

## **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**