Proposal for Gold Exchange

Why in News

The **Securities and Exchange Board of India (SEBI)** has **proposed a framework** for setting up a **spot gold exchange.**

- The **spot exchange** is where financial instruments, such as commodities, currencies, and securities, are traded for immediate delivery.
- **SEBI** is a **statutory body** established in April, 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992.

ON THE TABLE

- **Sebi issues discussion paper** for discovering one national gold price
- **The regulator is open** to multiple spot exchanges
- **Quantity tradable on the proposed** exchange can be as low as 5-10 gms
- **Physical market to co-exist, but traders** will be incentivised on electronic exchange
- **Setting up vault companies** to prevent frauds also part of the proposal
- **Gold will be traded in form of electronic gold receipts** before converting back to physical metal on delivery

Key Points

- **Framework of Gold Exchange:**
    - In the **first tranche, an entity desirous of delivering gold**, locally manufactured or imported, **on the exchange platform would have to approach a SEBI regulated vault manager** and deposit physical gold meeting quality and quantity parameters with it.
    - Against this, the **vault manager will issue an EGR (Electronic Gold Receipt)**, which will be tradeable on the exchanges, in the **second tranche.**
    - A **beneficial owner will surrender the EGR to a vault manager** and **take delivery of the gold** in **the third tranche.**
    - A **common interface** will be developed between **vault managers, depositories, clearing corporations** and **stock exchanges** to enable seamless execution of the three tranches.
    - The **proposed denominations** - reflecting underlying physical gold - of **EGRs** are **1 kilogram, 100 gram, 50 gram** and subject to conditions, those can also be even for **5 and 10 gram.**
    - **STT (Security Transaction Tax) will be levied** on trading of the EGR and **IGST (Integrated Goods and Services Tax)** at the time of delivery.
- **Other Issues Raised by SEBI:**
    - This includes **fungibility and interoperability** between vault managers.
    - **Fungibility** means gold deposited under, say, EGR 1 can be delivered against surrender of EGR 2 meeting the same contract specifications.
    - **Interoperability** means gold deposited at one location and with one vault manager can be withdrawn from a different location of the same or different vault manager, subject to availability of the physical gold. This will **reduce the cost for buyers.**
- **Reason for Creating Separate Exchange for Gold:**
    - To **create a vibrant gold ecosystem in India** which is commensurate with its large share of global gold consumption.
    - **India** (after China) **is the second largest consumer of gold globally**, with annual gold demand of approximately 800-900 tonnes, and holds an important position in the global markets.
    - The objective behind setting up gold exchanges is for India to **become a price setter** rather than **a price taker** and to establish an **India good delivery standard**, akin to **London Bullion Market Association (LBMA)** accredited gold bars.
    - Setting up a new stock spot gold exchange **has advantages** such as single good delivery standard, reduced market fragmentation, improved liquidity, and single reference price.

Source: TH