

Sebi issues guidelines for operationalizing gold exchanges in India



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The government has notified the Securities and Exchange Board of India (Vault Managers) Regulations, 2021, to create electronic gold receipts (EGRs), which are electronic receipts issued on the basis of a deposit of physical gold. This would pave the way for the operationalization of a gold exchange in India. Sebi also issued the framework for gold exchanges.

The gold exchange would be a national platform for buying and selling EGRs issued against physical gold. Investors can trade in EGRs on stock exchanges and the proposed gold exchange, according to the Sebi framework.

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The transaction in a gold exchange has been divided into three parts—conversion of physical gold into EGR, trading of EGR on a stock exchange, and conversion of EGR into physical gold, according to the circular.

Sebi would regulate the entire ecosystem of the proposed gold exchange. It would be the sole regulator for the exchange, including for vaulting, assaying gold quality, and fixing delivery standards.

Stock exchanges have been allowed to launch contracts of different denominations for trading and conversion of EGR into gold.

The markets regulator has brought in fungibility and interoperability between vault managers for the ease of investors. An EGR will not be linked with a unique bar reference number of the physical gold, according to the framework. Besides, physical gold deposited at one location can be withdrawn from a different location of any vault manager.

“The provisions would allow the depository to facilitate withdrawal of physical gold from the preferred vault location of the buyer, to the extent possible and, possibly, save on the cost of withdrawal of gold from the vaults,” Sebi said in the circular.

Transactions of gold outside the recognized vaulting loop are all based on bilateral agreements and trust in the current format, according to experts.

“This will be one of the most efficient ways for gold jewellery manufacturers and retailers to manage inventory requirements. This is seen to remove counterparty risks such as cancellation of delivery and also provide transparent pricing discovered through an exchange platform, access to bars of standards that confirm purity, weight, and quality, and for being responsibly sourced,” said Sudheesh Nambiath, head, India Gold Policy Centre, Indian Institute of Management Ahmedabad.

“As the exchange evolves, it could also be a platform for various service providers to help investors save gold in the form of EGR,” he said.

Clearing corporations have been tasked with empaneling and accrediting assaying agencies for checking the purity of gold.

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