

**FEDERAL RESERVE BANK  
OF NEW YORK**

[ Circular No. 7520 ]  
December 9, 1974 ]

**Statement by the Board of Governors  
Regarding the Termination of the Ban on Private Ownership of Gold**

*To the Chief Executive Officer of each State Member Bank  
in the Second Federal Reserve District:*

Public Law 93-373 provides that on December 31, 1974, the ban on private ownership of gold will end. After that, United States citizens may own gold and trade in it as they might any other commodity. National banks possess statutory authority to buy and sell "exchange, coin, and bullion," and some State laws contain similar provisions with respect to State-chartered banks. The Office of the Comptroller of the Currency has determined that gold will not be acceptable as bullion unless it has a fineness of 0.900 or better.

For the past 41 years, United States citizens have been able to hold gold only under U.S. Treasury license. During this period, private individuals and banks have had negligible experience with gold. Gold is not legal tender. Rather, it is a highly speculative commodity, subject to widely fluctuating prices. In light of these circumstances, State member banks will wish to proceed cautiously, should they decide to provide gold-related services to customers.

The Federal Reserve System believes that the following information will be useful to State member banks in the event that they decide to participate in gold transactions. Similar information is being issued by other Federal banking agencies with respect to banks under their jurisdiction.

If a bank does decide to engage in gold-related activities, it ordinarily would be preferable for it to act only on a consignment basis or otherwise as agent. The risk inherent in gold transactions is such that any State member bank in this District considering acting as principal with respect to gold transactions should give advance notice of its intentions to the Bank Regulations Department of this Bank. The advance notice should contain information relative to experience of personnel, services to be provided, anticipated inventories and positions, safekeeping facilities, insurance coverages, audit procedures, and anticipated impact on earnings.

Banks should not engage in the business of issuing receipts for gold without considering the implications of securities laws; any gold for which a bank issues any form of receipt must be physically held on hand at all times and under strict safeguards. Moreover, obligations payable in gold or its equivalent are still unenforceable (Public Resolution of June 5, 1933, 31 U.S.C. 463).

As with any commodity loan, it is anticipated that banks will carefully consider such matters as adequacy of margins on loans collateralized by gold, precautions to assure authenticity and safe custody of gold held as collateral, and total risk exposure from gold-related loans. Moreover, gold-related loans should be considered nonproductive credits unless extended for commercial or industrial purposes.

If a bank should decide to offer gold for sale, it should carefully avoid excessive or misleading promotions which could lead to unrealized expectations by bank clients and adversely affect public confidence in a particular bank or the banking system.

Examiners will pay strict attention to the relevant accounting practices of banks and recordkeeping for accounts of customers. Any gold owned should be shown on financial statements under "other assets," and any hedging futures contracts should be shown as a memorandum item. It would be anticipated that a bank would revalue accounts at least monthly to reflect current market values.

During examinations of State member banks, examiners will review closely a bank's total involvement in gold-related transactions to assure that individual banks and the banking system are not exposed to undue risk.

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Among other considerations, examiners will be concerned with management's expertise in this area, risk undertaken in relation to the bank's equity capital, and the needs of customers. An undue concentration could constitute an unsafe or unsound banking practice subject to action under the cease-and-desist provisions of the Financial Institutions Supervisory Act of 1966. Our examiners are instructed to be vigorous in countering any manifestation of bank speculation in gold.

Copies of this circular are being sent to all other banks in this District, for their information. Printed below is the text of a statement issued today by the Board of Governors of the Federal Reserve System. Additional copies of this circular will be furnished upon request.

ALFRED HAYES,  
*President.*

### STATEMENT OF BOARD OF GOVERNORS REGARDING TREATMENT OF GOLD BY FEDERAL RESERVE BANKS

The Board has received numerous inquiries from member banks relating to the repeal of the ban on ownership of gold by United States citizens. A statement on the subject is being sent to all State member banks similar to statements being sent to national banks by the Comptroller of the Currency and insured nonmember banks by the Federal Deposit Insurance Corporation. In addition, there are listed below questions and answers which affect member banks and relate to certain other responsibilities of the Federal Reserve.

1. *May gold in the form of coins or bullion be counted as vault cash in order to satisfy reserve requirements?* No. Section 19(c) of the Federal Re-

serve Act requires that reserve balances be satisfied either by a balance maintained at the Federal Reserve Bank or by vault cash, consisting of United States currency and coin. Gold in bullion form is not United States currency. Gold coins are not considered legal tender by the Department of the Treasury and, therefore, are not United States currency or coin.

2. *Will the Federal Reserve Banks perform services for member banks with respect to gold, such as safekeeping or assaying?* No.

3. *Will a Federal Reserve Bank accept gold as collateral for an advance to a member bank under Section 10(b) of the Federal Reserve Act?* No.