

NOTE 6

Monetary gold

■ Business Context

Central banks may acquire, retain or undertake operations with monetary gold. Not all gold can be classified as monetary gold. Monetary gold is gold held by a monetary authority principally as an element of its foreign exchange reserves (also sometimes called international reserves). To qualify as monetary gold, the gold must meet the International Monetary Fund's (IMF's) definition of monetary gold and the monetary authority must designate the gold as part of its foreign reserve portfolio. Monetary gold includes allocated gold bullion and unallocated gold accounts with non-residents that give title to claim the delivery of gold. Gold bullion can take the form of coins, ingots, or bars with a purity of at least 995 parts per 1000,

including such gold held in allocated gold accounts. For further information, please also refer to the "Balance of Payments and International Investment Position" manual published by the International Monetary Fund; 2009; 6th ed. Previously published as: Balance of Payments manual. ISBN 978-1-58906-812-4.

Given the above-mentioned characteristics of the monetary gold, IFRS does not provide a specific treatment for the accounting of monetary gold. Therefore, for monetary gold, the central bank can use the requirement in IAS 8 to adopt the nearest equivalent accounting treatment [IAS 8.10-12].

ACCOUNTING POLICY – MONETARY GOLD

Monetary gold is gold to which the Bank as a monetary authority has title to and is held as a reserve asset. Gold includes gold bullion as well as unallocated gold accounts with non-residents that give title to claim the delivery of gold. Gold bullion takes the form of coins, ingots, or bars with a purity of at least 995 parts per 1,000, including such gold held in allocated gold accounts.

The management of the Bank understands that IFRS does not provide a specific treatment for the accounting of monetary gold. Therefore, pursuant to the requirements set by IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" paragraphs 10-12, the Bank determined that the policies established for the accounting of financial instruments and for the disclosure of relevant information, should also be applied to gold as the Bank regards it as a monetary asset. (NBM)

Gold was initially recognized at cost in United States dollars (USD) converted to LC on the date of acquisition, being the fair value of the consideration provided including acquisition charges associated with the investment. After initial recognition, the gold is re-measured at fair value.

Gains and losses arising from changes in fair value, referring to price changes are recognized in the fair value reserve within other comprehensive income, until the gold is sold, when they are recognized as realized gains or losses in profit or loss.

The fair value of monetary gold is expressed in USD, converted at the middle exchange rate as published by the Bank at the reporting date, and is measured at the last bid price for one ounce of gold (Oz) at the reporting date quoted on Reuters.

Foreign exchange gains and losses from conversion of prices of gold from USD to LC are recognized in accordance with IAS 21 and are included in the Statement of Profit or Loss.

DISCLOSURE – MONETARY GOLD

The Bank of Utopia holds monetary gold on deposit with the Bank for International Settlements in Switzerland, but which is physically held at the Bank of England. Fair value of the monetary gold as at December 31, 2019 amounts to LC 108 million, representing 31,500 ounces of gold at LC 3,085 per ounce (2018: LC 94 million representing 31,500 ounces of gold at LC 2,984 per ounce). Movements in fair value of monetary gold can be analysed as follows: (CBBH)

(LC 000)	2019	2018
As at January 1	94,000	84,700
Purchases during the year	9,000	5,000
Fair value reserves for monetary gold:		
- changes in prices of gold	1,500	1,300
- foreign exchange gains/(losses) from conversion USD/LC	3,500	3,000
As at December 31	108,000	94,000

User Guidance

For monetary gold, the central bank can use the requirement in IAS 8 to adopt the nearest equivalent accounting treatment [IAS 8.10-12].

IFRS 9 specifies that gold is a commodity, hence not a financial instrument, but the standard does not distinguish between monetary and non-monetary gold. Although monetary gold is highly liquid, there is no contractual right to receive cash or another financial asset.

On the other hand, monetary gold shares several characteristics with a financial asset. For example, monetary gold is:

- Readily convertible into cash;
- Quoted globally in US dollars;
- Easily traded with willing counterparties (durable, divisible and portable);
- Accepted as a form of payment by some central banks; and
- A store of wealth.

Furthermore, monetary gold can be held:

- For its contribution to financial capacity because of its ability to be sold in the global liquid gold trading markets; and
- For an indeterminate period, because it provides confidence in the monetary authority's financial strength and ability to carry out its activities.

There are two wide-spread practices that central banks classify monetary gold:

1. at FVOCI like a debt financial asset denominated in foreign currency (it is considered as more appropriate) (NBM; CBBH; MMA; RBM);
2. at FVPL like a financial asset (BCB; CBC; CBK; NBU).

When the first option is applied, information about foreign exchange gains/losses which is the component of fair value revaluation [IFRS 9.B5.7.2-B5.7.4, IAS 21.52b] may be material and should be presented as a separate line in the Note about changes in the amount of accumulated other comprehensive income (Gold Revaluation Reserve in Equity).