

Regulations for operating a Bullion Exchange in the IFSC

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In news

Recently, the International Financial Services Centre Authority (IFSCA) notified the Bullion Exchange Regulations-2020 for operating a Bullion Exchange in the IFSC

What is Bullion?

- It refers to physical gold and silver of high purity that is often kept in the form of bars, ingots, or coins.
- Bullion is defined to include gold, silver, and other precious metals.
- Bullion can sometimes be considered legal tender, and is often held as reserves by central banks or held by institutional investors.
- Bullion exchanges can trade contracts for purchase and sale of bullion, derivatives on bullion, and bullion depository receipts. Bullion depository receipt is a document of title for bullion stored in an empanelled vault.

Key regulations

The regulations notified by IFSCA provide a framework for recognition of bullion exchanges, and bullion clearing corporations in the International Financial Services Centre (IFSC).

The Finance Minister had announced a plan to set up bullion exchanges in the IFSC in the 2020-21 Budget speech. Following are the key regulations

- **Recognition of a bullion exchange:** As per the

regulations, an applicant may be recognised as a bullion exchange or a bullion clearing corporation if the applicant meets certain criteria. These include:

- net worth of USD 30 million
- requisite financial and functional expertise, and
- the directors meet the fit and proper criteria.
- **Role of bullion exchange:** It is responsible for regulating bullion contracts and the conduct of intermediaries (such as trading members) for the protection of consumers. Further, every exchange must avail the services of a clearing corporation.
- Any bullion exchange or recognised stock exchange, Indian or of a foreign jurisdiction, may provide the services of a bullion exchange or clearing corporation in the IFSC. Up to 51% of paid-up share capital can be held by the bullion or stock exchange.
- **Funds:** as per the new regulation, every bullion exchange must establish a consumer education and protection fund to compensate consumers in case of defaults. Every bullion clearing corporation must establish a Fund to guarantee settlement of trades executed on a bullion exchange
- **Bullion depositories:** A bullion depository maintains records of transactions of bullion depository receipts, which are documents of title of bullion stored in vaults. The Regulations outline the functions, duties and obligations of these entities.

About the International Financial Services Centres Authority (IFSCA)

- It is a statutory unified regulatory body under the Department of Economic Affairs, Ministry of Finance
- IFSCA was established in the year 2019 with its head office in Gandhinagar.
- In December 2019, Parliament passed a bill to set up a unified authority for regulating all financial activities at IFSCs in the country
- IFSCA has been established as a unified regulator with a holistic vision in order to promote ease of doing business in IFSC and provide world class regulatory environment.
- The main objective of the IFSCA is to develop a strong global connect and focus on the needs of the Indian economy as well as to serve as an international financial platform for the entire region and the global economy as a whole.