



BANKING ISSUANCE

Comptroller of the Currency
Administrator of National Banks

Type: Banking Circular

Subject: Coin and Bullion

TO: Chief Executive Officer of All National Banks, Regional Administrators and Examining Personnel

PURPOSE

This circular contains general guidelines for national banks which engage in coin and bullion activities. It supersedes Banking Circular 58, dated December 9, 1974, which is rescinded.

SCOPE

12 U.S.C. 24 (Seventh) provides that national banks may buy and sell "coin and bullion." Dealing or engaging in future and forward transactions concerning coin and bullion are considered activities incidental to banking.

The term "coin" means coins held for their metallic value which are minted by a government, or exact restrikes of such coins minted at a later date by or under the authority of the issuing government. National banks are prohibited from buying or selling coins the value of which is not based on metallic content. This does not, however, prevent national banks from acquiring such coins, and subsequently selling them, if they constitute collateral for a debt previously contracted. The term "bullion" refers only to uncoined gold or silver in bar or ingot form.

GUIDELINES

The risks associated with coin and bullion should be fully evaluated by a bank's Board of Directors. This evaluation should include an assessment of management's expertise in conducting and supervising coin and bullion operations. Before a national bank commences such activities the Board of Directors should formally authorize the program and establish policies and procedures governing the activity. The policy and procedures should:

- Ⓒ clearly identify the purpose(s) for engaging in coin and bullion activities;
- Ⓒ establish position limits for each category of activity (it is expected that position limits will be modest in relation to a bank's capital);
- Ⓒ require that reporting systems be established which provide management and the Board of Directors with information to effectively supervise coin and bullion activities; and



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- ④ establish accounting, internal control, and audit systems for these operations.

When developing specific coin and bullion guidelines, management and the Board of Directors should review Section 813.4 of the Comptroller's Handbook for National Bank Examiners, and the Federal Financial Institutions Examination Council's "Joint Notice of Uniform Guideline on Internal Control for Foreign Exchange in Commercial Banks." These references contain outlines of policies and procedures which can be adapted by national banks to coin and bullion activities.

A copy of the Board's authorization and current policy and procedures statements should be forwarded to the appropriate Regional Administrator for National Banks or, in the case of multinational banks, to the Deputy Comptroller for Multinational Banking. These policies and operating procedures will be reviewed by national bank examiners in the ordinary course of on-site examinations. Coin and bullion operations found to be unwarranted or inadequately controlled will be criticized as an unsafe and unsound banking practice.

In addition to the foregoing, national banks should consider the following when engaging in coin and bullion activities:

- ④ Purity

Banks choosing to own coin or bullion should adopt reasonable procedures for ascertaining the purity of these assets. The market reputation and financial soundness of the refiner or dealer are critical factors when purchasing coin and bullion. Establishing prudent standards concerning from whom coin and bullion will be purchased is one control short of an assay which can facilitate banks ensuring themselves of the fineness of these assets. Transactions usually will involve a purity of either 0.995 or 0.9995. Coin transactions may involve lower purities, however, banks should be aware that the markets for such lesser purities may be limited.

- ④ Insurance

Coin and bullion owned by the bank may not be covered by a bank's blanket bond. Moreover, additional coverage may be necessary in order to cover coin or bullion in transit or held on consignment.

- ④ Legal considerations



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Banks which issue or intend to issue certificates evidencing the sale of bullion should consider the possible applicability of the Securities Act of 1933. Banks may wish to consult with their legal counsel on this issue and consider the advisability of obtaining an opinion from the Securities and Exchange Commission in this regard.

Banks also are advised that the Glass-Steagall Banking Act of 1933 prohibits investments in or underwriting of securities of companies engaged in gold activities.

④ Retail sales and purchases

Bank customers may not be familiar with all of the aspects of investing in coin and bullion. As a result they may seek a bank's advice regarding such activities. Banks should assure that prospective buyers realize that: (1) such an investment provides no interest or other yield except through possible price appreciation; (2) the market for coin and bullion is volatile and future values are uncertain; and (3) the customer's purchase price may exceed quoted market prices due to the imposition of various fees, such as shipping or safekeeping charges, or sales taxes.

Banks which engage in retail sales programs may also decide to purchase coin and bullion from individuals. Provisions must be made to assure the purity of the coin or bullion involved in these purchase transactions.

④ Loans and collateral

The Board of Directors should establish guidelines for bank credit which is used to finance the purchase of coin and bullion. These guidelines should differentiate between those requests for normal commercial and industrial inventory credit and those that depend on price fluctuations to liquidate the credit. Coin and bullion may be utilized as collateral for a loan.

④ Reserve requirements

Section 204.2(k)(3) of Regulation D of, the Board of Governors of the Federal Reserve System, Reserve Requirements of Depository Institutions, stipulates that "silver and gold coin and other currency and coin whose numismatic or bullion value is substantially in excess of face value is not vault cash for purposes of this Part."



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ACCOUNTING

Coin and bullion owned by a bank must be recorded as "Other Assets." Future or forward transactions should be recorded as contingent liabilities in memoranda accounts. A bank's net position in coin or bullion, including future and forward positions, should be marked to market monthly. Gains or losses resulting from these revaluations should be recognized in the bank's current income or expense account. The value of coin held by a bank should be determined on the basis of its metal content rather than on its numismatic value.

ORIGINATING OFFICE

Questions regarding this banking issuance may be directed to the Chief National Bank Examiner's Office, Commercial Examinations Division, (202) 874-5190.

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