

Frequently Asked Questions (FAQs) on International Bullion Exchange

International Financial Services Centres Authority, IFSCA, issued the Operating Guidelines for Bullion Exchange, Bullion Clearing Corporation, Bullion Depository and Vault Manager on 25th August 2021.

To provide clarity on certain relevant matters, on the basis of deliberations and external consultations, the FAQs are compiled to address queries of participating entities. The FAQs are hereby published as **Annexed** herewith.

Disclaimer: These FAQs are not the interpretation of law but provide only a simplistic explanation of process / issues / terms / concepts related to bullion trading at International Bullion Exchange. All information has been updated till September 20, 2021. For full particulars of laws governing the International Bullion Exchange, please refer to the Acts/Regulations/Guidelines/Circulars appearing under the Legal Framework Section of our website i.e., <https://ifsc.gov.in>.

FAQs on the Operating Guidelines of the Bullion Exchange, Clearing Corporation, Depositories & Vault Manager

1. **Query:** Can Nominated Banks/Nominated Agencies be a member of the International Bullion Exchange?

Response: Nominated Banks/Nominated Agencies can become members of the International Bullion Exchange in accordance with the Operating Guidelines issued by IFSCA (<https://ifsc.gov.in/Viewer/Index/224>) for the purpose of trading in Bullion Spot Delivery Contracts and Bullion Depository Receipts as defined in the Central Government Notification dated 31st August 2020 (<https://egazette.nic.in/WriteReadData/2020/221461.pdf>). The Operating Guidelines has been issued in exercise of the power conferred under section 12 of the International Financial Services Centres Authority Act, 2019 r/w Regulation 58 of the International Financial Services Centres Authority (Bullion Exchange) Regulations, 2020(<https://ifsc.gov.in/Viewer/Index/224>) (<https://ifsc.gov.in/Viewer/Index/196>)

2. **Query:** Can Nominated Banks trade/undertake proprietary trades in bullion on the International Bullion Exchange?

Response: In accordance with the framework adopted by IFSCA anonymous automated trading at IBE is facilitated whereby all participants, including Nominated Banks can trade, including proprietary trades.

3. **Query:** Can Banking Units at IFSC trade on the International Bullion Exchange?

Response: Yes. IFSCA has enabled under the aforesaid guidelines that Banking Units at IFSC which are regulated by IFSCA can trade on International Bullion Exchange.

4. **Query:** Can Banking Units at IFSC be a clearing member of International Bullion Exchange for self-clearing or professional clearing.

Response: Yes. Banking Units at IFSC, regulated by IFSCA can become a clearing member on the International Bullion Exchange. Please refer to the “Guidelines for the Clearing member” as stated in the Circular of Operating Guidelines on Bullion Exchange, Bullion Clearing Corporation, Bullion Depository and Vault Manager dated August 25, 2021. <https://ifsc.gov.in/Viewer/Index/224>

5. **Query:** Can a Banking Unit as Trading member onboard customers and offer professional clearing services/depository/custodian services to its customers?

Response:

- A. Banking Unit, regulated by IFSCA can offer services related to Trading /Clearing and can onboard customers as stated in the Circular of Operating Guidelines on Bullion Exchange, Bullion Clearing Corporation, Bullion Depository and Vault Manager dated August 25, 2021:

Customers of IFSC Units at IFSC not limited to Banking Units shall mean:

- a. a Qualified individual who is a person resident outside India having net worth not less than \$ 250,000 or any other equivalent foreign currency, which may be determined in such a manner as specified by the Authority. The trading member shall ensure the above. Net worth certificate shall not be older than 3 months and shall be provided by the Individual's qualified chartered accountant firm to the trading member.
- b. Persons resident outside India who are corporate or institutional entities having net worth not less than \$ 500,000 or any other equivalent foreign currency, in the manner as may be specified by the Authority. The trading member shall obtain a Net-worth certificate not older than 3 months from the Customers' qualified chartered accountant.
- c. "Qualified Resident Individual" as customer of Banking Unit shall only be enabled to trade on the bullion exchange in respect of the Bullion Depository Receipts wherein the investment shall not exceed the threshold that is permissible under the Liberalized Remittance Scheme (LRS) introduced by the Reserve Bank of India vide A.P. (DIR Series) Circular No. 64 dated February 4, 2004, as emended from time to time. "Qualified Resident Individual" shall not be permitted to import the bullion underlying invested as Bullion Depository Receipt unless permitted by the prevailing Foreign Trade Policy of India.

B. Depository Services

Only entities approved by Authority may function as a Depository. However, Banking Units may function as a Vault Manager under empanelment with the Depository and registration by the Authority in accordance with the Operating Guidelines.

C. Custodian Services

A customer transacting in BDR (Bullion Depository Receipt) can appoint a IFSCA recognized custodian. The custodian will act as a safekeeper of the customer's BDR and can inter alia perform the following functions:

- maintain the securities account on behalf of the customer,
- clear and settle the transactions of the customer,
- keep the customer informed of the actions taken or to be taken by the issuer of securities, having a bearing on the benefits or rights accruing to the customer.

The entities looking to set-up custody services for Bullion Depository Receipt may be guided by the Circular on "Recognition as Custodian of assets/securities" dated 24th February 2021. (<https://ifsc.gov.in/Viewer/Index/153>)

6. **Query:** Can a Banking Unit at IFSC undertake proprietary trades in bullion in foreign currencies (EUR/GBP/JPY etc.) within allocated NOOP/AGL limits?

Response: Banking Units may undertake proprietary trades in the BDR with the underlying bullion within the permissible limits approved by their respective Boards / Risk Management Framework.

The trades in BDR(Bullion Depository Receipt) of underlying bullion for trading/settlement in foreign currencies other than US-Dollar shall be subject to the byelaws and guidelines that may be prescribed by the Exchange.

7. **Query:** Will the nominated bank continue to operate in consignment model of imports into domestic territory for outright trades?

Response: The model of imports shall be governed by the Foreign Trade Policy of India. With regards to import of bullion for outright trade through the exchange, the Nominated Banks must settle the payment to the Bullion Exchange prior to imports into DTA.

8. **Query:** Will domestic customers of the Nominated Banks be allowed to directly trade on the International Bullion Exchange.

Response: Presently, domestic customers are governed by the Foreign Trade Policy of India and therefore are not allowed to import bullion. Only Nominated Banks and Nominated agencies authorized by DGFT are allowed to import bullion. Therefore, presently domestic traders on the International Bullion Exchange are only Nominated Banks authorized by RBI and Nominated Agencies authorized by DGFT to import bullion for domestic consumption.

9. **Query:** Can a Nominated Bank post margins in USD on the International Bullion Exchange?

Response: Yes. The detailed margin norms shall be specified by the International Bullion Exchange.

10. **Query:** Can a Nominated Bank as a trading member onboard customer to execute trades on their behalf?

Response: Nominated Banks can onboard domestic customers from India to execute trades on their behalf on the International Bullion Exchange.

11. **Query:** Can a Nominated Bank import bullion that has been purchased on the International Bullion Exchange?

Response: Yes.

12. **Query:** Can Nominated Bank act as clearing and settlement members in the International Bullion Exchange?

Response: No, only units within the IFSC can act as Clearing and Settlement members in the International Bullion Exchange.

13. **Query:** Can Nominated Banks undertake proprietary trades in bullion through other foreign currencies (EUR/GBP/JPY etc.) within allocated NOOP/AGL Limits?

Response: Refer to response in Query No. 6.

14. **Query:** How will the banks play the role of first seller, can the gold go outside of empaneled vaults?

Response: Banking Units at IFSC may be suppliers / owners of the bullion purchased from overseas, they may transfer the bullion into vaults empaneled by the depository for allocation of BDRs to trade as trading members on the International Bullion Exchange.

In case of entities (Banks/Non-banks) who are suppliers / owners of bullion purchased from overseas, they may transfer the bullion into vaults empaneled by the depository for allocation of BDRs to trade as customers of trading members on the International Bullion Exchange.

The Bullion that enters the empaneled vaults may go out in the following scenarios:

1. Import into DTA by a Nominated Bank after extinguishment of BDR.
2. Export to overseas by any member of the Exchange other than Nominated Banks/Nominated Agencies or any other domestic market participant post trading on the Exchange and extinguishment of the BDRs.
3. Re-Export from IFSC to overseas by owners of the BDR after extinguishment of BDRs.
4. Movement from One empaneled vault within the country to another without extinguishment of the BDRs.

15. **Query:** Can supplying entities of bullion become the customers of Nominated Banks as Trading members?

Response: Yes. This is permissible if supplying entities do not have Unit at IFSC or if they do not have the resources at IFSC to become a member of the International Bullion Exchange.

16. **Query:** Can Nominated Banks trade among other Nominated Banks on the International Bullion Exchange?

Response: Nominated Banks may trade with any members of the International Bullion Exchange including other Nominated Banks/Nominated Agencies which may include proprietary trades.

17. **Query:** What are the good delivery Standards on the International Bullion Exchange?

Response: Good Delivery Standards shall be prescribed by the Exchange which shall adhere to the overarching objectives of adherence to Assessments under *OECD Due Diligence Guidance for Responsible Supply chain of Minerals from Conflict Affected and High-Risk Areas for establishing supply chain integrity*.

<http://mneguidelines.oecd.org/Alignment-assessment-of-industry-programmes-with-the-OECD-minerals-guidance.pdf>

18. **Query:** Is it mandatory for suppliers/owners to convert all Bullion entering into Depository empaneled vaults as BDR?

Response: Yes.

19. **Query:** Will there be other vaults in the country (potentially in other SEZ/FTWZ zones which can accept deliveries to this exchange?

Response: The modalities for operationalization of other FTWZs / SEZs for the purpose of delivering bullion is being examined.

20. Mechanism of gold leasing activity

Gold Leasing Activity

What is gold leasing?

Gold leasing activity is an activity through a bi-lateral arrangement between the lessor (Lender) of Bullion to the Lessee (Borrower) to take possession of gold either by providing necessary collaterals or the lessor being a banking entity provides limits to the lessee (either the Bank / non-banking entity) for a specific tenor period within which lessee must either return the gold with regular interest payments or purchase the gold borrowed at the end of the tenor.

Gold leasing activity are for a fixed tenor or on a running overdraft basis wherein pre-payments may be allowed.

What is existing framework of leasing?

Currently, gold in India is imported on a consignment model into different cities by nominated banks from supplying banks/non-banking entities. Post vaulting at the respective destinations, nominated banks, out of the consignment of gold, borrow gold from the supplying entities for delivering to their customers who are jewellery manufacturers/jewellers. Jewellers are allowed to prepay the gold borrowed from the Nominated Banks through INR which in turn the Nominated bank converts into US Dollars and pays as consideration for the gold which was previously delivered for leasing.

Framework at Bullion Exchange

Nominated Banks import bullion into DTA free-of-price or unfixed basis to lend to domestic jewellers/jewellery manufacturers. In order to impart transparency in lease market based on transparent price discovery at the International Bullion exchange, an appropriate mechanism to facilitate gold leasing activity is being developed.