LBMA RESPONSE TO PRA CONSULTATION PAPER CP5/26:

MODERNISING THE LIQUIDITY POLICY FRAMEWORK

The London Bullion Market Association (LBMA) welcomes the opportunity to respond to the Prudential Regulation Authority's Consultation Paper CP5/26 on modernising the liquidity policy framework.

As an independent authority for the precious metals industry, LBMA's role is to advance standards and promote good trading practices for banks, traders and refiners operating in the global precious metals industry. Many LBMA Members are PRA-regulated institutions and key participants in the London gold market.

Executive Summary

1. **Support for CP5/26 objectives:** LBMA supports the PRA's focus on liquidity usability, including monetisation speed, operational readiness and access to Bank of England (BoE) liquidity.
2. **Gold's liquidity characteristics:** Gold is a deeply liquid asset with continuous global trading and resilient market infrastructure. It has consistently served as a source of liquidity during market stress.
3. **Assets held at the BoE:** Gold held at the BoE is operationally ready and transferable, yet not recognised as eligible collateral, creating a gap between practical usability and regulatory recognition.
4. **Invitation to consider recognition of gold:** In the context of CP5/26, LBMA invites the PRA to consider whether allocated gold held at the BoE should receive more explicit recognition within firms' liquidity assessments and, over time, be considered for BoE collateral eligibility, supported by evidence of its practical liquidity performance. LBMA stands ready to provide further data and analysis.

1. Support for CP5/26 Objectives

LBMA welcomes the PRA's proposed updates to the liquidity framework, which better reflects how quickly and reliably banks can convert assets into cash under stress. The consultation's core themes – short-term stress scenarios, monetisation speed, operational preparedness, and quantifying BoE drawing capacity via pre-positioned collateral – are a constructive evolution in prudential liquidity oversight.

LBMA supports the PRA's emphasis on the practical usability of liquidity. Liquidity risk management should address not only the assets banks hold, but also how quickly those assets can be monetised and accessed when needed. Greater focus on central bank access and operational readiness should strengthen firms' resilience and better align regulation with real-world liquidity dynamics.

2. Gold Liquidity in Practice

Gold is a globally traded financial asset with substantial liquidity and a broad, active market. Average daily global gold trading volumes to end-May were approximately US$510 billion (World Gold Council, 2026), with the London OTC market accounting for around US$230 billion of that total.

Historical evidence shows that gold's liquidity remains robust during periods of acute financial stress. Its role as a high-value, globally recognised asset with a diverse investor base supports continued demand and broad market access when other asset classes face strain. Recent academic research indicates that, in liquidity crises, gold has behaved as an extremely liquid asset as well as meeting the market-based characteristics of high-quality liquid assets:

- **Liquidity:** Gold exhibits low bid-ask spreads and high trading volumes, comparable to major sovereign bond markets.
- **Resilience in stress:** During the 2023 banking crisis and COVID-19 turmoil, gold maintained strong liquidity and positive price performance, consistent with a flight-to-quality dynamic.
- **Diversification:** Gold has low or negative correlation with risky assets, particularly in stress periods, supporting its role as a liquidity source.
- **Comparability:** Gold performs similarly to long-dated government bonds, including in volatility and liquidity metrics.

These findings are consistent across multiple stress events, including the 2008 financial crisis, COVID-19, and the 2023 banking crisis. This evidence supports the conclusion that gold can act as a reliable source of liquidity in stressed conditions, consistent with the objectives underpinning CP5/26.

3. Gold Held at the Bank of England

The consultation's emphasis on operational readiness and central bank access is particularly relevant to allocated gold held at the BoE. Many PRA-regulated LBMA member banks hold allocated gold accounts at the BoE as part of their liquidity management and precious metals operations. Gold held in the BoE's vaults has several features aligned with the consultation's focus on operational liquidity:

- **Proximity and Control:** These gold holdings are already within the central bank's custody system, ensuring legal clarity and immediate availability for transfer or sale.
- **Transferability:** Allocated gold at the BoE can be transferred quickly between account holders in the BoE's books, providing high confidence in its operational readiness as a liquidity source.
- **Deep Market Access:** Gold's extensive global market means these holdings can be monetised quickly through OTC sales, swaps or exchange trading, supported by deep liquidity and broad demand.

In operational terms, these characteristics align closely with the PRA's focus on usable liquidity.

4. Consideration for the Framework - Usability vs Current Recognition

The usability-focused framework highlights a clear gap in the current regulatory treatment of gold. Under today's rules:

- Gold is excluded from recognition as High-Quality Liquid Assets (HQLA) and is not eligible collateral for BoE liquidity facilities.
- As a result, even gold held at the BoE cannot be counted towards a bank's immediate central bank drawing capacity, despite being physically in the BoE's vaults.

By contrast, CP5/26 emphasises that assets already within BoE infrastructure, and which are clearly identifiable and transferable, may more closely fit the concept of "usable" liquidity than current rules suggest. This points to a case for re-examining assets such as gold that are operationally close to central bank liquidity but not formally recognised.

LBMA's view: In light of CP5/26, the PRA should consider whether gold held at the BoE merits more explicit recognition within firms' liquidity frameworks, given its operational proximity and proven market liquidity. Such consideration could be evidence-based and phased over time. For example, the PRA could:

- Provide guidance on how banks should treat BoE-held gold in their internal liquidity assessments (e.g. within ILAAP) under a usability lens.
- Encourage firms to present evidence of gold's monetisation potential in stress scenarios, so that the PRA can evaluate whether current prudential treatment remains appropriate.

- Over time, evaluate whether an expansion of the set of assets eligible as central bank collateral (to include gold, subject to appropriate conditions) may be consistent with the framework's aims of ensuring effective use of all available liquidity sources.

LBMA recognises that CP5/26 does not propose immediate changes to collateral eligibility, and that any change to gold's eligibility would be a longer-term policy matter. Nonetheless, CP5/26 provides a timely basis to revisit whether the current treatment of gold fully reflects the PRA's objective of capturing all usable liquidity.

5. Conclusion

LBMA welcomes CP5/26 and its modernised approach to liquidity risk management. A framework that better reflects operational liquidity and market-based monetisation should strengthen overall resilience. In that context, gold – particularly allocated gold held within the BoE – warrants careful consideration. LBMA and its Members stand ready to provide further data and analysis to support the PRA's assessment.