London, 31 July 2024

Response to the Call for Evidence on the review of the UCITS Eligible Assets Directive

The World Gold Council welcomes the opportunity to comment to the Call for Evidence on the review of the UCITS Eligible Assets Directive’.

**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 more than US$ 3.5 trillion in holdings, and nearly US$ 3 trillion are held in gold reserves by central banks around the world.[[1]](#footnote-2) 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.

Annual private investment demand for gold – including bars, coins, but also exchange traded instruments stands at about US$ 60 billion. About 45% of global retail investors have already invested in gold and additional 38% are considering investing in gold.

In recent years, various crypto-assets entirely backed by gold were launched. Examples of such tokens are Pax Gold[[2]](#footnote-3), DGLD[[3]](#footnote-4), VNX GOLD[[4]](#footnote-5) and Tether Gold[[5]](#footnote-6). The two largest ones, Pax Gold and Tether Gold have a current combined market capitalisation of more than US$ 1 billion.[[6]](#footnote-7)

**UCITS and Gold**

As it stands, the UCITS Directive does not allow UCITS to acquire either precious metals or certificates representing them[[7]](#footnote-8).

While under UCITS, Gold Exchange Traded Funds are not possible, there are at least 17 Exchange Traded Funds and gold funds in Europe which invest in **physical gold**: three are domiciled in Liechtenstein and 14 are domiciled in Switzerland. In total they hold more than US$ 23 billion in assets under management.[[8]](#footnote-9) Gold Exchange Traded Funds in North America account even for more than US$ 110 billion in assets under management. Also in Asia, Gold ETFs are prevalent, total market cap is about US$ 14 billion.

Due to the absence of Gold ETFs under UCITS in the EU, investors are caused to invest into Gold Exchange Traded Commodities (Gold ETCs) in order to get (indirect) exposure to physical gold. Gold ETCs are debt instruments (exchange traded notes), not funds, essentially providing claims against companies or special purpose vehicles holding physical gold, while investors in a Gold ETF hold shares in the fund, which represent a proportional ownership of the fund's assets, i.e. physical gold. **In contrast to ETFs, ETCs are less regulated and provide less transparency and investor protection** since they are regulated as securities, not as funds.

Over the last decade, a rise of more specialised ETFs like sector ETFs, thematic ETFs up to leveraged or inverse ETFs can be identified also in the EU under the UCITS regime. At the end of June 2024, there were 156 UCITS thematic ETFs totalling US$37.7 billion in assets under management according to Global X, up from nearly zero only ten years ago.[[9]](#footnote-10) Based on evidence from the US and Switzerland, where gold ETFs have over US$ 100 billion in assets, there is a clear opportunity for investor demand for ETFs in Europe.

In today’s environment, gold has an increasingly relevant role to play in helping European investors navigate an evolving landscape of risk and uncertainty and, ultimately, protecting European savers.

Gold is to be considered as a strategic asset in light of its key features, being its high liquidity, the absence of liability or credit risk and its various sources of demand. Furthermore, its scarcity enables to preserve its value over time. Gold assets are set to enhance portfolios by providing diversification, high liquidity, but also better returns and performance.

By excluding gold as an eligible asset in the scope of the UCITS Directive (article 50), it prevents such funds from holding and investing in gold. This has had the following impacts:

* **Investor protection** – Investors would benefit from reduced risk and increased regulation and security if gold falls under the UCITS framework rather than a non-UCITS or certificate legislative framework
* **Diversification** – given the strong rise of thematic or otherwise specialised ETFs under UCITS, which often lack broad diversification, a strong diversification requirement as that which is currently in place under UCITS should not hinder the development of Gold ETFs. These investments would likely pose lower risks compared to many of today’s specialised UCITS funds.
* **Fund flows** – As a result of excluding gold investments under the UCITS framework, non-EU domiciled ETFs, e.g., domiciled in Switzerland, North America, or Asia, are likely to attract funds also from investors in the European Union.
* **Liquidity** – As US-domiciled gold ETFs with a market cap of over US$ 110 billion demonstrate, the physical gold market would be easily capable of supplying sufficient liquidity for UCITS Gold ETFs.

**Therefore, we believe that making gold an eligible asset under the UCITS Directive, while also amending UCITS diversification requirements (enabling UCITS products fully backed by gold) would be highly beneficial.**

**Comments on Call for Evidence**

We provide specific comments on matters set out in the Call for Evidence in the respective Reply form and Reply form Annex as well as a presentation containing various data, which we provide together with the document at hand.

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

Our contact details:

Dr Tatiana Fic

Director, Central Banks and Public Policy

Email: [Tatiana.fic@gold.org](mailto:Tatiana.fic@gold.org)

Phone: +44 7525 990 059

Yours sincerely,

The World Gold Council

1. Source: Above Ground Stocks, 2023, prices as of 19 July 2024, https://www.goldhub.com [↑](#footnote-ref-2)
2. See https://paxos.com/paxgold/ [↑](#footnote-ref-3)
3. See <https://dgld.ch/> [↑](#footnote-ref-4)
4. See <https://vnx.li/> [↑](#footnote-ref-5)
5. See <https://gold.tether.to/> [↑](#footnote-ref-6)
6. Source: coinmarketcap.com as of July 21, 2024 [↑](#footnote-ref-7)
7. See art.50(2) under the “Obligations concerning the investment policies of UCITS”. [↑](#footnote-ref-8)
8. Source: ETF Flows July 2024, https://www.goldhub.com [↑](#footnote-ref-9)
9. Source: <https://globalxetfs.eu/content/files/Monthly-Thematic-UCITS-ETF-Report-June-2024-1.pdf> on the growth of thematic ETFs [↑](#footnote-ref-10)