

SELECT COMMITTEE ON THE PERTH MINT AND COMMONWEALTH REGULATORY COMPLIANCE

HEARING DATE: 27 JULY 2023

QUESTIONS ON NOTICE

Question 1

CHAIR: Thank you, Dr Kent and Dr Smith, for being available today. How many counterparties does the RBA engage with?

Dr Kent: That is a very good question. We might have to take that on notice. Across foreign exchange, it's a pretty substantial number because we have dealings with banks that sit in London, New York, offshore in Tokyo, Korea, Canada and the like. I'm not sure if Penny has the numbers to hand.

Dr Smith: I can answer that question in terms of gold loans and swaps. The total number of counterparties is currently four. It's not a large number.

Dr Kent: But it would be much more substantial in terms of our foreign exchange dealings in those other currencies I suggested. If you would like, we can take that on notice.

Answer

The RBA has, in total, 56 counterparties for the management of our foreign reserves, which includes five counterparties for gold (including Gold Corporation). Four of the five gold counterparties are also counterparties for other foreign exchange reserve management activities.

Question 2

Senator REYNOLDS: In relation to the actions you have taken that you have gone through in some detail, have you had to take a similar action before for anybody else either here or overseas that you have these loan arrangements with? I think you said four. Is this unprecedented, or has this happened before?

Dr Kent: I don't have knowledge of our doing something like this before with counterparties. There was an instance earlier with Gold Corp. There were allegations which came to light about their use of some small scale miners, which I believe related to those miners potentially employing youths – some even suggest slave labour of some sorts. I could be wrong about the exact detail of that, but it was of concern. It was something that was again looked into by the LBMA ultimately. At the time we followed a similar approach, reviewing our exposure and saying we would not allow them to come to us and get extra gold loans until this issue was resolved.

Senator REYNOLDS: So this is the second time in relation to Perth Mint and Gold Corp. Can you take on notice the details of the first incident – timing and what it is related to?

Answer

The RBA is a signatory to the Global Precious Metals code, which commits institutions to the highest ethical standards including the responsible sourcing of gold.

Following allegations against Gold Corp in June 2020 around responsible gold sourcing and Artisanal Small-scale mining, the Reserve Bank advised Gold Corporation that it was not prepared to enter into new transactions or rollover existing transactions. Gold Corporation's reply included the disclosure that they would cease the use of aggregators with immediate effect, that Artisanal Small-scale mining comprised a very small proportion (<1%) of their total refining throughput, and that LBMA had instituted a review into Gold Corporation's recent audits and internal risk assessment processes.

Considering that information – and pending the outcome of the LBMA's independent review in the Gold Corporation's responsible sourcing – the RBA made a decision to roll over existing exposures but to not to add to exposures if Gold Corporation requested it. Gold Corporation did not subsequently request an increase in exposures and on 7 August 2020 the LBMA reaffirmed Perth Mint's standing as a Good Delivery List Refiner.

The RBA's Risk Management Committee (which is chaired by the Deputy Governor) considered the potential 'modern day slavery' impacts of the Bank's holdings and dealings at several meetings commencing June 2020. The Risk Management Committee was kept updated on developments and communication between the RBA and Gold Corporation.

Question 3

CHAIR: *The Governor of the RBA recently visited Western Australia and hosted an event that was attended by many 'Perthonalities'. Did a representative of the Gold Corporation attend that dinner?*

Dr Kent: *I don't know. That would be something we could take on notice.*

Answer

Mr Jason Waters (CEO, Gold Corporation) attended the Reserve Bank Board dinner in Perth on 2 May 2023.

Question 4

CHAIR: *Thank you very much. Secondly, is Gold Corporation part of the Bank's business liaison program?*

Dr Kent: *I'm not aware of whether or not Gold Corporation is a member of our industry liaison program. But again we'll take that one on notice and get back to you on that.*

Answer

Yes. The Bank's Regional and Industry Liaison team, which forms part of Economic Group, meets with Gold Corporation around once a year. To protect the confidentiality of information provided to the Bank's liaison program, information about liaison meetings with individual contacts is only available to a small number of staff within the Bank, mainly in the Bank's Economic Group. Most staff in Financial Markets Group, including those engaged in gold dealing activities, do not have access to this information.

Supplementary information on the RBA's gold lending activities

The RBA has long been an active lender of our gold holdings to earn additional income, which ultimately benefits the taxpayer. The RBA commenced gold leasing activities in 1986, with the first loans occurring with Gold Corporation.

By the early 2000s, the RBA had lent out much of its gold holdings of 80 tonnes to financial institutions assessed to be of suitable creditworthiness. Further, the RBA required collateral or that the lending be covered by an explicit government guarantee (such as with Gold Corporation). However, from the early 2000s global lease rates began to decline, reflecting a combination of factors, including excess supply of loans by central banks, declining hedge ratios in the gold industry and lower yields across various funding markets. As a result, the RBA's counterparties opted to repay their loans, with the last loan contracted with a financial institution occurring in 2004. After this point, Gold Corp was the RBA's sole gold lease counterparty.

Since 2019, the RBA has undertaken gold swaps with a limited number of commercial institutions. Under these transactions, the RBA lends gold and receives currency (such as US dollars and Yen) as collateral (or vice versa). As with gold loans in the past, gold swaps are only conducted with banks who satisfy credit standards and thresholds acceptable to the RBA. Swaps are contracted for a maximum term of 100 days (3 months).

The RBA's earnings from gold lending (which includes loans and swaps) has averaged around AUD1 million over recent financial years. Gold loans with Gold Corporation have contributed slightly more than half of the Bank's earnings from gold, with the longer tenor and steady lending profile of loans compensating for the lower rate of earnings. In contrast, gold lending via swap is spread across several counterparties but tends to give more variable returns

The RBA's gold holdings comprise only bars which comply with the London Bullion Market Association's (LBMA's) 'Good Delivery' standard (our 80 tonnes comprises around 6,400 bars). Good Delivery standards specifies the bars' attributes (weight, purity, size and shape), and can only be produced by refiners accredited by the LBMA. The RBA's gold holdings are held at the Bank of England (BoE) in an 'allocated

account', such that individual bars (with specified bar serial numbers) are attributable to the RBA. The BoE holds the RBA's gold as bailee; legal and beneficial title to the gold remains with the RBA.

The settlement of gold on both loans and swaps are completed via the same method: via the electronic book-entry transfer of bars across accounts held at the BOE. At the maturity of the loan or the swap, if the counterparty does not return the same serial numbered bars that were lent to it (a typical occurrence), it must still deliver bars which meet the Good Delivery standard and have already been accepted into the BOE vaults. The change in ownership is again effected by electronic book-entry transfer across accounts held at the BOE.

Reserve Bank of Australia
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