

Our Views

Golden Step for Gold

India is the second largest consumer of gold globally with an average annual gold demand of ~800 to 900 tonnes over the last decade. Indians are known to park a part of their savings in gold – mostly as physical coins or in the form of jewelry. Further, a large quantity of gold is held by some religious trusts and temples who receive them as donations. Our affinity towards the yellow metal, and continuous demand for it, makes us of the most significant players in gold globally.

Despite being second only to China in terms of gold consumption, India remains a price-taker for gold in global markets. One of the reasons for this is that gold is held in physical form in our country as there is no real opportunity of electronically holding it or trading in it. Lack of an organized gold trading platform and transparency in gold transactions is significant drawback preventing India from being a price-setter.

In the Union Budget 2021, the government had announced setting up of a new regulated gold exchange and had notified SEBI as the regulator for the same. SEBI had later quickly swung into action by setting up two working groups to suggest the right framework for electronisation of gold and the entire ecosystem around trading and physical delivery of gold.

SEBI has now released a consultative paper on the proposed framework for Gold Exchange in India which aims to infuse efficiency and transparency in domestic price discovery, ensure quality assurance, promote delivery standards, augment gold recycling, and create a vibrant gold ecosystem in the country. It is proposed to set up a Gold Exchange to facilitate trading in gold and to create a transaction ecosystem which would have three tranches: first, conversion from physical gold to Electronic Gold Receipts (EGRs); second, trading of EGRs on gold exchanges; and third, conversion back from EGR to physical gold. Drawing an analogy from the equity markets, the first tranche is very similar to the dematerialization of shares. The second tranche is akin to the stock exchanges for stock trading – likewise, there will be a clearing corporation to clear and settle the trade. And finally, the third tranche is similar to rematerialisation of share certificates.

An entire ecosystem around vaulting and issuance of EGRs is proposed to issue EGRs against physical gold and vice versa, with set quality standards. The standard operating guidelines would ensure appropriate measurement, quality standards and storage facility. Electronic receipts will be easily tradable and can be delivered.

The entire framework of Electronic Gold Receipts and Gold Exchange can significantly reposition India in the global market and the Indian gold market can be then linked to the global market. It would bring in the much-needed transparency in the Indian gold market and people across the country, including in the remotest areas, will have a standard market price for their gold. It would greatly benefit the economy if some part of the gold hidden in Indian households becomes a part of the mainstream economy. The trading itself will facilitate overall economic activities linked to the capital markets. For individuals and retail investors, financing against the security of gold would become easier and faster. In future, like in the stock market, trading in gold may not only be restricted to spot transactions, and could be extended to derivatives like future and options.

As is always the case while implementing a massive project of this magnitude, there would be several challenges in execution. Issues like whether there should be a new trading exchange for this, the denomination and validity period of the EGRs, inter-operability issues in case of multiple vault managers, number of delivery centers, vaulting charges, logistics and taxations will have to be addressed.

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Once implemented, this will certainly have a similar impact as was felt when the stock exchanges were electronised and dematerialization of stock was implemented. It had transformed India into one of the largest global stock markets. Am sure our gold market is all set in the similar direction - this initiative will certainly help marketability of gold and turn bullion into an asset class that operates mainstream.

<https://economictimes.indiatimes.com/markets/commodities/news/how-you-will-soon-be-trading-the-gold-in-your-treasure-chest-like-a-stock/articleshow/82994143.cms>

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