London, 7 June 2024

# Response to Consultation Paper: EBA draft Guidelines for the plans to orderly redeem asset-referenced or e-money tokens in the event that the issuer fails to fulfil its obligations under MiCA

The World Gold Council welcomes the opportunity to comment on the ‘EBA draft Guidelines for the plans to orderly redeem asset-referenced or e-money tokens in the event that the issuer fails to fulfil its obligations under MiCA’.

**About the World Gold Council**

The World Gold Council is dedicated to ensuring that gold remains an integral part of the global economy.

We are an association whose 32 members are the world’s leading gold mining companies with operations in over 45 countries, and our initiatives impact every aspect of the gold industry. We aim at:

- Improving access to gold by tackling regulatory and infrastructure barriers to gold investment.
- Improving understanding of the gold market and the role of gold as an investment asset
- Developing industry standards and improving integrity and trust in gold.

Since we were founded in 1987, the structure and size of the gold industry has changed dramatically. The gold market has almost doubled in size and grown seven-fold in value. Today, gold is increasingly recognised as a mainstream asset that meaningfully contributes to prosperity, financial market stability, and society as a whole.

The World Gold Council’s ambition is to further the digital transformation of the global gold market to meet the expectations of today’s consumers, investors, and the financial services community. The tokenisation of gold and digitalisation of trading and supply management processes is essential to the modernisation of the market.

The World Gold Council is a Partner Member of the Financial Markets Standards Board (FMSB) in the United Kingdom, and our CEO, David Tait, chairs its Precious Metals Working Group.

**Gold as an asset class**

Gold has unique properties and is an essential investment for many individual and institutional investors. Private investments in gold account for nearly US$ 3 trillion in holdings, and more than US$ 2 trillion are held in gold reserves by central banks around the world.[1] In today’s environment, gold has an increasingly relevant role to play in helping investors navigate an evolving landscape of risk and uncertainty and, ultimately, protecting savers.

[1] Source: Gold Demand Trends and Above Ground Stocks, 2021, https://www.goldhub.com

Annual private investment demand for gold – including bars, coins, but also ETFs (Exchange Traded Funds) stands at over US$ 60 billion. About 45% of global retail investors have already invested in gold and additional 38% are considering investing in gold.

Given the above-mentioned numbers, the market for tokens entirely backed by gold could over the coming years become significant in size, with tokens offering 1:1 ownership of physical gold providing an innovative way of investing in gold.

Several gold-backed tokens are already available to customers, such as Pax Gold[2], DGLD[3], VNX GOLD[4] and Tether Gold[5].

**Consultation**

Below we provide specific feedback to applicable consultation questions.

We appreciate your consideration of our comments and remain at your disposal should you have any questions.

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Yours sincerely,

The World Gold Council

**Responses to selected consultation questions**

**Question 3: Do you consider that the redemption process as described herein provides adequate operational guidance to token holders about the actions and steps relating to the redemption claim?**

The World Gold Council welcomes the draft Guidelines that the EBA has produced on redemption plans, however, we have some concerns regarding how the guidelines address the costs related to the redemption plan.

Paragraph 23 states that *"the issuer should make sure in the redemption plan that the costs for the liquidation of the reserve of assets or otherwise linked to the implementation of the redemption plan may only be allocated to the proceeds of the liquidation of the reserve of assets after the amount for meeting the relevant token holders' redemption claims is set aside.*"

The accompanying cost-benefit analysis elaborates further on this point indicating that this is the preferred approach as it ensures that token holders' claims are covered while also incentivising the issuer to limit redemption costs.

[2] See https://paxos.com/paxgold/
[3] See https://dgld.ch/
[4] See https://vnx.li/
[5] See https://gold.tether.to/

We believe the guidelines do not sufficiently account for the specific factors around the cost of implementing the redemption plan relating to different types of asset referenced tokens, and specifically tokens 1:1 backed by physical gold.

As per Article 39 of the MiCA regulation, the issuers of asset referenced tokens are not allowed to charge a redemption fee.

For physically backed tokens, redemption involves arranging for physical delivery. The standard practice is to charge the gold purchaser a delivery fee to cover the logistics company's costs, which we would like to stress is not a redemption fee.

Furthermore, insolvency does not require liquidation of the gold since it can be delivered to the token holder to meet their claims. Thus, the language around the "… costs for liquidation of the reserve of assets (…) may only be allocated to the proceeds of liquidation of the reserve of assets…" in paragraph 23, should be further clarified to apply to cases when the underlying asset is delivered rather than liquidated upon insolvency.

The redemption plan should reflect the specific conditions under insolvency for issuers of gold backed tokens whereby an issuer offering physical gold to the token holder upon redemption should be able to, in the case of insolvency, offer redemption in cash as an alternative. This is particularly relevant in the case of fractional ownership when melting and recasting would be associated with unbearably high costs.  For instance, a token might represent a portion, such as 1 gram, of a larger gold piece, like a 12.4 kg London Good Delivery bar (400 troy ounces). Without the option for cash redemption, the 12.4 kg bar would need to be sent to a refinery, melted and recast into 1 gram bars before the 1 gram of gold could be redeemed. The cost of this process would likely exceed the value of the gold backing the token.

Therefore, we would like to stress that it is important that these Guidelines allow for flexibility by the issuers to set redemption conditions (which would be in line with Article 39(2a) of the level 1 text of MiCA) when designing the redemption plans.