



To,
Securities and Exchange Board of India (SEBI)
Via email to: goldex@sebi.gov.in

18th June, 2021

Sub: Consultation Paper on proposed framework for Gold Exchange in India and draft SEBI (Vault Managers) Regulations, 2021

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute, appreciate the opportunity to submit our comments to the **Consultation Paper on proposed framework for Gold Exchange in India and draft SEBI (Vault Managers) Regulations, 2021**.

IAIP is an association of over 2000 local investment professionals who are CFA charterholders and about 4000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals that promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 164,000 members in over 165 countries. In India, the community of CFA charterholders is represented by the Indian Association of Investment Professionals (CFA Society India).

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

The recommendations put forth in the consultation paper on proposed framework for Gold Exchange in India in implemented will have a far reaching impact by creating a vibrant gold ecosystem in India. We support the SEBI's effort to create the proposed Gold Exchange which would lead to efficient and transparent domestic spot price discovery, assurance in the quality of gold, promotion of India good delivery standard with active retail participation, greater integration with financial markets, and augment greater gold recycling in the country.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

A. Details of our Organisation:

- 1. Name:** Indian Association of Investment Professionals (CFA Society India)
- 2. Contact number:** +91 98196 30042
- 3. Email address:** advocacy@iaipirc.org
- 4. Postal address:** 702, 7th Floor, A Wing, One BKC Tower, Bandra Kurla Complex, Bandra (E), Mumbai - 400 051



B. Key Contributors:

Chirag Jain , CFA

Jolly Balva, CFA

Ramandeep Singh, CFA

Pramod Saraf, CFA

Sivananth Ramachandran, CFA

Om Jha, CFA

Shwetabh Sameer, CFA

Kshitiz Jain, CFA

C. Suggestions / Comments:

Name of Entity/Person: Indian Association of Investment Professionals (CFA Society India)

Contact Number & Email Address: +91 9819630042(RajendraKalur, CFA) ; advocacy@iaipirc.org

Sr. No.	Paragraph	Suggestion/Comments	Rationale
1.	6.2.1. Whether there should be new exchange or existing stock exchanges be allowed to deal in EGR?	<p>We recommend to have a completely new exchange to be established as a gold exchange.</p> <p>We also propose that the gold exchanges are allowed to have both spot and derivative launched on gold, as both spot and derivative market are important to have efficient price discovery and also from historical perspective only spot related exchanges have not been successful in India.</p>	<p>The proposal to establish a new gold exchange with a single product will be in line with various gold exchanges across the world. Also, we can see in the past that for any new product to really be successful a radical approach is needed.</p> <p>The proposal to allow both gold spot and derivative on the new exchange will help them have better price discovery and also spot and derivatives both are intertwined and only having spot may impact transaction volume.</p> <p>Also, if we study the case of NSEL, only spot related exchanges have not been successful in India and there is always this temptation to enter into derivative contract to meet customer requirements.</p> <p>Globally also most of the gold exchanges i.e. Shanghai Gold Exchange (SGE), LMEPrecious, BORSA Istanbul offer both spot</p>



			and futures contracts.
2.	7.2.1. Should smaller denominations, say 10 grams or 5 grams (or even lower) be considered for only trading?	<p>The type of bars traded on the gold spot exchange needs to satisfy prevailing OTC and retail market demand.</p> <p>We support this proposal that for smaller denomination such as 1gm, 5gm, 10 gm, the contracts can be limited to only trading. The smaller contract can also be utilized for delivery but above a certain size in aggregate, for example, the delivery can be done for 50 gm, for 5 10gm contracts put together.</p> <p>The delivery can start with higher denomination such as 50 gm and above as proposed in the document to ensure efficient utilization of physical delivery infrastructure.</p>	<p>The delivery for smaller denomination it will be huge delivery challenge. The current delivery infrastructure may not be able to support this.</p> <p>The hybrid approach will help to cater to all market participants. The retail participation with smaller denomination but also meet the delivery needs of commercial participants along the value chain: importers, banks, refiners, bullion traders, jewellery manufacturers and retailers.</p> <p>The delivery for smaller denomination can be looked at in future once the delivery infrastructure matures.</p>
3.	9.2.1. Whether there should be fungibility of EGR and interoperability between Vault Managers?	<p>The fungibility of EGR and interoperability between vault managers is great idea, which we support. The proposal to have a new exchange will help to achieve this aim by bringing common standards and reducing the possibility of disputes.</p> <p>But this will have several practical challenges. The fungibility of gold receipts becomes a challenge with different vault managers involved, which makes risk management is a concern.</p>	<p>It is an important objective to achieve but it will be challenging to implement if all market participants do not come on the same page.</p>
4.	9.2.2. What can be the possible safety features that	<p>The Vault managers become a very important intermediary in</p>	<p>The importance of Vault Managers which have</p>



	<p>may be built in the system to facilitate fungibility and inter-operability between Vault Managers?</p>	<p>the proposed setup and considering the commodity involved is gold, it becomes also the more important that SEBI makes sure that the Vault Managers have strong risk management and capital adequacy requirements in place.</p> <p>The proposal of having only networth criteria of INR 50 crs is not sufficient. SEBI may look to add further risk management parameters for selecting the vault managers.</p> <p>There can also be dual categories of vault managers depending on their networth and other criteria, with only large and strong risk management entities allowed storing and handling gold above a certain quantity.</p> <p>Currently, different exchanges have different refineries accepted by them. This is a big challenge in achieving fungibility of EGR and inter-operability between Vault managers. This can be resolved by having completely new exchange.</p>	<p>strong risk management in place cannot be emphasized more, because any lapses at the end of vault managers can impact the whole flow of transactions.</p> <p>The proposal to have a completely new exchange will also help us achieve the aim of having fungibility and inter-operability of Vault manager easier due to common standards and rules for all intermediaries.</p>
<p>5.</p>	<p>10.2.1. Whether the model of base delivery center and additionally delivery center/s, as applicable to commodity derivatives market, is appropriate to be considered in the proposed framework?</p>	<p>The delivery infrastructure for spot exchange will need to be more mature as the delivery would be more frequent.</p> <p>We support to have the existing market practice in futures market to be adopted in spot market as it will help participants adopt the new proposal easily.</p>	<p>The current delivery infrastructure is actually is based on futures market, where the delivery is being done once a month.</p> <p>The current infrastructure may only be able to support delivery at limited locations.</p> <p>In this model, the purchase price would differ for each</p>



		<p>The vault managers may not be accessible easily and which may cause delivery challenges.</p> <p>The interoperability between vault managers may resolve this issue to a certain extent.</p> <p>The proposed T+1 settlement will also be a challenge for the exchanges even with interoperability in place considering the large size of our country. We might have to find a solution to this.</p>	<p>location, as the buyer would incur transportation costs over and above the contract price. This may make its acceptability low among Low across retailers jewelers and consumers due to price risk and uncertain delivery/ transportation charges, but is easy to implement (although inefficient) as exchange is required to trade specific product bars, easier for logistics companies to Implement, similar to one adopted by CME Group.</p> <p>The other model adopted internationally by exchanges i.e. Shanghai Gold Exchange (SGE) and LME to have a universal contract for all locations in India can have higher acceptance but may be difficult to implement as exchange/depository has to manage inventory across locations.</p> <p>There are also other models with single delivery location contact but with a market for location swaps, which makes it difficult to implement.</p>
6..	12.2.1. Is it adequate that assaying agencies are empaneled by stock exchange / vault managers?	We recommend that the assaying agency should be empanelled with SEBI, as there is conflict of interest with empanelling with vault managers and stock exchanges will not have a proper supervision over assaying agencies as they are not directly working with them.	We are proposing this as empanelling assaying agency with SEBI directly as an intermediary as both vault managers and stock exchanges will not have proper control over assaying agencies. <p>The possibility of dispute</p>



			reduces if common assayers are there across vault managers.
7.	13.2.1. What kind of incentive/s and/or exemption/s / modification/s in tax structure would require to be built-in or may be requested from the Government of India, to make the EGR market liquid?	<p>We support the idea of launching liquidity enhancement schemes to initially encourage participation in the proposed gold exchange.</p> <p>Liquidity is a prerequisite for success and the primary goal of all exchanges, new and established.</p>	The proposed gold exchange has many benefits i.e. better price discovery, formalization of trading, transparency in transactions etc.

Thank you again for the opportunity to comment on this important regulatory framework. If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Rajendra Kalur, CFA at +91 98196 30042 or at advocacy@iaipirc.org.

Sincerely yours,

Rajendra Kalur, CFA

Director - Research and Advocacy Committee

Indian Association of Investment Professionals, Member Society of CFA Institute