SHOULD INDIA HAVE A NEW EXCHANGE FOR ELECTRONIC GOLD RECEIPT (EGR)

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ABSTRACT

While the proposal of setting up a regulated Gold Exchange was accentuated in the Union Budget 2018-19 as well as in the Budget 2021-22, the Consultation Paper by SEBI came as the first concrete step towards bringing into operation a gold exchange for the Indian market. This comes in the backdrop of the fact that despite being the second largest consumer and importer of gold, India continues to be a price-taker – India does not play any significant role in influencing the global price-setting for the commodity. Thus the key element is missing in the gold ecosystem is an electronic spot exchange. Our study would revolve around two important questions that Whether there should be new exchange or existing stock exchanges be allowed to deal in EGR? And, if existing stock exchanges are allowed to deal in EGR, whether the contract should be launched in a new segment or allowed to be added as new asset class in existing segment? Our study would be based on comparative study of Gold Exchanges already existing in countries like Turkey, China, Singapore and Dubai and to examine that is it a requirement that there should be a separate Gold exchanges when we already have well established and experienced Stock Exchanges.

1. INTRODUCTION

India has a unique relationship with gold. For the consumers, gold is a treasure asset, cherished as both an ornament and an investment, for the sellers/retailers, it is a profitable asset, and for the Government, gold is a major contributor to the current account deficit, an economic issue that needs to be addressed.

Globally the second largest consumer of gold is India with annual gold demand of approximately 800-900 tonnes[1]. Yet despite being the second largest consumer, after China, India does not have a vital role in making the global or domestic price of gold.

In order to analyse the issue in hand, the World Gold Council commissioned Federation of Indian Chambers of Commerce and Industry (FICCI) along with Bureau of Research on Industry & Economic Fundamentals (BRIEF) to have a comprehensive study and analyse the gold market in India. The report issued by them indicated that India holds a significant position in global gold market but is plagued by certain challenges like lack of price transparency, highly fragmented market and lack of quality assurance. The committee advocated that in order to tackle such challenges it's the high time that India must come up with a Gold Spot Exchange.

Further, the Union Budget 2018-19 as well as in the Budget 2021-22 accentuated the proposal for establishing and regulating the Gold spot exchange. Acknowledging the same, Securities Exchange Board of India (SEBI) came up with the Consultation Paper towards bringing into operation a Gold Spot Exchange (GSE) for the Indian market.

A GSE encompassing the overall ecosystem of trading and delivery of physical gold can transform the entire gold market in India. Many Indian sellers/ jewelers are dependent on gold refineries in foreign nations like Dubai and Singapore and GSE can tackle this challenge and can become a central channel to buy gold and sell/trade it in India at a standardised quality and can create a national pricing structure of gold. There already exist various methods whereby gold is traded or used as a medium for the investment, thus it is imperative to understand the need for GSE and how it is different from existing methods and what are the advantages of EGR.

[1] *Blueprint for Gold Spot Exchange in India, World Gold Council.*

Post the Budget announcement, there was a discussion between the Ministry of Finance and SEBI. They, finally, decided that the entire ecosystem of the proposed GSE will be regulated by SEBI and SEBI would be the sole regulator for vaulting, assaying, gold quality and delivery standards.

1.1 WHY IT WAS HIGHLIGHTED BY FINANCE MINISTER IN THE BUDGET 2021-2022?

The Government, Economists, Gold Merchants and World Gold Council all favors the introduction of a GSE. But why, a GSE is required when in India, Gold is already traded on stock exchanges as a commodity and in other methods. The Finance Minister highlighted to establish a separate GSE in India because there is a lack of quality assurance and this leads to limited international demand of domestic gold jewelry due to the lack of trust of its quality. Also, there is a wide gap of prices in different parts of the country and there is lack of transparency in setting up the price.

Most small investors do not invest in non-jewelry gold form which lack the appropriate weight and standard to act as a mode of exchange and investment. Due to limited recycling of household gold into the economy, the economic growth of the country is restricted and it results in high reliance over the imports and has an adverse effect on the current account deficit.

2. UNDERSTANING THE GOLD EXCHANGE IN OTHER COUNTRIES

Like India, many Asian countries felt the need for establishing the GSE. However, they already had 5established it in the last few years and it is imperative to study the existing GSE in order to understand its working, challenges, solutions and India can apply the same pari materia.

2.1 WHICH COUNTRIES HAVE EXISTING GOLD EXCHANGES?

a. TURKEY

Turkey has a significant role in the global gold market. It imports gold around 180 tons annually and stands at the fourth position for the gold consumer, accounting for around 6% of the global demand[2]. Approximately, Turkish households have at least 3,500 tons of gold[3]. Investors use

[2] *Prof. Joshy Jacob, Prof. Jayanth R Varma, "Viability of a Gold Exchange in India", 2016, p.2*
[3] *'Turkey: Gold in action", World Gold Council Report, 2015*

gold as an inflation and currency hedge. Many foreign brands source their designer jewelry from Turkey but its local production is short comparing its demand.

Till 1980s, Turkey highly regulated the gold sector in the country. But with time and understanding the need for the sector to grow, Turkey started to liberalize the gold sector by 1993. But the government understood the fact that it cannot standardize the price of gold and cannot ensure the quality of good without giving it a proper channel. Hence, in 1995, Turkey established Istanbul Gold Exchange (IGE). This was established to provide a price discovery mechanism and to ensure the gold quality.

IGE had been one of the successful reforms in Turkey to pave a link between bullion market and financial market. It enhanced the overall position of the gold sector of Turkey and regional financial center. IGE ensure the good quality gold trade over the platform and it established a benchmark price for gold.

In April. 2013, the IGE merged with Istanbul Securities Exchange and Futures and Option Exchange. These three together formed Borsa Istanbul. It is a successful move in creating a efficient structure for gold trade in Istanbul. The most significant yet bold move is that the gold traded is tax-free.

b. CHINA

It is the world's largest consumer of gold as jewelry and physical bullion and accounts for 26% of the world demand in 2013[4]. Also, it is the world's largest gold importer as well as gold producer.

Before 2002, the entire gold eco system in China was strictly regulated and controlled by the People's Bank of China. It set up the Shanghai Gold Exchange (SGE) in October 2002. It was created to liberalize the gold market. SGE provided a platform to trade spot and futures contract in gold, silver and platinum.

All the citizens of China are allowed to trade gold at the SGE but after opening a SGE account on a commercial bank.

[4] *"China's Gold Market: Progress and Prospects", World Gold Council Report, 2014*

The most significant change that SGE brought was that it synchronized the domestic gold price with the international gold price. Also, gold traded on SGE was exempted from value added tax.

c. SINGAPORE

Singapore was one of the important gold trading center in the East until 1993. But, they started an adverse tax regime. But again, recently, Singapore launched various initiatives so that it can regain its position as the regional leader.

It has exempted investment in precious metals from GST from October 2012. It has set up the world class infrastructure for gold trading.

Singapore established Singapore Exchange (SGX) and it offers gold trade for physical settlement.

Though Singapore is neither a major consumer not a major producer, it still emerges as the one of the major hub for gold as it has the necessary physical and regulatory infrastructure.

d. DUBAI (UAE)

It is one of the strongest gold hub in the world. Its proximity with top consumer of China and India, along with low tax regime and high quality infrastructure makes it the same. Nearly 40% of the physical gold in the world passed through Dubai in the year 2014[5].

In 2002, Dubai Multi Commodities Centre (DMCC) was established to provide the physical market infrastructure so that all the participants can have access to the gold value chain. It provides small as well as large gold bars with the highest quality. Value added tax and direct taxes are not applicable to the traded gold.

2.2 CONCLUSIONS FROM REVIEW OF INTERNATIONAL GOLD EXCHANGES

By carefully examining and analyzing the International Gold Exchanges which are the Gold Exchanges of Singapore, Dubai (UAE), Turkey and China, one can conclude that establishment

[5] *Prof. Joshy Jacob, Prof. Jayanth R Varma, "Viability of a Gold Exchange in India", 2016,p.7*

of a GSE has many perks for the gold sector as well as for the economy. They have significantly contributed to the development of gold eco-system by way of:

a. Assurance of the quality for individuals as well as for the sellers/manufacturers/refiners etc., through standardization of quality.

b. Efficient price discovery by channeling demand-supply of the gold. Without the exchange the market was fragmented and thus prices vary from one market to another market. But the exchange has synchronized the local gold prices.

c. Gold recycling is possible through accredited refineries. The recycled gold can come into the gold eco-system through the gold exchange.

d. Monetizing the gold.

e. Consumers shifted from physical gold for investment.

f. Creating the high quality gold infrastructure.

g. Increased trust in domestic market.

h. Current account deficit can be significantly narrowed

3. HOW IS GOLD TRADED IN INDIA?

Presently in India, the gold is traded in following ways:

a. GOLD ETFs

Gold ETF or exchange-trade fund are a mode of passive investment based on the price of the gold. They basically track the domestic physical gold price. Gold ETF may be in a hard-paper or dematerialized form that is traded online. One gold ETF is equivalent to 1 gram of gold. It is backed by physical high quality gold.

Gold ETFs are listed and traded on stock exchanges like National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). They are traded like any other company stock.

b. GOLD JEWELRY

India's jewelry sector is nation's fastest growing industry. It reach its peak at the time of festive seasons, wedding seasons.

Most Indian consumers invest in gold in the form of jewelry and not in gold bars which are comparatively of high quality with standard price assurance.

c. SOVEREIGN GOLD

Sovereign bonds are managed by Reserve Bank of India for the Government. Any investor can buy gold equal to bond at the prevailing price and hold that bond for a period of fixed eight years. 2.5% interest are paid over these bonds and an investor can sell off the bond after five years in demat form.

These are only a way to hold gold for generating interest and not for the actual delivery of the gold.

d. FUTURE EXCHANGE

Multi Commodity Exchange has wonderful trading volume for the future exchange of gold. Here, the investors do not hold the physical method but trade through future contracts. This exchange provides secure and transparent trade mechanism and works in conformity with the regulatory framework. They agree to sell the contract of the commodity i.e., gold at a pre-determined price and investors take advantage of future price movement.

e. GOLD MUTUAL FUND

Gold mutual funds are the type of mutual funds that invest directly or indirectly in gold reserves. Investments, here, are usually made on stocks of gold producing, distributing and mining companies. This is one of the safest way to invest in gold without actually buying the gold.

Also, they are open-end investments which invest in the units provided by the gold exchange trade fund. As the underlying asset is the gold, the value is determined by the price of the precious metal.

These funds are used to hedge to protect the investors against economic shock.

3.1 WHY GOLD EXCHANGE THEN?

I have discussed in brief about the various methods in which gold is traded. But, India do not have a platform where one can store the gold and get a certificate for that and transact transparently over a platform. And for that, India need a GSE to ensure standard gold quality, delivery of physical gold, efficient price discovery. Yet, it is equally important to understand what the cons for the following are:

GOLD ETFs

- ETF can be redeemed only in terms of cash and not physical gold.
- An ETF is primarily used to hedge but an EGR can be used as a mode of active investment and trading.
- There is a great market risk.

GOLD JEWELRY

- No regular Income
- STORAGE ISSUE
- Lack of liquidity- Indians have an emotional attachment with ornaments, at the time of need, these sentiments act as a hindrance. This fails the main motive of buying gold to use it at the time of uncertainties.
- Theft issue

SOVEREIGN GOLD

- Maturity- long maturity period of 8 years.
- Capital Loss- investment in SGB can result in a capital loss as the bond value is directly linked to the price of gold in the international markets. If the price at which

gold is bought sometimes get higher than the price at which one redeem it at maturity.

4. WHAT ARE THE ADVANTAGES OF GSE?

By analysing the working of GSE in other countries, we can deduct some advantages of it as following:

a. It will provide a robust nationwide trading ecosystem that will ensure the interest of the investors as well as consumers;

b. It will expand and reform the domestic gold market by allowing every player to access it ranging from individual investors to commercial participants;

c. It will ensure market transparency by setting the defined standards;

d. It will ensure gold quality and set a standardised price benchmark throughout the country;

e. It will formalise the trading in gold by facilitating it and supervise the working and development;

f. It will create a transparent price discovery mechanism;

g. It will organise the fragmented gold market;

h. It will enhance trust in the Indian gold;

i. It can drive the development of the entire gold market;

j. It can boost the export of domestic gold;

k. It will strengthen India's position in key global gold trading hub;

l. It will provide an opportunity to increase gold reserves.

5. UNIVERSAL EXCHNAGE BY SEBI

Before jumping to the conclusion, it is imperative to understand the difference between trade of equity and derivative.

Equity Trade refers to the buying and selling of shares of a company in the secondary market through the platform of stock exchanges. Equity gives slice of ownership in the invested company and the company gets capital for their prospective project for raising capital. Investors enjoy the gain with the increasing performance of the company.

Commodity Trade, on the other hand, is where commodities such as agricultural products, metals, energy and livestock and meat. It plays an important role in protecting the traders from price volatility. This helps the investors in hedging and also helps in diversifying their investment portfolio.

Before 2018, when SEBI nodded the establishment of Universal Exchange, equity trading and commodity trading were traded by different entities. And only commodity licensed exchange can trade commodity derivatives and other licensed stock exchange were denied to trade the same. After 2018, SEBI created Universal Exchange that allowed the same exchange to offer and trade products in the equity, commodity derivatives, debt and currency segments. This led all the stock exchanges to trade in any line of segment they wish and they need not open different entities to offer different products.

6. DO WE NEED A SEPARATE STOCK EXCHNAGE FOR BULLION/GOLD TRADING OR SHOULD WE APPLY UNIVERAL EXCHANGE MECHANISM?

Till now, it is clear that GSE is required for manifold reasons as analyzed above. But the question that rises is whether India needs a separate gold exchange to offer investors to trade in gold or universal exchange mechanism should be applied here and allow the existing stock exchanges and other commodity exchanges to offer trade in gold.

Globally, the Gold Exchanges were established much before year 2021 and they had the time and investment to set up a different exchange for gold and other securities. But, in India, the concept of GSE is comparatively new. Though India trade in gold through various other means but trading on the spot exchange is new and needs proper regulation and experienced skill and labor.

Establishing separate GSE will be time consuming and will require fresh investments in setting up the new gold spot exchanges. Further, burden on Clearing Corporation will increase as it will require fresh registration of members of new exchange. It will ultimately lead to enhanced compliance cost. All these challenges are not viable for a single product i.e. is gold.

Thus, it is feasible to allow the universal exchange mechanism. As the existing stock exchanges have sufficient skill, experience, infrastructure and resources to start the trading of gold on their platform. India need not to wait for another decade to completely launch and start trading of gold like other securities on the exchange.

New and separate exchanges which will qualify the eligibility criteria set by SEBI to offer trade of gold as other securities, must also be allowed to trade gold over their platform. Along with them, the existing securities which qualify the criteria set by SEBI can initiate the trade of gold on their platform.

The rule to establish gold trade must be flexible rather than rigid. This whole Gold Exchange is new for the investors also and the general pattern of human is that they will not trust the new exchanges immediately and the whole objective of establishing the GSE will collapse. SEBI must set a criteria as to who can support such trade, which can be either existing or new exchange. Once investors understand the whole idea and objective, they may change or shift to any exchange they wish to choose.

Thus, new as well as existing stock exchanges or commodity exchanges must be allowed to trade gold on their platform.

7. IF GOLD CAN BE TRADED ON EXISTING EXCHANGE, THEN WHETHER THE CONTRACT SHOULD BE LAUNCHED IN NEW SEGMENT OR ALLOWED TO BE IN THE EXISTING SEGMENT?

The Stock Exchanges offers the investors to trade in various securities[6] ranging from shares, derivatives, bonds etc. These securities are classified into various segments in order to ease for the investors. All securities bearing same features are clubbed together to form a single segment.

[6] *Section-2, Securities Contracts (Regulations) Act, 1956*

While considering gold, it is important to analyze how gold will be traded online. The proposed flow of transaction will be:

- **First Tranche**: Conversion of physical gold into Electronic Gold Receipt (EGR)
- **Second Tranche**: Trading of EGR on stock exchanges
- **Third Tranche**: Conversion of EGR into physical gold.

It is imperative to understand the segments of the stock exchange. Only then we can realize as whether the contract for bullion trading should be launched in the new segment or allowed to be traded in the existing segment.

The various segments are as follows:

1. **EQUITY**

When companies want to raise capital, they issue shares which can be equities. Equity basically refers to the share in the company's ownership. By investing in equities on secondary market, one can earn through stock price appreciation. Equity can be broadly divided into several categories, each having their own risk and rewards, namely:

Main features of equities:

- **Maturity period:** Individuals who have invested in the equities of a company can redeem it only at the time of winding of the company, after all other claims and liabilities are fulfilled.
- **Shareholder's voter right:** When an investor invest in the equity of the company, he gets a voting right in the executive decision making.
- **Income from equity share**: When an investor invests in the company's equity share, he gets a right to claim the income of the company that is net profit.
- **Limited liability:** Though shareholders are real owner, they enjoy the advantage of limited liability in the company's loss to the extent of the value of share they invested in.

Can gold be launched in the Equity segment?

S.NO.	FEATURES	EQUITY	GOLD
1.	MATURITY PERIOD	Unlimited, till company get wind up	Unlimited, till owner holds that gold
2.	VOTING RIGHT	✓	✗
3.	RIGHT OVER INCOME	✓	✗
4.	LIMITED LIABILITY	✓	✗

On the close analysis of the features of both Equity and g=Gold, it can be concluded that they cannot be put together under the same segment.

2. DERIVATIVES

They are the financial contracts whose value is determined by their underlying asset. These assets can be stocks, commodities, currencies and indices. Since the value of the assets fluctuate occasionally, the derivatives too changes their values. The basic guiding principle of derivative trading is that the buyer is successful when he aptly predicts the changes in the market.

Main features of Derivatives:

- **Contract:** There is a contact binding in nature to buy or sell the underlying asset to the underlying buyer or seller in futures.

- **Derives its value from underlying asset:** Perse derivative contract does have value of their own but derives their value from the underlying asset. It can be agricultural products, metals, intangible assets etc.

- **Delivery of underlying asset is not involved:** In derivative trading, usually, delivery of underlying asset is not involved rather they are settled by taking offsetting positions in the derivative themselves.

Since, derivative contract derives its value from the underlying asset. Thus, the underlying asset changes the nature of the derivative. These are

a) Commodity derivatives

b) Currency derivatives

c) Equity derivatives

Can gold be launched in Derivative segment?

(Before comparing, it is imperative at this stage to briefly understand how gold will be traded as per the SEBI guidelines[7]. Anyone can deposit their gold in the vault and will receive an EGR. This EGR will be traded on the stock exchange. When someone buys that EGR then he/she can take the delivery of the gold, if he/she desires. The same is discussed in detail in the following chapter).

S.NO	**FEATURES**	**DERIVATIVES**	**GOLD**
1	CONTRACT	There is a contract between the two parties.	EGR will be issued by the recognized vault manager

[7] *Consultation Paper on proposed framework for Gold Exchange in India and draft SEBI (Vault Managers) Regulations, 2021*

			after the deposit of the gold in the vaults.
2.	VALUE	The contract perse does have its own value. The value is derived from the underlying asset.	EGR perse does not have its own value. Its value is derived from the underlying asset that is gold.
3.	DELIVERY	It does not include the delivery of the underlying asset.	It involves the delivery of underlying asset that is gold, whenever the owner decides to withdraw gold from the vault.

On the close analysis of the features of both derivatives and gold, it can be concluded that they cannot be put together under the same segment. It is not of the feature of a currency derivative or any other type pf derivative

Thus, we can conclude that since it cannot be fitted in any compartment of segments, a new segments titled 'ELECTRONIC GOLD RECEIPT (EGR)' should be launched.

8. WHAT IS THE PROPOSED MECHANISM FOR THE BULLION TRADING BY ITS REGULATOR I.E., SEBI?

Brief details of transaction in the FIRST TRANCHE:

1. A common interface will be developed for the proper coordination between Stock Exchanges, Vault Managers, Depositories and Clearing Corporation.

2. The owner of gold may deposit the physical gold to the Vault Manager.

3. The Vault Manager after ensuring its quantity and quality, deposit the same and shall record relevant information in the common interface and shall issue the EGR.

4. Based on the information of EGR, the Depository shall assign appropriate ISIN to EGR to make it tradeable on the Stock Exchanges.

5. EGR shall reflect in the existing demat account of the depositor.

6. Depository shall inspect the quality of physical golf kept in the vault at frequent intervals of time.

Brief details of transaction in the SECOND TRANCHE

1. The Depository shall transfer the data and information pertaining to the issuance of EGRs to the Stock Exchanges on the daily basis.

2. The holder of EGR can easily trade it on the national platform of Stock Exchanges and anyone can buy and sell the EGRs at the platform by making the payment for the same.

3. The Clearing Corporations will settle the trades executed on the Stock Exchange by way of transferring EGRs and the payment thereof.

4. The Clearing Corporation shall inform the Depository and the Stock Exchanges about the settlement of the trade of EGRs and regarding the change in beneficial owner at the end of the trading day.

Brief details of transaction in the THIRD TRANCHE

1. The new beneficial owner who wish to obtain physical gold against the EGR shall surrender the EGR to the Vault Managers.

2. The Vault Manager shall deliver the physical gold after the making certain payment by the beneficial owner.

3. After the delivery of physical gold, the Vault Manager shall extinguish that EGR and intimate the information to the depository and shall request the depository to cancel the entry of such extinguished EGR from the Depository Participant account.

4. The Depository shall simultaneously send the same information to the respective Stock Exchanges.

9. ANALSIS OF ELECTRONIC GOLD RECEIPT

9.1 PRODUCT DENOMINATION:

As per the SEBI, denominations of 1kg, 100 grams and 50 grams of physical gold can be converted into EGR and such denominated EGR shall be traded on the stock exchanges. To attract more players in the market, smaller denomination of EGR worth 10grams and 5grams shall be allowed to be traded.

The same can be converted into the physical gold as and when the beneficial owner wishes. But, conversion of EGRs worth small denominations shall be allowed only when the beneficial owner has accumulated EGR worth at least 50grams or it's multiple.

The gold bar worth must match the prevailing over the counter and retail market price. The world gold council suggested the following bars should be used:

- 1kg, 995 fineness
- 100 grams, 999 fineness
- gram, 999 fineness.

The denominations suggested by both SEBI and WGC are same.

9.2 FUNGIBILITY OF EGR

EGRs are classified as securities and it may be made fungible and inter-operational between vault managers. Fungibility means that the EGR created by the vault manager against the physical gold shall not be linked with the unique bar reference number of the physical gold. This means that the gold deposited against EGR1 can be delivered against EGR2. Inter-operationality between vault managers means that physical gold deposited to one vault manager at a place can be withdrawn from another vault manager from different location.

9.3 STORAGE AND DELIVERY CHARGES

The storage or vaulting charges to the vault managers shall be paid by the beneficial owner of the EGR at the end of the trading day. Delivery charges, on the other hand, shall be borne by the beneficial owner of the EGR who opt to withdraw the physical gold. Since, it is considered that vault managers cannot collect the vaulting charges and delivery charges from each EGR hold every day at the end of the trading day. So SEBI came up with the idea that such charges shall be collected by the depository participant from the beneficial owner and the same can be forwarded by the depository to the vault managers.

9.4 TAXATION

As per the SEBI, since EGRs are considered as securities, STT will be applicable to such EGRs. Additionally, GST may be applicable during the conversion of EGR to physical gold at the time of withdrawal of physical gold from the vaults.

Due to the buyer and seller, possibly being from the different states of the country, there may be issue with regard to the levy of SGST and IGST alone be made applicable at the time of withdrawal of gold from the vaults.

However, as per the Article[8] in many countries like China and Singapore, invested gold are exempted from the indirect taxes. These include VAT and GST. They collect the loss from the non-collection of GST at the time when the sale is made to the final consumer.

Since, every EGR which is traded on exchange would attract STT. Every EGR would be traded multiple times before it is actually withdrawn for physical delivery. Since, for every trade/transfer of EGR there will be STT, then the revenue lost from GST can be partially be compensated from that STT revenue. This logic is quite similar to the logic of exempting long term capital gain on equity shares traded on exchanges.

Trading on exchange for gold will become more expensive for small investors and they will prefer for other available gold investment schemes and the entire idea of Gold Spot Exchange will come to an end and hence, SEBI and Government must come up with Tax incentives for the investors to encourage them to opt for this particular method.

10. CONCLUSION

The new GSE cannot become a single-handed venture rather it requires the participation of

[8] *Prof. Joshy Jacob, Prof. Jayanth R Varma, "Viability of a Gold Exchange in India", 2016*

entire trading ecosystem. For this particular exchange to succeed, trust is a perquisite and it will involve a robust and well defined regulatory architecture in order to regulate the spot exchange as well as its participants. A central regulatory authority is mandatory to have a critical oversight over the working and functioning of the gold spot exchange.

In order to succeed the spot exchange, India need to make certain new policies and also undertake certain policies reforms. A proper policy framework is necessary for good delivery standards. Certain regulations must be eased for make the market accessible to all participants including banks.

In order to ensure liquidity on the gold exchange incentives must be provided to the participants. These could range from low level of import duty on gold or GST rebates on gold being traded on spot exchange. Also, there can be provision for waiver of commodity transaction tax. Further, government can provide exemptions on capital gain if sold after a certain long years.

GSE will help india to become one of the price maker rather than price taker. It will have its own platform whereby investors be it small or large scale can easily access the high quality gold with standardized price.

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