Gold standard

Why in news?

There International Bullion Exchange is being established in Gujarat International Finance Tec-City.

Why there is a need for establishing this exchange?

- Due to the absence of spot market for gold, domestic stakeholders were forced to use prices traded on international exchanges for computing local prices.
- So a MOU was signed between the leading stock and commodity exchanges and depository participants.
- This paved way for establishing the market infrastructure for the bullion exchange.

How are the prices determined until now?

- Currently there is no transparency in determining the local price of gold.
- It is decided by the Indian bullion and jewellers association based on buy and sell quotes from ten of its biggest dealers.
- These dealers then convert the international gold price to rupee, add taxes and their commission to quote the price.
- This method of price fixing is vulnerable to manipulation as witnessed in countries such as the UK.
- With the establishment of this exchange, transparency will get imparted in determining the local price of gold.
- Also a strong bullion exchange in the IFSC will help jewellers and retailers to buy gold directly from foreign traders instead of using banks as intermediaries.

What are the benefits of this exchange?

- In the international bullion market, India will soon become a price setter from being a price taker.
- The exchange will help in better price discovery of bullions.
- It will facilitate in trading the bullion spot delivery contract and spot depository receipt.
- It has Bullion vaulting services which facilitates in storing the gold traded at

the offshore exchange.
- This exchange can also become a future hub of gold trading if international traders are incentivised enough to shift part of their trading here.

Who will regulate the exchange?

- In India, most of the spot commodity markets features in the State list and are beyond the purview of SEBI.
- So the International Financial Services Centres Authority has been given the responsibility of supervising the implementation and operations of the exchange.
- This is done according to the IFSCA (Bullion Exchange) Regulations, 2020.

What are the issues present in this process?

- It is not easy to attract foreign companies who trade gold in other offshore centres to the domestic exchange.
- IFSCA has to provide enough incentives -lower transaction cost and other benefits -to make them shift to the GIFT IFSC.
- Also there is no clarity whether retail clients can sell their gold at this exchange.
- If their participation is enabled, then gold assaying centres needs to be up at IFSC along with regulatory changes.

Source: Business Line

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