

2005

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

BUREAU OF BANKS AND TRUST COMPANIES

COMMERCIAL BANKING

GOLD DEALING

State banks are permitted to deal in gold of .900 purity or better. The following guidelines should/shall be observed:

A. Insurance

Insurance coverage and a state bank's responsibility for coverage of gold coins and bullion in its possession should be determined by bank management. Management should further provide for proper internal controls with respect to access by bank employees to the gold inventory.

B. Accounting

Gold owned by a bank should be reflected on the bank's ledgers as "other assets." Management should adjust its book value to reflect the gold's current market value monthly.

C. Collateral

Gold may be used as collateral for a loan. Nevertheless, a concentration of loans collateralized by gold will be reviewed in the same manner as any other group of loans with the same form of collateral. Prudent lending practices in this area should be observed.

D. Public Relations

A bank should, in any gold transaction with a customer, carefully examine the transaction with a view towards determining any possible adverse consequences. The bank customer should be apprised of the following: the volatility in the price fluctuation of gold; the fact that an investment in gold yields no interest; and a breakdown of all charges involved with the transaction.

E. Director Authorization

A bank desiring to trade in gold should, prior to engaging in any transactions, receive a formal authorization to do so from its board of directors. A copy of the authorization should be forwarded to this Agency.

Further, banks intending to engage in gold dealing, as principal, are required, if member banks, to give advance notice to the Federal Reserve Bank in the district in which they are located. Nonmember banks are required to submit written notice to the Federal Deposit Insurance Corporation's regional office at least ten business days prior to the initiation of such trading under FDIC Release PR 72-74, reprinted in Fed. Banking L. Rep. (CCH), par 56,366.50 (December 9, 1974). Such notice should describe the type of services to be offered, amount of inventory, safekeeping facilities, insurance coverage, internal audit procedures and any anticipated impact on the bank's earnings. Copies of all such notices filed with the appropriate federal agency should be forwarded to this Agency.

Examiners from this Agency will review a state chartered bank's involvement in gold transactions to insure that the bank is operating within the safe and sound banking practices in accordance with the provisions of the Illinois Banking Act, as well as the guidelines listed above.

[Revised: October, 2005]