

The different forms of precious metals storage – simply explained

A working paper, version 1

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1. Introduction

This paper aims to put the currently existing ways of precious metals storage in one simple schematic. It presents for the first time a more extended schematic of looking at the different forms of storage besides the simple distinguishment between **unallocated** and **allocated** forms.

It introduces a third form of storage, herein called **segregation** and separates each form into **different dimensions**.

While this paper does not discuss alternative payment systems based on gold and silver it recognizes them as a valid means of conducting business. This paper focusses more on the separate major forms of storage and their possibilities including examples.

The paper is published as a working paper and welcomes the feedback of further sources. The author has structured it loosely based on an academic working paper.

It solely represents the ideas and opinions of the author, not of the companies he is heading or may be involved with.

2. The unrefined current way of looking at the separate ways of storing precious metals

Current discussions in the subject make a differentiation generally between two forms of storage. It is mainly based on the LBMA's operation in separating client's accounts into an **unallocated** and an **allocated** form which will be used as an example herein.¹

A schematic comparing the two ways of storage looks like this:

	Unallocated acct.	Allocated acct.
Insolvency of warehouseman: metals not in insolvency estate	✓	✓
Client can take delivery	✓ / x ²	✓
Client is direct owner of metal / not an unsecured creditor	x	✓
Insolvency of dealer: metals not in insolvency estate	x	✓
Precious Metal is held in the exact lot size of title to goods	x	✓
Client owns a specific bar (identified through bar number)	x	✓
Bars etc. are physically segregated from other clients goods	x	x

2.1. The unallocated way of storage

The unallocated account at the LBMA is mainly characterised by being an unsecured creditor to the dealer with whom one holds an account.

Whereas the dealer is required to hold the precious metals in stock in the same amount precious metals 'credits' were issued, the client does not hold title to a specific bar or lot size.

'Credits' to precious metals have to be 'allocated' with the dealer into specific bars before being able to take delivery.

¹ See <http://www.lbma.org.uk/clearing>

² Client might not be able to take delivery as he has to match the delivery requirements – e.g. certain minimum lot sizes - from the party the gold is held with. The client might be owning only a fraction of the minimum lot size for delivery.

In the case of an insolvency of the dealer the bullion which was held against the precious metals 'credits' will be put into the insolvency estate.

2.2. The allocated way of storage

When holding an allocated account with a dealer at the LBMA the client will receive ownership to a specific bar stored at a warehouse. Identification of the bar usually happens via bar numbers and further details.

This enables audits and the client is no longer an unsecured creditor.

The specific bar belongs directly to the client.

In the instance of an insolvency of the warehouseman or the dealer the bullion will still remain in the ownership of the client and will not be a part of the insolvency estate.

3. Schematics: the refined new way of looking at the separate ways of storing precious metals

The increasing size of the precious metals markets in the last few years has brought several new ways of buying and storing bullion.

The author proposes a refinement of the current distinguishment between the different forms of storage and will hence redefine several terms used in storage to reach this goal.

The current two forms of storage (Allocation and Unallocated storage) are extended by a third:

Segregation

Every form of the three will further be re-fined by at least two dimensions increasing with the numbers in security for the client:

While **unallocated storage** exists in **two dimensions**, **allocated and segregated** exist in **three dimensions**.

A diagram of all of them looks like this:

	Unallocated storage		Allocation			Segregation		
	1st dim.	2nd dim.	1st dim.	2nd dim.	3rd dim.	1st dim.	2nd dim.	3rd dim.
Insolvency of warehouseman: metals not in insolvency estate	✓	✓	✓	✓	✓	✓	✓	✓
Precious metal is held in collective safe custody	x	x	✓	✓	✓	x	x	x
Client is direct owner of metal / not an unsecured creditor	x	x	✓	✓	✓	✓	✓	✓
Precious metals are held off-balance	x	x	✓	✓	✓	✓	✓	✓
Insolvency of dealer: metals not in insolvency estate	x	x	✓	✓	✓	✓	✓	✓
Client can take delivery	x	✓ / x ³	x	✓ / x ³	✓	✓	✓	✓
Precious metal is held in the exact lot size of title to goods	x	x	x	x	✓	✓	✓	✓
Client owns a specific bar (identified through bar number)	x	x	x	x	x	✓	✓	✓
Bars etc. are physically segregated from other clients goods	x	x	x	x	x	x	✓	✓
Storage provider has no access to client's metals (only client)	x	x	x	x	x	x	x	✓
Examples	ETCs w/o delivery option, Metal accounts with Banks w/o delivery option	ETCs w delivery option, Metal accounts with Banks w delivery option, LBMA unallocated acct	ETFs w/o delivery option (UBS UCITS compliant ETF)	ETFs with delivery option, GoldMoney, BullionVault (w/o bar reg.)	OrSuisse allocated	OrSuisse segreg., GoldMoney, BullionVault (w bar reg.), LBMA allocated acct	Vaults with client segregation (e.g. separate pallets)	Safe deposit boxes or own rooms in a vault

³ Client might not be able to take delivery as he has to match the delivery requirements – e.g. certain minimum lot sizes - from the party the gold is held with. The client might be owning only a fraction of the minimum lot size for delivery.

4. Description: the refined new way of looking at the separate ways of storing precious metals

4.1. Unallocated storage

The unallocated form of storage is generally characterised by the client being a creditor to the party the gold is held with. In the case of an insolvency of the safekeeping party the client might lose everything as his title to the goods will only be a claim against the pooled insolvency estate.

4.1.1. Unallocated storage 1st dimension

This form of storage does not enable the customer to take delivery.

Examples:

- ETCs (not ETFs) that do not contain a delivery option
- Metal accounts with banks that also do not enable delivery

4.1.2. Unallocated storage 2nd dimension

In comparison to the 1st dimension this form enables the client to take delivery even though one is an unsecured creditor. It should be taken into account that the delivery option can be restricted to certain lot sizes (e.g. 100g bars or good delivery bars) and that the client has to meet those minimum requirements before being able to take delivery.

Examples:

- ETCs (not ETFs) that contain a delivery option – it might also be an indirect one as the emitting party is offering a purchase of bullion at the sale of the ETC shares
- Metal accounts with banks with a delivery option – indirect exchange is also possible as the bank can offer a bullion buying at the sale of (parts) of the metal account
- An LBMA unallocated account

4.2. Allocated storage

The allocated storage is mainly defined by the safeguarded precious metals being no part of the balance sheet of the warehouseman or the storage company. Fund constructions can be part of the allocated storage if the metals are separate property and hence protected from insolvency.

The client usually is the owner of the precious metals and not only a creditor (see **Unallocated storage**). Although it should be taken into account that the client is not owning a specific bar (see **Segregated storage**).

Goods in allocated storage are stored in collective safe custody. This means that the storing party is allowed to e.g. hand out any 100g bar of what is in storage to a customer demanding a 100g bar.

4.2.1. Allocated storage 1st dimension

In the first dimension all specifics of the allocated storage as described above are guaranteed.

But there is one limitation applying: a client cannot take delivery of the stored precious metals.

Furthermore the client purchases usually only a part of a bar (e.g. 10g from one Gold good delivery bar, roughly 400oz or 12.5kg).

In recent years changes in regulations (e.g. UCITS) have brought to the market new ETF vehicles. Whereas some of the traditional ETFs (e.g. ZKB Gold ETF) enable a delivery of good delivery bars these new ETFs specifically prohibit any delivery option.

Examples:

- ETFs without delivery option or even an explicitly stated prohibition of physical delivery

4.2.2. Allocated storage 2nd dimension

As in the first dimension the client only purchases a fragment of a bar in the second dimension. But he now retains a delivery option at his calling of his precious metals. Limitations here can only apply should the safekeeping party require a minimum delivery amount, e.g. at least one Gold good delivery bar, roughly 400 oz.

Examples:

- GoldMoney, BullionVault and other online storage offerers when buying grams of precious metals and not directly registering a specific bar with them (see **Segregated storage 1st dimension**).
- ETFs with delivery options to e.g. good delivery bars

4.2.3. Allocated storage 3rd dimension

In the third dimension storage still occurs in collective safe custody. The storage company at delivery can hand the customer whichever e.g. bar it wants with the only limitation of the exact lot size and specifics (e.g. 999/1000 fineness, "LBMA certified refiner") the client owns and has originally deposited.

For example when the customer stores a 100g Gold bar, the storage provider at delivery may hand him another 100g Gold bar, and not exactly 'his original' 100g Gold bar. But during storage the provider has to keep the exact same amount of 100g Gold bars he was originally entrusted with. A re-melting or swapping of e.g. 100g Gold bars into good delivery bars and giving the client a title to a fraction of them is prohibited.

Examples:

- 'OrSuisse allocated' – in allocated storage with [OrSuisse](#) the client will be delivered the same lot size and specifics of the bar/coin that were originally deposited. A claim to e.g. certain bar refiners is not possible.
Bars/coins can be registered at 'OrSuisse segregated' (see **Segregated storage 1st dimension**).

4.3. Segregated storage

The third form of storage can be described by a maximum protection of client's rights. The storage company is maximally limited in its rights. This can be characterised as the 'pure' form of storage.

The client is not a creditor to the safekeeper and hence does not carry any insolvency risk.

All precious metals are strictly registered to a client, e.g. through bar numbers. This enables the client to perfectly audit the stored goods regularly. Delivery is possible at any time with a short notice period.

4.3.1. Segregated storage 1st dimension

This first dimension provides all the security of segregated storage described above. It only knows a limitation in the physical segregation of a client's precious metals from those of other clients.

As an example it should be mentioned that the storage provider may put two bars from two different customers on one pallet in a vault. Whereas it is clearly trackable that a bar with a specific number belongs to each client, both bars are still not physically segregated from each other.

Examples:

- '[OrSuisse](#) segregated', GoldMoney with bar registration, BullionVault with bar registration – all registered bars may be stored and stapled on one pallet for different customers while clearly identified by their respective bar numbers or other identifiers as seals etc.

4.3.2. Segregated storage 2nd dimension

Additionally to the security of regular segregated storage a client's goods are kept physically separated from another client's in the second dimension.

As an example shall be mentioned a storage provider separating client's precious metals on separate pallets for each client in one big vault. No two client's metals are put on one pallet. Registration of bar numbers in this example is still a prerequisite as the storage provider arranges the pallets.

Examples:

- Several storage companies, e.g. Via Mat, Rhenus, [Swiss Gold Safe](#) etc. when requesting own pallets or physical segregation from other client's (usually standard)

4.3.3. Segregated storage 3rd dimension

This last and ultimate third dimension is characterised by all advantages of segregated storage and puts ultimate limits on the storage provider.

The warehouseman is even banned from accessing, sometimes even seeing the client's precious metals. For all movements of metals the client's physical presence (in persona or delegated) is necessary.

As an example a storage provider can put the client's precious metals into a separate safe deposit box in a vault. No other client's precious metals are kept in this safe deposit box. And only the client has the combination or the key.

All precious metals can be registered but don't have to as physical segregation allows for the client to identify his precious metals through e.g. the number of his safe deposit box in the vault.

No access for the storage provider is possible in this form of storage.

Examples:

- Several storage companies on request for safe deposit boxes or separate rooms, e.g. Via Mat, Rhenus, [Swiss Gold Safe - Safe Deposit Boxes](#) etc.

The **Conclusion** in this paper will further discuss limitations of segregated storage in the 3rd dimension.

5. Conclusion

As one can see by the broadness of options in storage of precious metals the field is clearly ready for a refinement of the – in the author's opinion – outdated simple separation in allocated and unallocated storage.

Specifics of the refinements can be discussed and the author welcomes any input on the subject.

Comments from readers will be thoroughly read and evaluated, at some instances also included in an updated version of this paper. Credit will be given.

Specific remarks treating segregated storage in 3rd dimension:

While 3rd dimension segregated storage is the ultimate form of storage in the sense of safety for a client mainly two limitations apply here.

- Limitation 1 – Banks and safe deposit boxes:
Safe deposit boxes within banks may not be insurable or only at high costs.
Access to safe deposit boxes in banks may not be given at all times, especially in times of banking crises.
Regulatory requirement may require a registration of the content of bank vaults. Until this date there is no known case to the author where this had to be done with safe deposit boxes at private facilities off-bank.
- Limitation 2 – Costs:
The solutions of physical segregation from other clients are usually relatively costly.
Due to the higher physical volume of silver compared to other precious metals this solution might not be practicable for larger amounts of silver.

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