SEBI's Gold Trading Initiative

Why in news?

Recently Securities Exchange Board of India (SEBI) has floated a consultation paper to facilitate transparent spot price discovery through onshore trading.

What are the details in the paper?

- The main objective of the paper is to nurture a gold ecosystem through transparent spot price discovery and create an onshore trading mechanism.
- This will enable India to set a global price benchmark index for gold.
- The paper suggests that gold owners who wish to trade, can deposit their bullion with designated Vault Managers, who will issue Electronic Gold Receipts (EGR).
- These EGRs will be reflected in the owner's demat account which is to be traded and trading is proposed in lots of 50 grams, 100 grams and 1 kg.
- The paper proposes Securities Transaction Tax and GST on gold trades apart from storage charges for Vault Managers.
- It also calls for using the existing ecosystem of stock exchanges, clearing corporations and depositories to facilitate the gold trading.

What are the issues in this?

- The main obstacle is that Indian households are largely physical gold buyers and the domestic bullion market is still in the elementary stage.
- The details such as trading platforms, denominations, assaying mechanisms and costs are not clearly mentioned in the paper.
- Since the idea is to attract individuals to trade, SEBI must consider lowering the lot sizes for the initiative to take off.
- The households, who held their golds in the bank lockers or at home, will refuse to surrender since the charges and taxes are high.
- It is highly a troublesome process to safely store the bullion, for periodically reconciling stocks with EGRs and ensuring the interchangeability between vaults.
- Also, the lack of assaying centres and the reluctance by the gold owners to melt their holdings is the greatest stumbling blocks to gold monetisation

schemes.

What can we infer from this?

- Though this paper of SEBI has imagined a heightened approach for gold trading, the Centre has already flagged off an international bullion exchange at GIFT City.
- GIFT City has facilitated a memorandum between participants and the International Financial Services Centre Authority (IFSCA).
- IFSCA has detailed regulatory responsibilities under the IFSCA (Bullion Exchange) Regulations, 2020.
- So, the Centre now need to clearly demarcate the areas of focus for the two parallel initiatives to avoid conflict of interest.

Source: Business Line

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