory or voluntary standards can provide additional safety in terms of both corporate governance and internal controls. Banks and payment service providers, for example, tend to implement 'the four-eyes principle' for activities that are considered sensitive. As two people have to approve certain actions, the risk of operational errors or fraud is lessened.

The London Bullion Market Association's Global Precious Metals Code sets out the standards and best practices expected from market participants in the over-the-counter precious metals wholesale market.<sup>18</sup> Several retail gold investment providers, including mints and managed gold product providers, are members of the LBMA; they have to agree to conform to the Code and sign a statement of commitment to it.

Depending on the country, consumer protection mechanisms sometimes apply to Retail Investment Gold products. Selected examples are information on gold investments provided by consumer advice centres in Germany, or the Federal Trade Commission in the US, or activities of the Trading Standards departments in the UK, which protect consumers against scams.

## Managed gold products

Depending on product features, providers of managed gold products could be subject to certain regulations. For example, providers could require specific licences for payment services if they enable payment-like services.



## Key point



**There are many providers of retail gold investment products. At their best, these providers are helpful, reliable and efficient. Before buying any products, it is important to check whether your provider is bona fide, whether it is subject to external regulation and whether it conforms to specific standards.**

<sup>15</sup> An example for some regulation of precious metals sales is the Coin and Precious Metal Disclosure Act in the US, although this is limited to marketing and sales practices: [www.congress.gov/bill/111th-congress/house-bill/6149](http://www.congress.gov/bill/111th-congress/house-bill/6149)

<sup>16</sup> For more information on investor compensation schemes in the EU, go to: [ec.europa.eu/info/business-economy-euro/banking-and-finance/consumer-finance-and-payments/consumer-financial-services/investor-compensation-schemes\\_en](http://ec.europa.eu/info/business-economy-euro/banking-and-finance/consumer-finance-and-payments/consumer-financial-services/investor-compensation-schemes_en)

<sup>17</sup> The International Organization for Standardization (ISO) publishes various standards, such as standards for quality management, information security or risk management.

<sup>18</sup> More information on the LBMA Global Precious Metals Code can be found at: [www.lbma.org.uk/global-precious-metals-code](http://www.lbma.org.uk/global-precious-metals-code)



## C. The fees and costs you pay





## What are the costs for buying/selling the gold?

As in any financial market, there are buying and selling fees. Before investing in gold you should find out about associated costs. The purchase fee – sometimes called transaction fee or commission – is typically calculated as a percentage of the investment amount. There is usually a purchase premium as well, which allows the provider to cover costs such as making the bars or coins and transporting them.

Purchase fees are often published by providers, but you may need to ask about purchase premiums as many providers do not state them explicitly. Instead, they provide a stated price for a specific amount of gold, such

as a troy ounce or kilogram, or a price for specific gold bars or coins. You can then calculate the premium yourself by comparing this price to the benchmark price of gold.<sup>19</sup>

Similar costs arise when you want to sell gold, i.e. selling fees and selling discounts.

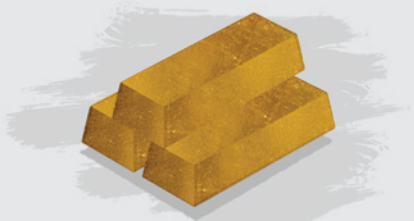
In general, larger pieces incur lower premiums than smaller ones, and gold bars incur lower premiums than gold coins. Premiums for numismatics or investment jewellery could be significantly higher than premiums for bars or coins, depending on many factors, such as quality and rarity.

Below is an indicative comparison of premiums by product type.

Bullion bars and coins	Collectibles	Investment jewellery	Managed gold products
<ul style="list-style-type: none"><li>• Low premiums, price is driven by melt value</li><li>• Lower premiums for bars than coins, premiums decrease as the size increases</li></ul>	<ul style="list-style-type: none"><li>• Wide range of premiums, depending on factors such as rarity and grade</li></ul>	<ul style="list-style-type: none"><li>• Wide range of premiums, depending on factors such as rarity or design</li></ul>	<ul style="list-style-type: none"><li>• Premiums vary, e.g. by product features; allocated gold is regularly more expensive than pool allocated gold<sup>20</sup></li></ul>

### The global gold market

The landscape for wholesale gold trading is constantly evolving but the three most important gold trading centres are the London over-the-counter market, the US futures market and the Chinese market. These markets comprise about 90% of global trading volumes. Smaller secondary markets include Japan, Dubai, India, Singapore, Turkey, Russia, Malaysia and Hong Kong; these serve local demand and act as regional trading hubs.



### Key point



**The costs for buying and selling gold vary not only by provider but also by product type. As the latter has a significant impact on costs, you should be clear on your investment objective and the characteristics you want in your investment.**

<sup>19</sup> For benchmark reference prices see [www.gold.org/goldhub/data/gold-prices](http://www.gold.org/goldhub/data/gold-prices)

<sup>20</sup> See glossary for definitions of allocated and pool allocated gold.

## Are there any other costs?

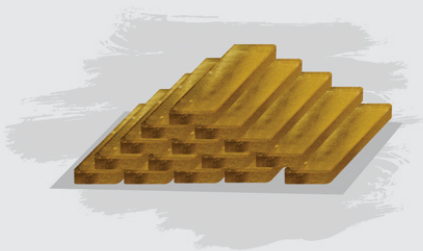
Retail gold investment products offering storage on behalf of the investor incur ongoing fees, similar to management fees for investment funds. Often charged monthly, these fees typically cover the cost of storage, insurance and administration. In most cases, they are calculated as a percentage of the value of your gold holdings. Additional services, like delivery, may be charged separately.

All products may incur further costs. Providers usually charge for physical delivery and may charge for services such as money transfer or currency exchange.

Gains from retail gold investments are usually taxed in the same way as other investments; for example, making them subject to capital gains tax or income tax. Significantly, however, investment gold in the form of bullion bars and bullion coins is exempt from VAT in many jurisdictions, although there can be exceptions. You should check local taxation rules and consult with your tax adviser before engaging in any transactions. Collectible coins or investment jewellery could be classified as 'collectibles', which may be taxed at a higher rate than other investments.<sup>21</sup>

## Managed gold products

Storage is a key feature of managed gold products, implying costs for vaulting. Pool allocated gold, where bars or coins are allocated to a pool of investors, usually incur the lowest storage costs. Segregated storage or safety deposit boxes in professional vaults are more expensive.



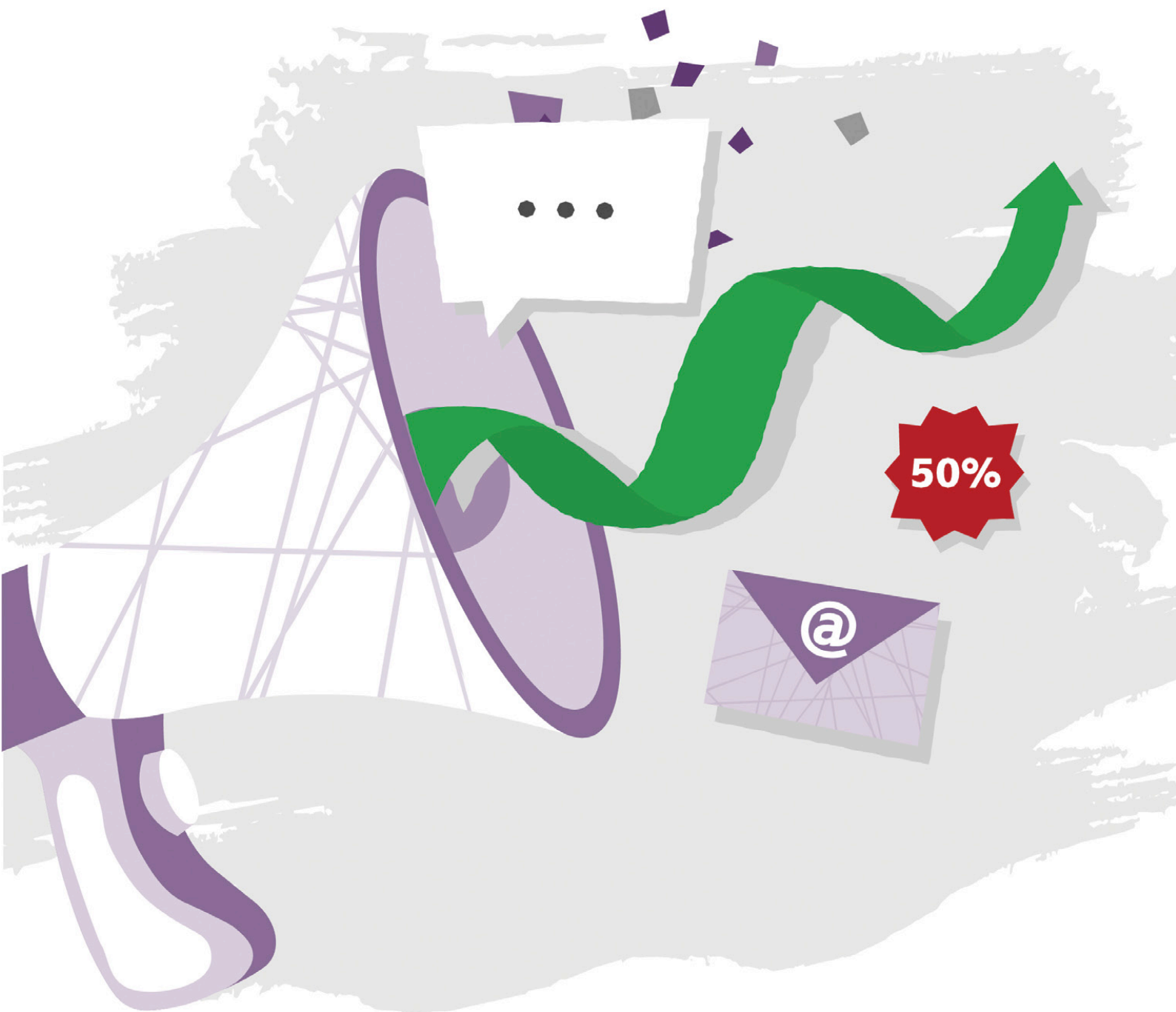
## Key point



**Gather as much information as possible and compare the types and costs of similar products to ensure that you buy the retail gold investment that is most appropriate for you.**

<sup>21</sup> According to the Federal Trade Commission this could be the case in the US: [www.consumer.ftc.gov/articles/0136-investing-collectible-coins](https://www.consumer.ftc.gov/articles/0136-investing-collectible-coins)

## D. Marketing and sales efforts



## Are potential returns and risks stated in an objective way?

Gold is a unique investment asset and retail gold investments offer you the opportunity to benefit from many distinct characteristics. But, like any investment, gold offers both opportunities and risks. As such, you should seek out objective information on the potential performance of any retail gold investment product and

be sceptical if you are promised guaranteed or excessive returns, or risk-free capital preservation. You should be comfortable that the type of investment product and the investment amount is suitable to your particular objectives and risk tolerance.

The table below shows some of the mitigation measures you can take to address potential risks specific to certain product types.

Bullion bars and coins <sup>22</sup>	Collectibles <sup>23</sup>	Investment jewellery <sup>24</sup>	Managed gold products
<ul style="list-style-type: none"> <li>Request a certificate proving melt value and authenticity</li> </ul>	<ul style="list-style-type: none"> <li>The collectible value or numismatic value can exceed the melt value substantially. The actual grade or rarity of a coin, and therefore its value, may differ from the alleged one.<sup>25</sup> Grading is to some degree subjective</li> <li>Request a grading for a coin from a professional grading service</li> </ul>	<ul style="list-style-type: none"> <li>Ensure gold investment jewellery has a hallmark indicating the purity and the assaying office<sup>26</sup></li> </ul>	<ul style="list-style-type: none"> <li>Safe storage is a key concern of any managed gold product</li> <li>Providers should work with reputable vault operators and the gold should be insured and regularly audited</li> <li>Check the section 'Operational management' for further recommended practices</li> </ul>

### Who vaults your gold?

It is important to find a reputable depository for your gold. Resources include the LBMA and exchanges that accredit vaults for their precious metals contracts. Sovereign vaults are owned at the country level. Some vaults are owned and run by banks and others fall outside the banking system.



### Key point



**Any investment decision should be well thought out. Gather all relevant information about potential risks and how to mitigate them.**

<sup>22</sup> For guidance on investing in bullion bars and bullion coins see [www.consumer.ftc.gov/articles/0135-investing-bullion-and-bullion-coins](http://www.consumer.ftc.gov/articles/0135-investing-bullion-and-bullion-coins)

<sup>23</sup> For guidance on investing in collectible coins by the Federal Trade Commission in the US see [www.consumer.ftc.gov/articles/0136-investing-collectible-coins](http://www.consumer.ftc.gov/articles/0136-investing-collectible-coins)

<sup>24</sup> For guidance on investing in gold jewellery by the Federal Trade Commission in the US see [www.consumer.ftc.gov/articles/0293-gold-silver-jewelry](http://www.consumer.ftc.gov/articles/0293-gold-silver-jewelry)

<sup>25</sup> See section 'The grade of a numismatic coin is a key driver of its value' above.

<sup>26</sup> See section 'Hallmarking of gold jewellery' above.

## Are you able to make investment decisions without undue pressure?

You should never feel pressurised into buying retail gold investments. Warning signs include:

- An investment that sounds too good to be true: guaranteed double-digit annual returns or zero risk are examples of 'too good to be true'
- Being pushed into making an investment decision without sufficient time for consideration
- Unexpected contact via the Internet or phone ('cold-calling')
- Contact from somebody unknown who pretends to be somebody with authority, who you could trust, such as a government official
- Persuasion from fake reviews or claimed interest by other alleged clients including celebrities and other people who may be known to you
- Aggressive radio or television advertisements
- Being told that your savings are at risk if you do not invest in the providers' products

### Key point



**Do not allow yourself to be pressured into an investment decision.**

## E. Operational management of the company





## How is the gold acquired?

Retail gold investment providers trade gold on behalf of customers in a variety of ways and use a variety of counterparties.

Some providers use their own gold stock for customers' trades. Some providers give you access to one or more gold suppliers. And in the case of some managed gold products, customers can even trade with each other.

In principle, liquidity can be highest, and prices are typically best when your provider has a number of suppliers and they are substantial in size.

It is also important to consider how the purchase or sale price is determined. Some providers offer a fixed price quote for a limited amount of time; others ask you to place your order and see what price you receive later.

In the case of deferred purchases or managed gold products, trades are rarely settled immediately. You should be aware of the amount of time you may have to wait between making a transaction and obtaining ownership of your gold. This applies to online purchases too.

### Managed gold products

If you buy managed gold products you will potentially never request withdrawal or delivery of your vaulted gold holdings. Therefore, settlement terms and the acquisition of legal ownership require special attention.



### Key point



**Make sure that your provider sources gold professionally. In cases where there is deferred settlement, such as prepayment for an order, ensure that you understand the settlement terms.**

## Are you appropriately protected?

Any provider of retail gold investment products should ensure that its customer gold holdings and other assets, such as received prepayments, as well as the provider's own operations, are appropriately protected.

This includes physical protection of the provider's shops and operations, including the physical protection of customer data and information technology infrastructure.

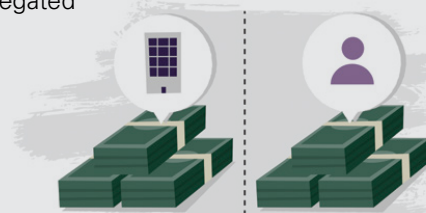
Reputable providers should have adequate insurance arrangements. This enhances your protection against risks such as loss, damage or robbery, and demonstrates that the insurance company has assessed and approved the product provider.

In general, deliveries should only be handled by safe and reliable couriers and be fully insured.

### Managed gold products

Managed gold products require specific measures to protect you:

- Your vaulted gold should be kept in professional high-security vaults, operated by reputable security companies
- Accurate record keeping by the provider is essential
- Clients' holdings should be audited regularly
- Any longer-term cash holdings should be held in segregated accounts.



### Key point



**Adequate physical protection is key when dealing in high valuables such as gold. Where gold is stored by a provider on your behalf, safekeeping is essential.**

## Is the provider using best practices in information technology?

For online dealers and managed gold product providers, IT security is very important; you should ask, therefore, how a provider secures their technical infrastructure. Data encryption of personal and payment data should be in place, as well as a backup and disaster recovery strategy.

Providers should be able to produce documented IT policies and be able to answer your questions. They should adhere to data privacy regulations, have skilled personnel in place and work with reliable service providers.

### Key point

**Providers should protect their IT infrastructure adequately.**



## Are the company's gold sourcing and overall operations responsible?

Environmental, Social and Governance (ESG) criteria are becoming more and more important to customers and other stakeholders. The adherence to good practices regarding the environment, employees, suppliers and customers, as well as corporate governance, should benefit you in various ways and protect a provider's sustainable competitive position.

You should choose a provider and product that meets your individual requirements with regard to ESG criteria, such as responsible gold sourcing from trustworthy suppliers. For example, you should buy and sell only high quality, authentic products, whose integrity can be verified by you or other stakeholders.

### Key point

**Providers should meet Environmental, Social and Governance criteria and source their gold responsibly.**

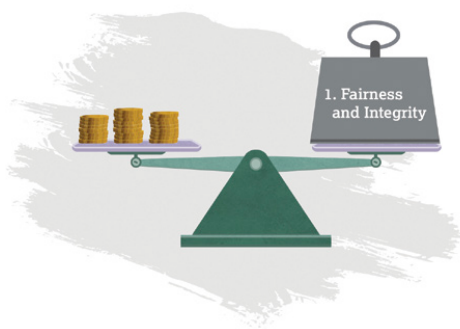


# The Retail Gold Investment Principles

While this Investor Guidance aims to help retail investors ask the right questions and choose a suitable product, retail gold investment product providers are encouraged to further raise the bar and live up to expectations of investors. The World Gold Council is working with providers on sound practices ranging from fairness and integrity to operational recommendations.<sup>27</sup> Those Retail Gold Investment Principles are primarily aimed at unregulated gold investment products. This Investor

Guidance interlocks with the Principles for the product providers. An offering that fully adheres to the Principles also meets the requirements outlined in this Investor Guidance.

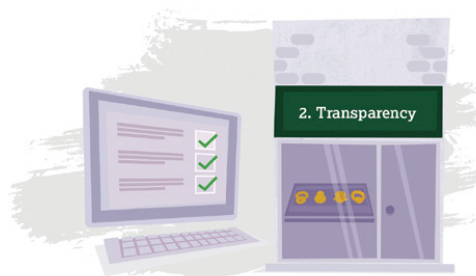
You, the investor, can benefit from the implementation of best practices by product providers through a fair and safe gold investment product and a reassuring customer experience.



## Principle 1 – Fairness and integrity

**A provider must treat customers fairly and act with integrity, from information and service provision through to transaction completion.**

**As the investor** you should be given all the information, support and time you need to make a choice that meets your needs. Prices and fees should be reasonable and transaction terms fair. Remember, if the terms offered appear too good to be true, you should search for more information before you make a commitment.



## Principle 2 – Transparency

**A provider must be transparent about prices and key terms and disclose other material information related to product features.**

**As the investor** you should fully understand all aspects of the product offering including pricing, fees, terms and conditions and have all the relevant information on the company offering it. Remember, companies providing products that are fair to their customers will be transparent and happy to spend time explaining their offerings to you in greater detail.



## Principle 3 – Protection of client assets

**A provider must ensure adequate protection of customers' gold holdings and other assets including cash held on behalf of customers.**

**As the investor** your assets, be it gold or cash balances, should be properly protected as long as they are within the responsibility of the provider. Remember, the gold you purchase and any cash you deposit – both of which will be in the care of the provider – are your assets and should be protected accordingly.

<sup>27</sup> See the 'Retail Gold Investment Principles'.



## Principle 4 – Responsible gold sourcing

**A provider must source gold of high integrity from trustworthy suppliers, whilst considering Environmental, Social and Governance (ESG) criteria.**

**As the investor** the gold you obtain should be of high quality and come from verified and trusted suppliers. You should satisfy yourself that you are happy with the Environmental, Social and Governance standards set by the supplier. Remember, product providers choose how and where they buy their gold, but you are free to choose a provider that is sourcing according to the standards that are important to you.



## Principle 5 – Regulatory compliance

**A provider must adhere to all applicable regulations and local laws.**

**As the investor** you should benefit from greater levels of protection when dealing with product providers who comply with the law. Remember, providers across the globe must abide by local rules of doing business. The extent of these rules may vary, but in all cases they are in place to protect both you and the provider.



## Principle 6 – Commercial prudence

**A provider must not take excessive risks and should be prepared for various eventualities, including a company wind-down.**

**As the investor** you should be assured that your provider will protect you by taking only limited risks and maintaining adequate financial buffers. Remember, as well as protecting your assets whilst in their care, providers should also ensure their business is commercially sound so that, in the event of a problem, any negative impact is minimised.



## Principle 7 – Operational professionalism

**A provider must conduct their business with due skill, care and diligence, and manage key risks.**

**As the investor** you should be protected by providers who protect their operations, and thereby you, through various safeguards, such as adequate processes and technical security measures. Remember, if the provider undertakes high standards of operational procedures that are appropriate to their business model, this will ultimately benefit you, the customer, even though this may not be immediately apparent.

# Conclusion

Gold is an important investment for retail investors. The many different types of retail gold investment products address varying needs and preferences of individual investors. This Investor Guidance aims to further develop the market by helping investors to ask the right questions and choose the products suitable for them.

Gold is a unique asset: highly liquid, yet scarce; it is a luxury good as much as an investment. Gold is no one's liability and carries no counterparty risk. As such, it can play a fundamental role in an investment portfolio. Gold acts as a diversifier and a vehicle to mitigate losses in times of market stress. It can serve as a hedge against inflation and currency risk.

Over the last decade, investment demand for gold has grown significantly. Today, private investors own about US\$2,000 billion in gold investments. According to a survey conducted by the World Gold Council in 2019, 38% of respondents who have never invested in gold in the past are considering doing so in the future.<sup>28</sup>

Retail gold investment products range from bars and coins, numismatics and investment jewellery, to managed gold products based on vaulted gold. Product features vary widely – not only between the different product types but

also within each product category. Our Investor Guidance assists individual investors to ask the right questions on issues such as:

- Is the product suitable for you and do you have all the required information?
- How much will everything cost?
- Is the provider reliable, trustworthy and easy to contact?
- Are you and your gold appropriately protected?

This guidance can support you in choosing appropriate providers and retail gold investment products that meet your needs.

This Investor Guidance and the Retail Gold Investment Principles aim to contribute to the further development of the retail gold investment market, benefiting customers as well as product providers and other stakeholders.

<sup>28</sup> Study based on a survey of 18.000 people across six countries, see [retailinsights.gold](https://retailinsights.gold).

# Glossary

## Allocated gold

An 'allocated' account is an account with a bullion dealer to which individually identified gold bars or coins owned by the account holders are credited. The gold bars or coins in an allocated account are specific to that account and can be uniquely identified.

## Blockchain

A blockchain is a type of decentralised digital ledger, used as an alternative to centralised record-keeping. The ledger may be distributed publicly to anyone, or limited to authorised, 'permissioned' participants. Blockchains are cryptographically secured, ideally resulting in immutable transaction records whose authenticity can be verified by different participants. In the case of tokenised gold, an individual investor's allocated gold holdings are recorded on a blockchain to prove ownership and facilitate transfer of ownership.

## Bullion gold

The value of bullion gold is determined by the value of its physical gold content. Bullion gold is often called investment gold. Some countries further define 'investment gold' by its purity and form. Bullion gold can be bullion bars or bullion coins.

In the European Union (EU), investment gold is defined as gold bars with a purity of 99.5% or higher, or gold coins that meet certain requirements. The coins must have a purity of at least 90%; they must have been minted after 1800; they must be or have been legal tender, and they are usually sold at a price that does not exceed the value of the gold contained in the coins by more than 80%. The EU regularly updates a list of coins that are considered investment gold.<sup>18</sup>

In the United States, the term 'bullion' is used for a bulk quantity of a specific precious metal, such as gold, which is cast or minted as bars or coins and whose value is based on the gold content. Rare and collectible coins, whose gold content value constitutes only a limited portion of the overall value of the coin, are not considered bullion.

## ESG

The abbreviation ESG stands for Environmental, Social, and Governance.

Environmental, social and governance criteria are important for many consumers. These criteria aim to promote the protection of the environment, fair treatment of employees and other stakeholders and compliance with standards of good corporate governance.

## Fineness

The content of pure gold – or fine gold – of a gold bar, coin or other object is called fineness. Gold objects often contain some alloys or impurities. One measure for the fineness of gold is carat. Carats indicate the gold parts per 24. 24 carat gold is almost pure gold (99.5-99.9%).

## Gold-backed exchange-traded funds (ETFs)

Gold-backed ETFs and similar products are backed by gold and their prices track the price of gold. Exchange-traded funds are traded on stock exchanges and give investors an exposure to the gold price, while being backed by gold.

## Gold hallmarks

Gold hallmarks originated to show the purity of gold in a piece of gold jewellery and include the mark of the assaying office that certifies the purity of the gold. Later, trademarks that showed which goldsmith had manufactured the product were added.

## Gold Investment Jewellery

What counts as gold investment jewellery depends on local market practices. In general, gold investment jewellery should be jewellery pieces with a high gold content, i.e. a high purity. Depending on the market that could mean above 21 carat or up to 999.9. Jewellery that contains only a small percentage of gold, such as gold-plated jewellery, is not considered gold investment jewellery.

Gold investment jewellery is often sold by gram weight due to the fact that the overall value of a piece of jewellery is primarily driven by its gold content.

## Managed gold products

The term 'managed gold' refers to products based on vaulted gold. Vaulted gold is allocated or pool allocated gold, which is stored in professional vaults on behalf of a retail customer. Gold savings plans or tokenised gold products are sample variants of managed gold products. Allocated gold accounts by dealers or bullion banks that are members of the London Bullion Market Association, or gold-backed financial securities, such as Exchange Traded Funds, are not considered to fall under our definition of managed gold products.

<sup>18</sup> A list of gold coins considered by the EU as investment gold can be found under [eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52017XC1111\(01\)](http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52017XC1111(01))



### **Melt value**

The melt value refers to the value of the gold or other metals of an object such as a bullion bar, a coin or a piece of jewellery.

### **Numismatic coins/collector coins**

Collector coins or numismatic coins do not qualify as bullion coins. They are often expected to have an additional value beyond the value of their precious metals content, based on scarcity or design. Depending on the specific coins, liquidity is typically lower than for bullion coins and premiums are higher (see 'Spot price/premiums' below). Collector coins are similar to investments in art and require additional expertise from investors. Investors in collector coins bear different/additional risks compared to investors in bullion gold.

### **Pool allocated gold/fractional allocation**

Pool allocated gold accounts provide investors with co-ownership in one allocated gold bar or a pool of allocated gold bars. The bars are typically 'large bars', e.g. London Good Delivery 400-ounce bars (approximately 12.4kg), which generally can be purchased at low premiums. Pool allocated gold is fully backed by physical gold. Investors own a fraction of the overall pool of allocated gold but are not allocated individual bars.

### **Purity**

See 'Fineness' above.

### **Retail investor**

A retail investor is a non-professional or individual investor.

### **Settlement**

The settlement date is the date when the ownership of gold changes from seller to buyer. On this date, the buyer has to pay for their purchase and the seller has to deliver the gold to the buyer. The settlement period is generally one or two days. The term 'settlement risk' refers to the risk that the counterparty fails to deliver gold when the investor has already paid for it (or that the investor fails to pay for their gold once it has been delivered).

### **Spot price/premiums**

The 'spot price' of gold typically refers to the price of one troy ounce of gold on global gold markets. Depending on the form or type of gold bullion that investors purchase, there will be additional 'premiums' or 'mark-ups' to be paid. In general, the premium paid on a small bar or coin will be relatively higher than on a large bar.

### **Tokenised gold**

The World Gold Council defines tokenised gold as ownership of physical gold, represented by digital tokens on a blockchain.

### **Unallocated gold**

In an unallocated account, a customer does not own specific bars or coins but has a general entitlement to a set amount of gold. The investor is not the legal owner of any physical gold; instead they are a creditor of the provider.







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