

## India Gold Conference 2022

### Speech by Kamlesh Sharma, GM and Head, Precious Metals Department, IFSCA

I thank the organisers Eventell Global for inviting me to deliver a special address at this prestigious congregation of eminent entities and individuals having a long association with the bullion sector. It is my debut at IGC and am looking forward to learning from this experience.

Yesterday, we witnessed when the Hon'ble Prime Minister Sh. Narendra Modi inaugurated the India International Bullion Exchange apart from announcing other launches and initiatives such as the foundation-stone laying of the proposed IFSCA building Headquarters and the SGX-Nifty connect. I thank all the dignitaries on the dais and all the participants at the IGC who attended yesterday's landmark event for IFSCA, either physically or over the video link. Thus, the timing of this IGC has become all the more important for IFSCA as we have assembled here immediately after the launch of the India International Bullion Exchange (IIBX).

For benefit of those who may not be aware, the IFSCA is the unified regulator for all financial products, financial services and financial institutions which can be undertaken in the international financial services centres set up in India under the SEZ Act. GIFT-IFSC is the first and so far, the only IFSC in India. The IFSCA Act bestows the powers of the domestic regulators such as the RBI, SEBI, PFRDA & IRDAI, for GIFT-IFSC. IFSCA is mandated to develop and regulated all aspects of financial sector activities including banking, equity markets, precious metals, funds management, pension funds, insurance sector.

Before I settle into my talk about the journey and plans about the bullion eco-system in IFSC, I would like to emphasise that the regulatory approach of IFSCA is different since its mandate is different. If I may take a sporting analogy, I would reckon that the role of a regulator -supervisor is like that of a rule-maker and umpire in the game of cricket. Once the rules of the game have been framed, then the umpire and the regulator must keep a distance while keenly observing the flow, motivation and tendencies of players. The umpire should intervene only if the spirit and the objectives of

the game are being flouted or compromised to set things right and if required modify the rules of the game accordingly.

In the backdrop of this overarching philosophy, I'd like to focus on the journey with respect to bullion starting from the measures undertaken in the last 18 months or so, that formed a part of the trying times of disruptions caused by the global pandemic of COVID-19.

### **Setting up of IIBX**

Inspired by the vision of Hon'ble Prime Minister, armed with the mandate under a budget announcement, IFSCA on December 4, 2020 notified the IFSCA (Bullion Exchange) Regulations, 2020 paving the way for setting up a Bullion Exchange and a Bullion Clearing Corporation by a consortium of 5 leading Indian Market Infrastructure Institutions (MIs).

India International Bullion Exchange (IIBX), the maiden international bullion exchange at GIFT-IFSC, has been set-up by a consortium of Central Depository Services (India) Limited (CDSL), India INX International Exchange (IFSC) Limited (INDIA INX), Multi Commodity Exchange of India Limited (MCX), National Securities Depository Limited (NSDL) and National Stock Exchange of India Limited (NSE) under the regulatory oversight of IFSCA.

IFSCA had issued detailed Operating Guidelines for Bullion Exchange, Bullion Clearing Corporation, Bullion Depository and the Bullion intermediaries in an IFSC, on August 25, 2020.

Some of the highlights of the bullion ecosystem at IFSC are as under:

**1. Movement towards organised market:** The state-of-the-art infrastructure of IIBX will offer technology-based mechanisms for trading, clearing and creation of Bullion Depository Receipts (BDRs), the security traded on IIBX which is backed by the physical bullion.

In addition to providing a trading avenue to various participants, IIBX will also offer the advantages of price discovery, transparency in disclosures, centralised clearing and assurance of quality.

IFSCA has ensured sourcing integrity of the bullion delivered through IIBX by mandating compliance to OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

**2. Import by Domestic Jeweller:** From the Indian (DTA) perspective, the enabling of direct participation of qualified jewellers- as notified by IFSCA, on IIBX for the purpose of importing gold, is a major policy reform by the Government of India and the Reserve Bank. For the first time in India, since the liberalisation of gold imports through nominated banks and agencies in the 1990s, the end users (eligible qualified jewellers in India) are allowed to directly import gold through IIBX. Our endeavour would be to provide an alternative channel of import based on the benefits of disintermediation of import.

**3. Vaulting facilities at IFSC:** Indian and Global vault service providers have set up or are in the process of setting up vaulting facilities in GIFT-IFSC which will lead to total storage capacity of approximately 125 tonnes for Gold and 1000 tonnes for Silver. Further, Ministry of Commerce and Industry has notified on July 6, 2022 that any unit in an SEZ -including other than GIFT-IFSC- which is permitted to store bullion for the purpose of issuance of bullion spot delivery contract and BDR can also be deemed as a unit in IFSC.

Thus, the vaulting facilities at all the key bullion centres in India shall act as the spokes to feed the bullion for the jewellery manufacturers and exporters across the country, while the IIBX at GIFT-IFSC will act as a trading hub.

**4. Indian Bank's branches as Professional Clearing Members:** The RBI through a notification on June 7, 2022 has enabled Indian Bank's branches or Foreign Bank's Wholly owned subsidiaries who branches may be functional at GIFT-IFSC to operate as Professional Clearing Members (PCMs) subject to necessary approvals by the RBI.

**5. Financialisation of Gold:** IFSCA has already provided a regulatory framework for products like Gold and Silver ETFs which is expected to encourage participation by a variety of investors.

### **For International Market participants**

Our audience from overseas may be interested in participating on the GIFT-IFSC bullion ecosystem under an 'offshore' regulatory framework, within India that has a huge ready-made consumer demand market, that is in

existence. Although India has been a key consumer of gold, its share in the global trading volumes is less than 0.50% currently.

The potential for leap-frogging in this aspect is immense and IFSCA recognises the various factors that will help India move forward in this sector. Some of the plans, base for which is already existing in the current ecosystem are:

1. Foreign banks participation as Trading & Clearing members on the IIBX, which has been enabled by IFSCA.
2. It is envisaged that hedge funds shall look to purchase gold and silver from IIBX which has the backing of the actual bullion bars which are stored in regulated vaults in IFSC and other SEZs.
3. With this, IFSC is expected to become the bullion storage hub primarily and initially for South Asia & South East Asia region and may be of the World.
4. IFSCA expects large scale participation from funds on Gold and Silver ETFs as and when they absorb the regulations which are already in place.
5. Activities such as bullion leasing, gold loans, financing against BDRs, project financing for doré (raw gold) and Gold Savings accounts / Gold accumulation plans, etc., can further lead to making GIFT-IFSC as a hub for various Gold related products.

Even as IIBX has facilitated some transactions of import by QJs during the trial phase, we are looking to provide more clarity through SOPs and guidelines including those related to enabling a remote access – limited purpose mode of participation by certain QJs on the buy side and certain suppliers on ‘sell’ side – based on some additional eligibility criteria. While we expect that at least a few IFSC Banking Units of foreign banks will soon see value in becoming TCM/ TMs on IIBX, we’d like to provide the additional facility of remote access, with proper safeguards and risk management in place, to ensure an early participation by a wider set of eligible entities.

We’d also like to formulate a gold leasing framework through IIBX so that the QJs as well as the financiers / suppliers may be able to replicate the gold loan transactions they undertake in the OTC market, on an exchange platform with necessary modifications.

Further, once the T+0 contract mainly for facilitating the gold import by QJs in India gets a firm footing, the IFSCA shall look to take calibrated steps towards introducing other contracts, including derivatives contracts, in consultation and coordination with the domestic regulators such as the RBI and SEBI and other stakeholders.

I would like to provide some more insight into IFSCA's future plans on the development of a comprehensive precious metal ecosystem, in the medium to long term.

### **1. IBUs as Trading members**

IFSCA is aware that banks across the world play a key role in the precious metals business which include various components such as gold savings accounts, gold deposits, financing, trading both proprietary and on behalf of their customers, & treasury management (ALM, risk etc.).

We have already enabled the bank's branches i.e., the International Banking Units to become trading cum clearing members of the IIBX, apart from the Broker-Dealers on IFSC stock exchanges grandfathered as TCMs on IIBX. Apart from some IBUs of foreign banks, we expect that if and when the RBI permits, some IBUs of strong Indian banks may also become TMs / TCMs on IIBX.

### **2. Export from Domestic Area through existing refining capacity**

In India, there are 41 refineries certified by the Bureau of India Standards (BIS). The Capex of these refiners could range between 50 lakhs to 250 crores and capacity to refine gold bullion anywhere between 8 tonnes to 300 tonnes per annum. This means an annual capacity of easily 2000 tonnes can be expected from these refiners. However, out of this list, most of the refiners are accredited by BIS technical standards.

Thus, not many amongst these refiners have been associated with Responsible Sourcing as per the OECD-DDG guidance. It is imperative that these refiners associate themselves to the norms under the Five Step framework of the OECD.

India must leverage these capacities which are already in place and build new capacities at GIFT-IFSC to encourage it to become a refining and storage hub of the world's gold.

**Conclusion:**

The journey of IFSC with the launch of the India International Bullion Exchange has only begun and on a right footing.

We hope to scale newer heights to create a precious metals ecosystem as part of a broader financial system in IFSC to support the evolution of a gamut of financial products and services helping the investor find appropriate value at a competitive cost when compared to other financial jurisdictions.

We hope that after 10 years when we look back, we see the peaks scaled were focused on helping India achieve greater integration with the global financial markets.

I thank the audience for a patient hearing. And once again a big thanks to the organisers.

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