https://www.bullionvault.com/gold-guide/unallocated-gold

[JTC: An informational statement from BullionVault (that frankly advertises itself), which asserts that most private savers' holdings of gold are actually subject to hypothecation – to being risked by the holding institution. "Unallocated" gold is not, as I had previously thought, inviolable property that is merely virtually divided from existing vaulted gold bullion, but an institution's amalgamated holdings of various assets *including* the gold bullion. Should the institution's other assets threaten institutional bankruptcy, it legally has the ability to sell away *any* of its assets to meet the challenge. (N.B.: **bold-facing** below has been added by JTC.]

Unallocated gold

Take care when buying gold from a bank, or in a pool account, or even from some major gold certificate providers

- Bank Gold is Usually Unallocated
- Unallocated Gold Dominates the Market

Bank Gold is Usually Unallocated

As you set out to buy gold the first thing you need to know is that 95% of the world's gold businesses - especially banks - will automatically sell you the wrong type.

Unallocated gold is the most widely traded form of gold in the world. It hides a way of advantaging the provider - usually a bank - by subjecting buyers to a risk they will frequently remain unaware of until it is too late. The widely quoted 'spot price' refers to this unallocated gold, and this is how it works:-

1. When a bank sells you gold it is almost always 'unallocated'. You become a creditor - i.e. the bank owes you gold which you do **not** own. The bank is taking advantage of the fact that you are not quite sure what to do with any gold you buy, and it feels logical - to most gold buyers - to put the gold safely in the bank. When you do this you sign a document and become, in law, a *depositor* of gold. Most people now relax in the belief that they own gold completely securely, and they do not pay the little extra - above the spot - to have their trade formally 'allocated'.
2. A bank is required by its regulator to hold a proportion of its liabilities as certain types of assets capable of being turned into cash quickly during times of crisis. It is a liquid reserve and it's there to protect the bank from a common type of problem - a liquidity crisis - which occurs when a bank has short term deposits, long term loans, and insufficient cash to meet the immediate demand for withdrawals. Physical gold bars are accepted as a very good form of liquidity reserve because they can be turned quickly into cash.
3. If a bank has physical possession of some gold which it *owes* you as its creditor the bank itself is the current *owner* of the gold. While this gold remains unallocated to you the regulator considers it part of a bank's liquid reserve. This makes unallocated gold an attractive way for the bank to maintain its regulated liquidity, because you have paid for your gold, and the bank is

free to use your money, while it is also able to add your unallocated gold holding to its own reserve.

4. Unfortunately your unallocated gold would be ditched if the bank were in need of cash. It has no choice in the matter because liquid reserves are there to be sold at short notice to protect the bank's general creditors - all of whom, including you, must receive a proportionate share of whatever is raised from the sale of assets should the crisis deepen and the bank become insolvent.
5. If that did happen you would be in a bad position. Your relationship is with the banks overall pile of assets, not with any specific pile of gold. The bank's small gold reserve would be diluted by non-performing bond portfolios and other assets which don't sell well in a crisis. The last line of defence for bank depositors is deposit protection, which is a state underwritten mainstay of banking confidence in the West. But it does not apply on bullion debts like yours. Deposit protection is there as a confidence-builder for the national currency only, which means unallocated gold actually offers less protection from bank failure than a cash deposit. So having been the provider of the bank's liquidity reserve you will then be in the minority of those offered no protection by the state's guarantee.
6. So it is important not to be impressed by unallocated gold, or by it being physically stored in a bank's vault, or by it being checked daily by bank regulators. Regulators are checking it to make sure the bank maintains a liquid reserve, and they are not interested in your entitlement as a bullion creditor.

Allocated gold is different because you become the outright owner of gold and you are no longer a creditor. Your allocated gold is your property and **it cannot be used as the bank's reserve**, so with allocated gold you get proper protection from systemic failure.

Unfortunately with allocated gold your money does the bank no good. And since modern banks reckon to earn 20% each year on capital employed, their loss of use of your allocated gold is disappointing for them. **This is why banks usually charge nothing for unallocated storage and at least 1.5% per annum for allocated storage**, with the result that professionals in the bullion market reckon that less than 1% of gold traded within financial markets is allocated.

It is not only banks which provide unallocated gold. So do fabrication businesses and **pool account providers**. In fact anyone who can find another use for your gold is motivated to provide you gold on an unallocated basis. Coin manufacturers - for example - might find it a very convenient way of financing their gold stock (their working capital) on what amounts to an interest free gold deposit from you, because their entire gold inventory can be paid for in this way with your money. Financiers of gold mines have a similar motivation, as they can lend your gold to miners to be repaid out of later production - assuming the mine is successful - though of course this is a relatively high risk way of financing mines.

This is how the huge majority of the world's owners of bank held gold are, probably unwittingly, storing their personal reserve in a way which fails to meet the most common objective of gold buyers - the security of owned bullion.

Unallocated Gold Dominates the Market

Unlike banks some suppliers buy real physical bars. BullionVault is one, and it buys its gold from major international bullion dealers, which also deal in volume with counterparties all over the world.

BullionVault insists on full allocation and physical delivery of bars into professional market vaults, which enables BullionVault users to become the outright owners of the gold they buy. It costs an extra dollar and a half an ounce. And because BullionVault records and publishes the details of the bars it receives it can provide a powerful illustration of just how few gold businesses deal in allocated gold.

As its customers buy gold BullionVault re-loads its inventory with physical purchases. So its 'Bar List' gradually grows, with batches of bars delivered sometimes a few days apart, and sometimes a few weeks. The bars were originally manufactured by a refiner, and stamped there with their unique bar numbers. They are the normal *Good Delivery* size of 400 oz, which is the standard specification used to settle physical bullion market deals.

You can check out the actual BullionVault bar list provided by our vault operators if you want because it is published in our Daily Audit.

The conclusion (and BullionVault's main market dealers have confirmed it) is that BullionVault goes to the trouble and hassle of having the actual physical bars delivered. This sets BullionVault apart from those who simply trade paper gold on a ledger.

Trading gold on the ledger is cheaper and faster for banks, and it is natural - if sometimes wrong - for banks to think themselves 100% credit-worthy. With so much gold out there being unallocated investors should be very careful, because a financial crisis might not be profitable for them if - for example - their gold rested on the balance sheet of a failing bank.

That would be a pity.