For this issue of the Alchemist, Ruth Crowell interviewed Victoria Cleland, the Executive Director for Banking, Payments and Innovation at the Bank of England. Here is what we learned.

VICTORIA, BEFORE WE START DISCUSSING GOLD, IT WOULD BE INTERESTING TO KNOW A LITTLE BIT ABOUT YOUR BACKGROUND, SUCH AS YOUR CURRENT ROLE AT THE BANK AND THE POSITIONS YOU HAVE HELD IN THE PAST?

Thanks Ruth, as Executive Director for Banking, Payments and Innovation, I have responsibility for the operation and strategic development of our payment system services, including the UK’s Real-Time Gross Settlement infrastructure, which settles over £650 billion of sterling payments and securities transactions daily. As well as having responsibility for our wholesale and retail banking operations, I also have oversight of the second-largest gold vault in the world by value of gold in custody.

I have spent my career at the Bank of England covering an exciting and varied selection of jobs. Most recently, I was Chief Cashier, responsible for banknotes and leading our work on digital currencies. I oversaw the launches of the £5 and £10 polymer notes, with each bearing my signature. Prior to this, I was Head of the Special Resolution Unit and Private Secretary to the Deputy Governor.

Alongside my day job at the Bank, I am also executive sponsor of our staff disAbility Network and Bicycle Users Group.

THE BANK HAS A LONG HISTORY AND A VERY IMPORTANT ROLE IN THE FINANCIAL SYSTEM. CAN YOU SAY A LITTLE MORE ABOUT ITS ROLE WITH REGARDS TO GOLD?

Gold has been an important aspect of the Bank’s role since we were founded in 1694 (we are celebrating our 325th birthday this year, alongside the centenary of the first London Gold Price), reflecting gold’s significance within official foreign exchange reserves. The Bank opened a purpose-built London vault in 1697 in response to the first significant gold rush. This saw an influx of gold from Brazil to London. The Bank’s ‘bullion warehouse’ served the entire European market, and the subsequent gold rushes in California, Australia and South Africa led to the storage of even more gold in the Bank’s vaults.

Today (a sunny day in early September 2019), we hold around 400,000 gold bars in our vaults, currently worth approximately £200 billion, making up 15% of official declared gold reserves globally. We are the largest gold custodian in the UK – we hold over 65% of the gold in London.

THE BANK’S ROLE IN THE GOLD MARKET HAS A RICH HISTORY, BUT CAN YOU TELL ME ABOUT THE SERVICES YOU CURRENTLY PROVIDE?

The Bank provides a gold custody service specifically designed for our central bank customers. We currently have around 70 such customers and this service supports their reserve management requirements in gold. Alongside monetary stability, a core part of the Bank’s mission is to maintain financial stability. Our gold service contributes to this by providing central banks with access to the liquidity of the London gold market, the largest gold market in the world.
The Bank also provides safe custody for the UK’s gold reserves, on behalf of Her Majesty’s Treasury. We also provide services to a few commercial firms which facilitate access for central banks to the London gold market.

HOW ARE YOUR SERVICES IN THE BULLION MARKET UNIQUE?

The Bank’s service is unique in several ways. We offer allocated accounts both to central banks and commercial banks for deep storage of London Good Delivery (LGD) gold bars. By offering allocated accounts to commercial banks, we allow central banks to access the liquidity of the London gold market and trade directly with the commercial banks.

The deep storage nature of gold held here means that some bars in our vaults date back in age to the First World War. The Bank’s allocated service means that customers own specific bars.

Gold that the Bank holds on behalf of customers does not appear on our balance sheet. This means that the gold balance does not entail a credit risk exposure to the Bank. In contrast, the rest of the gold held in the London gold market relies primarily on unallocated gold accounts with the clearning banks that jointly operate Aurum, the market’s settlement system.

The ability to do BETs is particularly useful for our central bank customers since multiple commercial banks active in the London gold market also have accounts at the Bank of England. BETs can be undertaken on the same day, so reserve managers are therefore able to generate cash from gold holdings quickly, through undertaking gold swaps or sales.

WE ARE CELEBRATING OUR 325TH BIRTHDAY THIS YEAR ALONGSIDE THE CENTENARY OF THE FIRST LONDON GOLD PRICE

The Bank also offers settlement of gold transfers by Book Entry Transfer (BET) on its Gold Bar Management (GBM) system. Central bank reserve managers can transfer gold to and from any other Bank of England gold account holder by BET across the gold custody accounts without the need for the physical movement of gold.

WHAT ELSE ARE YOU DOING TO MAKE YOUR SERVICES AS EFFICIENT AS POSSIBLE FOR YOUR CUSTOMERS?

We have also taken steps to make it easier for customers to monitor their holdings here. We have shifted from paper-based gold bar lists to bar codes and electronic scanning of bars. We also provide a gold inspection service for all our central bank customers in which they are able to visit to visually inspect a sample of gold bars from their holdings, which they select themselves.

Earlier this year, we removed the requirement for gold commercial customers to use a London Precious Metals Clearing Limited (LPMCL) clearer to deliver gold into the Bank. By allowing all customers to deliver gold directly into the Bank, we are taking an inclusive approach, as well as being open and transparent.

HOW DO YOU MANAGE THE VARIOUS RISKS OF HOLDING ALL THAT GOLD?

The Bank takes risk management very seriously in all aspects of what we do. And this is doubly important for gold.

In all our operations, the Bank observes the highest standards of risk management and abides by all relevant legislation.

Before undertaking any transaction, we need to be satisfied that the counterparty has the authorisations necessary to request the transaction, that all relevant sanctions are complied with and that there is no evidence that the transaction will involve criminal activity.

We also have a very strong focus on physical security, including using lots of state-of-the-art technology. No gold has ever been stolen from the Bank in our 325-year history.

However, in 1836, the Bank is said to have had a lucky escape. Directors at the Bank agreed to meet one night in the gold vault at the request of an anonymous writer claiming to have access to gold held at the Bank. The anonymous writer, a sewer man, appeared through some of the floorboards following his discovery of an old drain that ran immediately under the gold vault.

After a stocktake revealed that he had stolen no gold, the Bank rewarded him with a gift of £800, which is approximately £80,000 in today’s money.

DO YOU HAVE A REGULATORY ROLE IN THE BULLION MARKET?

No. Many of your readers and members might remember that before LBMA was established in 1987, the Bank acted as the gold market regulator.

Today, our role is much more narrowly focused. While the Bank sits as an observer on various LBMA committees, including its Board, our role is simply one of custodian, where our focus continues to be on providing a high-quality service to each of our customers and supporting the Bank’s objective of maintaining financial stability.

YOU MENTION THAT THE BANK IS AN OBSERVER ON VARIOUS LBMA COMMITTEES. DO YOU ALSO ADHERE TO LBMA STANDARDS?

Absolutely. We only accept gold bars that meet exacting LGD standards, covering fine ounce weight, purity and physical appearance.
We are supportive of these standards and I believe that it is very important that we adhere to them strictly. Alongside LBMA, we recognise the importance of transparency in the over-the-counter (OTC) precious metals market. And to coin a phrase, ‘we are walking the walk’ and, since January 2017, we have been publishing data on our website on the amount of gold held at the Bank. LBMA uses this information to publish vault holdings data for the London market as a whole. We also now have our gold account policy on our website.

In the precious metals market, LBMA has taken the lead in producing a Global Precious Metals Code, which was published in May 2017. This set out the standards and best practice expected from market participants in the global OTC wholesale precious metals market. In February 2018, we published our Statement of Commitment, demonstrating our support for the principles contained in the Code and confirming that our internal procedures are aligned with those principles.

**THAT SOUNDS GREAT. IS THERE ANYTHING ELSE YOU WANT TO ADD?**

Having responsibility for the gold is one of the really exciting elements of my role. The gold market is constantly evolving and we pay close attention to the latest trends in both the market and our customers’ requirements. During times of financial stress, we see an increased demand for gold within our own holdings, and the sales when more liquid assets are required. Just as gold has been an important part of the history of the Bank, it will be an important part of its future as we continue to innovate our service to meet the demands of our customers and the changing landscape within the gold market.