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The Custody Question

Central Banks Are Diversifying Into Gold — Where They Store It Is a Separate Decision

The case for holding gold and the case for where to hold it rest on different logic. This paper examines the second question on its own terms.

I Two Decisions, Often Treated as One

A reserve manager who allocates to gold makes two decisions, not one. The first is whether to hold gold at all — a portfolio question, answered by reference to diversification, inflation, and counterparty risk. The second is where and how to hold it — a custody question, answered by reference to security, liquidity, cost, and the ability to access or relocate the metal under stress.

These two decisions are frequently made together and then left together, but they are governed by different considerations. A manager can be entirely correct about the first and give little independent thought to the second. This paper sets the portfolio question aside as settled for its purposes and examines the custody question in isolation.

The reasons to own gold and the reasons to store it in a particular place are not the same reasons. They are worth separating.

II Why the Allocation Is Growing

2025 Purchases
863t
official-sector net buying; 4th year near/above 1,000t

The allocation trend is well documented. Central banks purchased roughly 863 tonnes of gold in 2025 — below the three prior years, each of which cleared 1,000 tonnes, but well above the 400–500 tonne average of the preceding decade. By some measures, gold has moved ahead of U.S. Treasuries to become the second-largest official reserve asset. In the World Gold Council's 2026 survey, a large majority of respondents expected global official holdings to keep rising, and a record share expected to add to their own.

The stated rationale is consistent across surveys: diversification, inflation protection, performance in crisis, and — increasingly — geopolitical risk. That last motivation sharpened after 2022, when roughly $300 billion of one central bank's foreign-exchange reserves were frozen. The episode drew attention to a feature of reserve assets that had been under-examined: assets held within another state's jurisdiction, or dependent on its payment systems, can be rendered inaccessible by political decision. Gold, which is nobody's liability and can exist as a physical bearer asset, is attractive precisely because it sits outside that vulnerability.

That is the portfolio logic, and it is coherent. The question this paper turns to is whether the custody arrangements most reserve managers use are consistent with it — and, where they diverge, whether the divergence reflects a considered trade-off or an unexamined default.

III The Three Custody Models

Official gold is held under three broad arrangements. Each carries a distinct profile across the four variables that matter — security, liquidity, cost, and mobility.

1. Domestic storage, in the country's own vault.

The metal is held at home, under direct national control. This maximizes sovereign control and political optionality, and it is the arrangement least exposed to a foreign jurisdiction. It also places the metal behind the full protective apparatus of the state, including, in extremis, its military and security forces — a form of physical protection no commercial arrangement can match. Its costs are real but often unstated: building, staffing, securing, insuring, and auditing a vault to institutional standard is a permanent capital and operating commitment. Its more consequential limitation is liquidity. A national vault is not necessarily a delivery point that the global dealer market transacts against, so mobilizing the metal — selling, lending, or moving it —

can require physically transporting it to a recognized market center first. Gold held at home is secure in peacetime and slow to deploy in a crisis.

2. Custody at a major foreign monetary authority.

Most Common Vault
57%
Bank of England — top overseas location, WGC 2026

Predominantly the Bank of England and the Federal Reserve Bank of New York. This is the long-standing default for gold held abroad, and it has genuine merits that should not be understated. Liquidity is excellent — London in particular sits at the center of the loco-London market, the deepest pool of gold trading in the world, so metal at the Bank of England can be transacted without leaving the vault. Legal and operational track records are long. And the metal sits behind the security apparatus of a major state, a level of physical protection a commercial operator cannot replicate. Reported fee arrangements vary: the Bank of England operates a custodial service for which it charges, while the New York Fed has historically not charged storage fees to official account-holders, recovering handling costs only. **[Confirm current BoE and NY Fed fee treatment if possible]**

The limitation is the one the 2022 episode highlighted. Metal held at a foreign monetary authority sits within that state's jurisdiction. For most account-holders, most of the time, that presents no issue. But it reintroduces, at the custody layer, precisely the single-jurisdiction exposure that motivated part of the gold allocation in the first place. Whether that matters depends on the holder's relationship with the host state and its assessment of tail risk.

3. Independent commercial custody.

Metal held with a private, non-sovereign custodian — the arrangement most institutions use for nearly every other asset on their balance sheet. Its distinguishing features are jurisdictional choice and mobility: metal can be held across a network of commercial vaults in multiple bullion centers, with title held by the owner, and moved or sold at a market center in a short timeframe. Its costs are explicit — a storage fee, typically priced in basis points on value. It also carries two limitations the other models do not. It relies on private security and the ordinary rule of law in each host jurisdiction rather than the protection of a sovereign; and it introduces a commercial counterparty, the consideration examined in Section VI. It is also, for official reserves specifically, the least established of the three: there is limited public precedent of a central bank custodying a material share of its reserves this way, and "less precedent" is itself a cost to an institution that values precedent.

IV The Tension

Repatriated Since 1972

~6,900t

brought onshore by official holders

Set the portfolio rationale beside the dominant custody choice and a tension appears. Part of the reason for holding gold is to reduce dependence on any single state. Yet most gold held abroad is held with one of two states, and most of the remainder is held domestically — that is, with the holder's own state. On the specific axis of single-jurisdiction exposure, the custody arrangement does not fully carry through the logic of the allocation.

Reserve managers are visibly aware of this. The same surveys record a migration: a rising share have increased domestic storage or diversified their overseas locations in the past year, and more plan to. Since 1972, official holders have repatriated roughly 6,900 tonnes; recent programs by several major holders moved substantial tonnage out of New York and London.

But repatriation resolves only one version of the concern. Moving gold from a foreign vault to a domestic one exchanges a foreign jurisdiction for the home jurisdiction; it does not remove single-jurisdiction concentration, and for a reserve manager whose independence from the domestic fiscal authority is itself a live question, it may not clearly reduce it. It also forfeits the liquidity and mobility that made the foreign-vault arrangement useful. Domestic storage answers the question

"whose soil is it on," but not the question *"how fast can it move if that soil becomes contested."*

Domestic storage maximizes control and minimizes foreign exposure. It does not, by itself, maximize safety — because safety, for a reserve asset, includes the ability to move.

V A Question of Scale: Does Capacity Bind?

Before weighing counterparty risk, a threshold question determines whether commercial custody is even available to a given holder: capacity. Vaulting space and, more tightly, insurance are finite at any single location. Specie insurance for high-value vaults is written by a specialist market — principally Lloyd's syndicates and a small number of dedicated underwriters — with finite aggregate limits per site. A large enough position cannot be insured in one place at any price, and must be distributed across multiple locations to fit within available limits.

This constraint sorts holders into two groups, and the distinction matters for the analysis. For the largest sovereign holders, scale is a genuine gating factor: a position of many hundreds or thousands of tonnes would exceed the insurable and physical capacity of any single vault — commercial or sovereign — and would necessarily be spread across several. For the far larger number of countries that hold moderate reserves, or are actively building them, the amounts sit comfortably within the capacity of established commercial vaults, and the constraint does not bind at all.

GERMANY — TOTAL
3,351t
~108M troy oz; already split across three locations

Germany illustrates both halves of the point. Its reserves — roughly 3,351 tonnes, about 108 million troy ounces, the second-largest national holding — are far too large for any one vault and are already distributed across three locations: just over half in Frankfurt, roughly 37% (about 1,236 tonnes) at the Federal Reserve Bank of New York, and about 12% (roughly 404 tonnes) at the Bank of England, the last retained specifically for international liquidity. Even the incumbent sovereign vaults do not absorb a holding of this size singly; Frankfurt's own vault capacity is finite. A holder of this scale is multi-location by necessity, whichever custody model it chooses.
[Confirm Germany tonnage and location split (Bundesbank / WGC) if possible]

The implication is not that capacity favors one model over another. It is that for the largest holders, *multi-location distribution is unavoidable regardless of model* — which happens to be the same distribution a diversification-minded policy would choose deliberately — while for the majority of holders, and for the emerging-market buyers driving the current accumulation, capacity is not a limiting factor. The scale objection, in other words, applies to a handful of holders and is largely moot for the cohort to whom the custody question is most live.

VI The Counterparty Question in Commercial Custody

The principal objection to commercial custody is counterparty risk: if the custodian fails, is the owner's gold caught in the failure? The answer turns on a single distinction — whether the holding is *allocated* or *unallocated* — and it is worth stating precisely, because it is often stated loosely.

DETERMINATIVE
Allocated / Unallocated
the distinction the whole question turns on

Allocated metal is specific, identified property of the owner — particular bars, segregated from the custodian's own assets and from other clients' — held in bailment. In an insolvency, it is generally not property of the custodian's estate: it was never the custodian's asset, so its creditors have no claim on it, and the owner holds a property claim for return of the bars rather than a monetary claim against the estate. This is the distinction that separated protected from unprotected clients in past intermediary failures such as MF Global and Lehman Brothers. Unallocated metal, by contrast, is a contractual claim on the custodian for a quantity of gold; the holder ranks as an unsecured creditor if the custodian fails.

Two qualifications are essential to an honest account. First, the protection depends on the metal genuinely being allocated and segregated in practice, not merely described that way — the instructive failures (Bullion Direct being a clean example) are typically cases where metal marketed as allocated was in fact commingled. Independent audit and a clear, continuous record of allocated title are what make the legal protection real, which is why they matter as much as the contract. Second, even a sound allocated claim is not returned instantaneously: a trustee will verify the bar list against physical inventory before release, so the owner should expect a process measured in weeks rather than a same-day withdrawal.

Where a platform or intermediary sits between the owner and the vault — arranging liquidity or logistics — a tri-party custody agreement among owner, intermediary, and vault operator is the instrument that preserves the owner's direct rights against the vault notwithstanding the intermediary's involvement or insolvency. It is a specific contractual structure, not a universal feature of gold custody; its presence or absence materially affects the counterparty analysis and should be examined directly rather than assumed.

NET
Structural, Not Reputational
protection rests on property law, not the custodian's balance sheet

The net of it: a custodian whose business is fee-based safekeeping, rather than trading on its own balance sheet, carries a lower failure risk to begin with; and where the holding is properly allocated, segregated, audited, and — where an intermediary is involved — governed by a sound tri-party agreement, the custodian's failure does not reach the metal. The protection is structural, resting on property law, rather than reputational. That is a materially different risk than an unallocated claim, and the difference is often obscured by loose use of the word “storage.”

VII Why the Default Persists

If the custody arrangement diverges from the allocation logic, and reserve managers are aware of it, why does the arrangement persist? The most probable explanation is not oversight but inertia — and inertia, in official-sector reserve management, is a substantive force rather than a failing.

The Bank of England and the New York Fed are the default because they have been the default for the better part of a century. Reserve managers operate under mandates that prize continuity, precedent, and the avoidance of unforced error; the institutions themselves are, by design and temperament, cautious. A custody arrangement with a long, unblemished record carries weight that a newer alternative — however well-structured — cannot yet match, precisely because it has not yet accumulated a comparable record. The incumbents also offer real advantages, above all the liquidity depth of London, that any alternative must equal, not merely approach.

This means the barrier to a different arrangement is not primarily cost or law. A diversified commercial custody network across established bullion centers — New York, Toronto, London, Zurich, Frankfurt, Singapore, Hong Kong, and Dubai are the illustrative candidates, each a recognized market with dealer liquidity — is available today, and the fees involved are small relative to a reserve position. The barrier is that being first carries institutional risk that being conventional does not. A reserve manager who follows the default and is later proved wrong has plenty of company; one who departs from it and is proved wrong stands alone.

The obstacle to change is not economics or law. It is that the first mover bears a risk the followers do not — and reserve managers are selected, by design, for caution.

VIII A Framework, Not a Recommendation

This paper does not conclude that any particular arrangement is correct; the right answer depends on a holder's specific circumstances, mandate, and assessment of risk. It concludes only that the custody question deserves to be decided on its own merits rather than inherited as a default, and it suggests the variables a deliberate decision would weigh.

An optimal custody policy is unlikely to be a single choice; it is more plausibly a *mix*, calibrated to the holder's tolerances: a domestic allocation for sovereign control and political optionality; an allocation at established foreign centers for liquidity depth; and, potentially, a diversified allocation across independent commercial vaults in multiple jurisdictions for the specific attribute the other two lack in combination — the ability to relocate or realize the metal quickly, across borders, under stress. The weights among these are a matter of judgment. The point is that they are weights to be set deliberately, not a default to be accepted.

The tension identified in this paper is narrow and specific: the reasons commonly given for holding gold emphasize independence from any single jurisdiction, while the prevailing custody arrangements concentrate it in one. That tension is not necessarily an error — a holder may reasonably judge that liquidity, precedent, and operational certainty outweigh jurisdictional diversification at the custody layer. But it is a trade-off that ought to be made consciously. At present, for many holders, it appears to be made by default.

The decision to own gold reflects a considered view of the world. The decision of where to keep it merits the same deliberation — whatever conclusion it reaches.

SOURCES & NOTES

Figures on official-sector purchases, storage-location preferences, repatriation, and reserve-manager sentiment are drawn from the World Gold Council Central Bank Gold Reserves Survey (2025 and 2026) and Gold Demand Trends, together with contemporaneous reporting of central-bank repatriation programs and the 2022 reserve-freeze episode, as widely reported. Germany's reserve total and storage split are drawn from Deutsche Bundesbank disclosures and public reporting. Observations on specie-insurance capacity reflect the structure of the specialist vault-insurance market. Fee treatment at the Bank of England and the Federal Reserve Bank of New York is stated to the best of available public information and should be independently confirmed. The counterparty analysis states general principles of allocated custody, bailment, and tri-party custody structures; it is not legal advice, and any specific arrangement should be confirmed with counsel and qualified by jurisdiction. All figures are estimates subject to revision. Bracketed items are review flags to be resolved before circulation.