To November 9, 2012

Dr.SubirGokarn
Deputy Governor
Reserve Bank of India
Central Office
Mumbai 400001

Respected Sirs,

Subject: Proposals from the core committee of the India International Gold Convention

Sir, this document is a summary of proposals pertaining to Indian bullion industrythat emerged from the 9th India International Gold Convention 2012, held on August 24th in Hyderabad. The conference was inaugurated by Dr.Anup K Pujari, IAS, Director General of Foreign Trade, Ministry of Commerce, Government of India.

The bullion industry shares the concerns of the government on Current Account Deficit and has therefore proposed to address the issue through seeking permission to export gold bullion through banks and seeking permission to launch gold-bullion backed financial products. There are other suggestions on reforming the bullion and jewellery industry.

The bullion and jewellery industry looks forward to your support and cooperation for growth and development.

Thanking you,

Sincerely yours,

S K Jindal
Prithviraj Kothari
Rajan Venkatesh
Mayank Khemka
Bhargava Vaidya
Sameer Patil
Pradeep Nagori
Chanda Venkatesh
G Srivatsava

This document is a summary of proposals that emerged out of discussions with the stakeholders of the Indian bullion industry at the 9th India International Gold Convention 2012, held at Hyderabad International Convention Centre (HICC), between 24th and 26th August, 2012.

The industry is unanimous in its resolve to engage with the government in creating a mutually acceptable and workable plan for developing a vibrant Indian bullion and jewellery industry.

The draft is prepared in consultations with the core committee comprising

1. Mr Prithviraj Kothari, former president BBA
2. Mr RajanVenkatesh, MD, ScotiaMocatta
3. Mr Jignesh Shah, Vice Chairman, MCX
4. Mr S K Jindal, Director, Jindal Dyechem Industries P Limited
5. Mr Bhargava Vaidya, B N Vaidya & Associates
6. Mr MayankKhemka, MD, Khemka Group of Companies
7. Mr Rajesh Khosla, MD, MMTC-PAMP
8. Mr PradeepNagori, VP, Edelweiss Bullion
9. Mr ChandaVenkatesh, MD, CAPS Gold
10. Mr G Srivatsava, President, Foretell Business Solutions P Ltd

---

Submitted by the Core Committee of 'India International Gold Convention'

Part-A: Proposals to reduce dependence on imported gold bullion

1. **Export of bullionthrough banking channels**

Liberalise export of bullion by doing away with the value addition criteria and by coming up with guidelines on procedures of refund of import duty as per the prevailing rate at the time of export. The duty refund or duty credit can then be used by an importer for payment of customs duty for permitted import items. bullion exports be routed through banking channels.

Bullion (995 and 9999 fineness) is the standard product and is considered as and traded like a currency in the international market. Just as currencies cannot be sold at premium over the international market prices, bullion too cannot be exported with value additions. Besides,import duties applicable on bullion cannot be exported.

At present, the regulation mandates a minimum value-addition of 1.8%. Assuming a price of US$ 1700 per ounce of gold, the value addition component comes to US$ 30.6/ounce (roughly about 50 rupees per gram). Given the competitiveness of the bullion market, it is not practical to get such high premium on standard gold bullion.

The USD value of the bullion to be exported can be fixed as the London PM Fix on the day of the export.For exports made by domestic bullion refiners processing imported dore, the duty refund / credit is the duty paid at the time of import of Dore; consequently the export should be limited only to the extent of import made during the immediate preceding Dore import.Annexure-1 details the viability of bullion exports from India

What are the benefits of permitting bullion exports?

a. India has imported about 10000 tonnes of gold bullion during the last 15 years. The average price at which the gold bullion stock was accumulated was around US$600/troy ounce. The current prices are way above the average purchase price. Hence there is a strong incentive to export the bullion held in India and earn valuable foreign exchange for the country. If we **assume an export of 100 tonnes per year** on a conservative basis, it would amount to a **foreign exchange inflow of US$ 6 billion annually (at the current price of Rs. 31000 per 10 gram)**. To that extent it would reduce the size of current account deficit.
b. The demand for bullion in India is seasonal. Refineries have to operate round the year and hence export of bullion would be a very important aspect of business for refiners during times when domestic demand is low. It will ensure smooth operation of refineries.
c. India, despite being the largest importer of gold bullion, does not influence or set price of gold bullion in the international market. This is partly due to absence of India in the supply end of the bullion market. If export of bullion is allowed, then two way movement of gold from India would make India a truly global player in gold bullion.
d. Permitting such transactions only through banks would ensure transparency and establish clear audit trail.

2. Gold Deposit / Certificate / bond scheme

It is estimated that about 18000 tonnes of gold (about 3/5th of India's GDP) is with the Indian households. The present Gold Deposit Scheme has been unsuccessful in mobilising the household gold in India because of various reasons. The present scheme needs to be modified appropriately in order to get the hoard of household gold into circulation. The effective way to substitute imports is by allowing banks to launch "Gold Certificates". The scheme proposes to bring at least INR 5000 cr. of gold every year and reduce import burden on the country. With appropriate incentives, this target could be increased multi-folds. This will also reduce burden on imports.

Proposed changes to the Gold Deposit Scheme:

a) Banks should be allowed to accept gold deposit of standard bars/coins/medallions and need to melt the same as prescribed by the original scheme.Jewellers should be an integral part of such schemes aimed at mobilising gold bullion.
b) Currently only a handful of banks are offering the gold deposit scheme, efforts must be made to market this product to wider audience and more banks should participate in mobilising household gold.
c) Banks should further be allowed to hedge the risk exposure arising from such bullion deposits held under the schemeon domestic commodity exchanges.

Gold Savings Account:

To bring about a change in holding of household gold, bullion banking should be promoted. People having gold should be allowed to deposit and withdraw gold bullion from a bullion bank like a normal saving bank account.

a) Gold Savings account will be a gold denominated savings account. All deposits and withdrawal shall be made in gold form only.
b) The account holder shall also receive interest on his gold holdings without having to worry about safekeeping.
c) The account holder can withdraw his holdings by giving a notice to the bullion bank, this way the account holder enjoys the benefit of liquidity of his gold savings.
d) Banks should be allowed to participate on behalf of their customers in commodity futures exchanges in India to the extent of their exposure in gold savings.

Gold Certificates:

Since gold forms a very important part of asset allocation for small households in India, the absence of **"paper gold"** products results in imports of huge quantities of gold into the country. The investment needs of these classes of investors can be met with paper gold products, thus **reducing the import burden on the country.**

a) Gold Certificate acts as an alternative to investment in physical gold for the Indian Investor. This provides an opportunity to the customer to purchase in INR, a certificate representing the value of a particular quantity of gold.

b) The Bank/institution issuing such certificate in turn will hedge its exposure by using gold forwards as approved by the RBI. Banks should also be allowed to hedge their exposure through domestic commodity exchanges, given good liquidity and other risk-mitigating elements connected to exchange-traded bullion derivatives

c) Upon maturity the certificate will be settled for INR value of the denominated quantity of gold. This certificate will be redeemable only in rupees.

d) These certificates may also be listed on the exchanges to further provide liquidity.

This product will mimic the price movement of gold in INR without having the need to import physical gold.

Advantages:

Unlocks gold bullion idling in the households, and convertsit into financial asset for productive purposes.

Reduces import burden on country by encouraging investment paper gold products.

3. Expand banks role and service spectrum

- Permit banks to 'buy back' bullion and coins onwards for re-sale in the domestic markets.
- Permit banks to offer services to their customers based on domestic hedging products. This would expand the service spectrum of the banks.
- Permit banks to source gold from domestic refiners.
- Leasing of Precious metals (Including PGM) to industrial manufacturers

The above steps shall result in capping annual gold imports to well less than 500 tonnes.

Part-B: Operational issues Bullion Imports and operations for Nominated Agencies:

1. **Amendment to RBI notification "RBI/2005-06/155, DBOD.No.IBD.BC. 33 /23.67.001/2005-06"**

To bring all nominated agencies including nominated banks at par and to encourage reforms as has been highlighted under the 'gold deposit scheme', we request the amendment to the above mentioned RBI notification.It is requested that point no. 3 sub-point (1) of the above said notification (page no. 2) be amended to include nominated agencies in addition to the nominated banks as follows

"The stand-by LC/BG be issued by scheduled commercial banks in favour of a nominated bank (**include "and nominated agencies")** only and …… import gold."

Complete notification is given in Annexure-2

Part-C: Issues pertaining to import and financing of bullion / dore by refineries

1. Under the liberalized policy of import, Banks authorized by RBI were permitted to import gold vide its circular dated March 6, 1998. RBI authorized Banks import gold / silver bullion and gold / silver coins (non-monetary) from gold / silver refiners in Switzerland, Australia & South Africa. At that time, there was no world class gold / silver refinery in India.

2. With the advent of world class gold / silver refineries & mints in India sourcing gold / silver Dore from mining companies for being refined into pure gold / silver, banks authorized by RBI to import gold / silver may also be authorized to source domestically refined gold / silver bullion from such world-class refineries. Banks would be required to do their own due diligence on the domestic refiner to assure consistency of quality of the bullion being sourced.

3. RBI authorized banks may also be permitted to deliver gold / silver imported by them on consignment basis to domestic refineries-cum-mints for manufacture of gold / silver minted coins. This will not only enable banks to better manage their domestic distribution of such minted products but also encourage domestic minting industry. It may be noted that whilst State Bank of India is delivering gold to local minting unit for manufacture of minted coins, a number of banks are still awaiting clarity from RBI; consequently import of gold / silver coins continues to be encouraged to the detriment of the domestic minting industry.

4. The moment a shipment of gold / silver Dore is received at the Refinery, the Refinery has to credit the indicated precious metal content to the mining companies' Gold & Silver Unallocated Precious Metal Account maintained by it with international bullion banks like HSBC, JPMorgan, etc. Consequently the domestic Refinery needs to maintain its Gold & Silver Unallocated Precious Metal Account with the same overseas bullion bank, and to provide a financial security (letter of credit) for an amount sufficient to secure the value of the gold & silver content credited by the international bullion bank into the Gold & Silver Unallocated Precious Metal account of the mining company. The outstanding balance is then settled by the refiner with the bullion bank by pricing the gold / silver content at the time of every domestic sale of the refined output. This is the global practice and established refineries in India may also be permitted by RBI to establish such Unallocated Precious Metal Accounts through their authorized dealer, with the proviso that every transaction must be backed by a corresponding physical mirror transaction. No speculative transaction is permitted.

Annexure-1: Viability of bullion export from India

Is it viable to export gold bullion from India, given that India is the largest importer of gold bullion? How many instances were there in the recent past during which it was competitive to export bullion from India?

In India gold bullion purchases have seasonality. There are certain periods in a year when demand for gold in India declines. During such times, there is a strong possibility that Indian gold bullion might trade at a discount to international prices. Secondly, it is seen that sudden and disruptive changes in Indian rupee also may create opportunities for exporting gold bullion.

To evaluate the number of occasions Indian gold was attractively priced vis-à-vis international gold prices, MCX spot gold prices (ex-Ahmedabad) was compared with the London AM Fix prices expressed in Indian rupees (by taking the RBI reference rate). It was also assumed that upon export of bullion, the exporter would get a duty drawback at the specified rate.

Description of the variables:

London AM fix = London AM Fix (.995 fineness) in Rs./troy ounce (source: LBMA and RBI for currency rate)

MCX Spot Gold = Ex-Ahmedabad, inclusive of all taxes and levies relating to import duty, customs, but excluding sales tax and VAT and any other additional tax or surcharge on sales tax, local taxes and octroi) .995 fineness in Rs/troy ounce

Duty Drawback from 27-Nov-2009 till 20-sept-2010 = Rs. 20.60/gm of net gold content

Duty Drawback from 21-sept-2010 till date= Rs. 30.90/gm of net gold content

Methodology:

$$\text{Net export realisation} = \frac{\{\text{London AM Fix} - \text{MCX Spot Gold price} + \text{Duty drawback } *98\%\}}{\text{MCX spot gold price}}$$

In the above calculation, VAT and other local taxes are not considered as they vary from state to state and from time to time. However, in real world these are applicable. Besides, these are non-refundable.

To overcome the effect, we have put a filter of 1% (being the average VAT on gold bullion) and considered only those cases where the net export realisation is in excess of 1%.

Case-1: Refund of 98% duty drawback **Summary**	
Period	01-01-2010 till 28-09-2012
No. of business days	716
No. of days MCX Spot Gold price was more than 1% discount to WGC gold price	20
No. of days MCX Spot Gold price was more than 2% discount to WGC gold price	5
No. of days MCX Spot Gold price was more than 3% discount to WGC gold price	2

Case-2: If refund is aligned with the import duty

On January 16th, 2012, the import duty on gold bullion was changed from weight basis to value basis. Currently, it is at 4% of the value of gold. Periodically, tariff value of gold is announced. Let's us take September 28, 2012 as an example. The tariff value of gold (USD/10gm) and USDINR reference rate on that date were 573 and 54.75 respectively. This works out to an import duty of Rs. 1028 per 10 gm (@4.12%). As against this, under the present duty draw back scheme, exporters are eligible for a refund of only Rs. 309/10 gm. (refer to annexure-1).

The difference between current duty drawback scheme and the import duty equivalent drawback in this case is a substantial Rs. 719/10 gm, which is about 2% of the value of gold.

Thus, if duty drawback rates are aligned with the import duty, then export possibilities would increase significantly.

Conclusions:

1. Export of bullion from India is feasible during periods of dull demand in India and also during periods when currency volatility is very high.
2. Export of bullion can be greatly enhanced if duty drawback rates are aligned to the import duty rates. The drawback on export of gold bullion would be the customs duty applicable on the date of export, and is subject to the export realisation at the London PM Fix for gold on the working day immediately prior to the date of export.The drawback may also be made available in the nature of a Credit which can be used for future imports or import of any other dutiable goods into the country. **There will not be any payout from the government on account of this.**

   We estimate that India has accumulated over 10000 tonnes of gold bullion during the past 15 years at an average price of USD600/ ounce. Thus, the current price level of USD 1700/troy ounce is very attractive to many of the investors. Liberalising exports could potentially bring **foreign exchange to the tune of USD 3 – 5 billion per year** (on the assumption that 60 – 100 tonnes could be exported).

Annexure-2: RBI notification

RBI/2005-06/155

DBOD.No.IBD.BC. 33 /23.67.001/2005-06

September 5, 2005

All Scheduled Commercial Banks

(excluding RRBs)

Dear Sir,

Gold (Metal) Loan

1. In terms of our circular DBOD.No.IBS.BC/1519/23.67.001/1998-99 dated December 31,1998, nominated banks authorized to import gold were advised that Gold (Metal) loans should be given only to jewellery exporters. Further, in terms of our circular DBOD.No.IBS.3161/23.67.001/1998-99 dated June 25,1999, nominated banks were advised that they may extend Gold (Metal) Loans also to the jewellery exporters who are the customers of other non- nominated banks by accepting a stand-by Letter of Credit (SBLC) or Bank Guarantee (BG) issued by their bankers subject to nominated banks' own norms for lending and the conditions stipulated in our circular dated December 31,1998 referred to above.

2. We have been receiving requests from nominated banks to permit them to extend Gold (Metal) loans out of the gold imported by them to domestic jewellery manufacturers. It has been decided that, in order to liberalise the scheme further, banks nominated to import gold as per extant instructions may extend Gold (Metal) Loans to domestic jewellery manufacturers, who are not exporters of jewellery, subject to the condition that any gold loan borrowing / or other non funded commitments taken by them for the purpose of providing gold loans to domestic jewellery manufacturers will be taken into account for the purpose of overall ceiling (presently 25 % of Tier I capital) in respect of aggregate borrowing for non-export purposes. The Gold Loans extended to exporters of jewellery would continue to be out of the 25% ceiling.

The Gold (Metal) Loans provided by banks will be subject to the following conditions:

I. The tenor of the gold loan for the domestic jewellery manufacturers should not exceed 90 days.-
II. Interest charged to the borrowers should be linked to the international gold interest rate.
III. The gold borrowings will be subject to normal reserve requirements.
IV. The loan will be subject to capital adequacy and other prudential requirements.
V. Banks should ensure end-use of gold loans to jewellery manufacturers and adhere to KYC guidelines.
VI. Any mismatch arising out of the gold borrowings and lendings should be within the prudential risk limits approved by the nominated bank's Board.
VII. The banks should carefully assess the overall risks on granting gold loans and lay down a detailed lending policy with the approval of the Board.

3. Presently, nominated banks can extend Gold (Metal) Loans to exporters of jewellery who are customers of other scheduled commercial banks, by accepting stand-by letter of credit or bank guarantee issued by their bankers in favour of the nominated banks subject to authorised banks' own norms for lending and other conditions stipulated by RBI. As a further liberalisation measure, it has been decided to extend the facility to domestic jewellery manufacturers also, subject to the following conditions.

I. The stand-by LC / BG shall be extended only on behalf of domestic jewellery manufacturers and shall cover at all times the full value of the quantity of gold borrowed by these entities. The stand-by LC/BG shall be issued by scheduled commercial banks in favour of a nominated bank (list appended) only and not to any other entity which may otherwise be having permission to import gold.
II. The bank issuing the stand-by LC / BG (only inland letter of credit / bank guarantee) should do so only after carrying out proper credit appraisal. The bank should ensure that adequate margin is available to it at all times consistent with the volatility of the gold prices.
III. The stand-by LC / BG facilities will be denominated in Indian Rupees and not in foreign currency.
IV. Stand-by LC / BG issued by the non-nominated banks will be subject to extant capital adequacy and prudential norms.

V. The banks issuing stand-by LC / BG should also carefully assess the overall risks on granting these facilities and lay down a detailed lending policy with the approval of their Board.

4. The nominated banks may continue to extend Gold (Metal) Loans to jewellery exporters in terms of DBOD circulars dated December 31, 1998 and June 25, 1999 mentioned in paragraph 1 above.

5. It is clarified that:

a) The exposure assumed by the nominated bank extending the Gold (Metal) Loan against the stand-by LC / BG of another bank will be deemed as an exposure on the guaranteeing bank and attract appropriate risk weight as per the extant guidelines.
b) The transaction should be purely on back-to-back basis i.e. the nominated banks should extend Gold (Metal) Loan directly to the customer of a non-nominated bank, against the stand-by LC / BG issued by the latter.
c) Gold (Metal) Loans should not involve any direct or indirect liability of the borrowing entity towards foreign suppliers of gold.
d) The banks may calculate their exposure and compliance with prudential norms daily by converting into Rupee the gold quantity by crossing London AM fixing for Gold/US Dollar rate with the rupee-dollar reference rate announced by RBI.

6. It is also clarified that there will be no change in the existing policy on lending against bullion.

7. Banks should recognise the overall risks in extending Gold (Metal) Loans as also in extending SBLC / BG. Banks may, therefore, lay down an appropriate risk management and lending policy in this regard. Banks should comply with the recommendations of the Ghosh Committee and other internal requirements relating to acceptance of guarantees of other banks to obviate the possibility of frauds in this area.

8. Please acknowledge receipt.

Yours faithfully,

(Prashant Saran)

Chief General Manager

Encl: List of nominated banks

List of nominated banks
(As on August 31, 2005)

1. Allahabad Bank
2. Bank of Nova Scotia
3. Bank of India
4. Canara Bank
5. Corporation Bank
6. Dena Bank
7. HDFC Bank Ltd.
8. ICICI Bank Ltd.
9. Indian Overseas Bank
10 IndusInd Bank Ltd.
11 Oriental Bank of Commerce
12 Punjab National Bank
13 State Bank of India
14 Union Bank of India

For further information / clarification on the document please contact

Foretell Business Solutions Private Limited

146, Gopal Towers, I Floor, Ramaiah Street, HAL Airport Road

Bangalore 560008

Phone: 91 80 2527 6152 / 2527 6153; Fax: 91 80 2527 6154; Email: gsv@fbspl.com