



NITI Aayog

TRANSFORMING INDIA'S GOLD MARKET

REPORT OF THE COMMITTEE
FEBRUARY 2018

Foreword by Shri Ratan P. Watal

Principal Adviser, NITI Aayog and Member Secretary, EAC - PM

Recognizing the criticality and untapped potential of the gold market for providing a stimulus to exports, economic growth and employment, a Committee on Transforming India's Gold Market was constituted by NITI Aayog under my Chairmanship, to recommend measures for Transforming the Gold Market Ecosystem in the country. The Committee brought together diverse stakeholders from across the gold ecosystem, including representation from the concerned Ministries /Departments of the Government of India, RBI, industry associations and academia.

The Committee met three times during the last three months and also enabled in depth consultation with a wider group of stakeholders, through sub-groups formed on seven themes. The themes were: Current Industry Profile, Market Segmentation & Estimating Trends for Gold Market in 2022 including Bullion Exchange, Trade and Investment Issues – Incentive Structure & Ease of Doing Business, Regulatory Framework for Gold, Tax Issues, Gold in the Financial System and Digital Payments, Bridging Skill Development and Employment Generation & Technology Upgradation. Various experts also enriched the sub group deliberations.

The Committee deliberated upon the current status of the Gold Ecosystem, Issues, Challenges and Opportunities and Strategic Options for Transformation. The challenges were emerging from a regulatory framework, policy design and the constraints in the augmentation of the domestic supply of gold. The Committee recognised the immense opportunities in the gold export market with the prospect of generating employment. It was also recognized that there was a lack of comprehensive official data on several aspects of the industry, including employment, number of jewellers, the reach of the gold monetisation scheme and the extent of bank participation in the scheme. An industry of such magnitude requires consolidated data at one place. For effective analysis of the gold industry and its performance, an online databank is needed, providing data on all aspects of the industry, including physical gold and digital gold products.

The major recommendations of this Committee, evolved through the above process, are structured into five key focus areas. These are Make in India in Gold; Financialization of Gold; Tax and Duty Structure; Regulatory Infrastructure and Skill Development & Technology Upgradation. The major recommendations focus on measures to boost the domestic supply of gold to reduce dependence on gold imports, by streamlining policies on gold mining, refining and monetisation. The Committee highlights the need to have greater financialisation of gold for both the investors and the industry.

Currently, the gold industry is fragmented, with multiple regulators, different representative associations and multiple markets, which inhibits growth of the gold market in India. The Committee recommends convergence of regulatory domain and functionary authorities to streamline processes in the creation and functioning of efficient gold markets. This can be achieved through a proposed Gold Board of India. Similarly, a proposed Bullion Exchange for Gold is recommended, that can focus on price discovery and provide an entire ecosystem around both the financial products on gold and the physical deliveries. The growth of this industry would also require adoption of new skills and technology, to promote greater employment in the gold industry- significantly channelized through the MSME sector.

Consumer interest is of the utmost importance and a regulatory framework is necessary for consumer protection. However, it is important to ensure that the framework is an enabling one and that stipulated standards do not restrict the growth of the industry, by making it difficult to do business, but should help enable greater trade.

The Committee also appreciates the comments received on the Draft Report from several stakeholders including the Department of Commerce, Reserve Bank of India, Bureau of Indian Standards, Pahle India Foundation and representatives of the banks and the industry. The comments were examined and several suggestions have been incorporated and synthesized in the Final Report. It is recognized that different

stakeholder groups may have different perspectives and all suggestions may not form a part of the common ground covered. These have also been appended in the Report.

The draft recommendations were presented to the Vice Chairman, NITI Aayog and also to the Chairman and Members of the Economic Advisory Council to the Prime Minister. I wish to express my deep appreciation to the Vice Chairman NITI Aayog, Dr. Rajiv Kumar; Chairman, Economic Advisory Council to the Prime Minister Dr. Bibek Debroy and the Chief Executive Officer of NITI Aayog Shri Amitabh Kant for their valuable insights, which have enriched this Report.

I would like to thank and extend my sincere appreciation to the members of the Committee, the Chairpersons and Members of the various Sub Groups and all those who enriched the deliberations of the Committee. The task of putting together the key issues, researching the problems, suggesting policy options and developing the rationale for the final recommendations would not have been possible without their efforts. I would especially like to acknowledge the valuable inputs and support received from all the Ministries concerned in the process of formulation and finalisation of the Report, and in particular the Ministry of Finance, represented by Shri R K Mahajan, Member (CBEC), Department of Revenue; Shri P K Das, Additional Secretary, Department of Expenditure; Joint Secretary DEA Shri Govind Mohan; Joint Secretary DFS Shri Madnesh Kumar Mishra; and from the Department of Commerce, Joint Secretary Shri Manoj Kumar Dwivedi and from the Ministry of MSME, Joint Secretary Ms. Alka Arora.

I extend my appreciation to others who also supported the process of formulation of different aspects of the Report and Sub Group Reports. The Committee was ably supported by Shri Ajay Mehra, Co Chair FICCI Gems and Jewellery Committee, who made an immense contribution by consolidating the material of the sub-groups. The Committee also benefitted from the comments received from Shri Swaminathan Gurumurthy. The process of report formulation benefitted from inputs received from Shri Ashish Chauhan, Managing Director, BSE and his team of experts led by Dr. Vardhana Pawaskar and Shri Anand Sethuraman.

I also wish to place on record my appreciation for the dedicated support provided by the NITI Aayog and EAC -PM team- Dr. Yogesh Suri, Adviser, NITI Aayog (Convener of the Committee) and Ms. Deepika Shrivastava, Senior Consultant, NITI Aayog and their valuable contribution to the formulation and finalisation of this Report. The support provided by Shri B.N. Satpathy, Senior Consultant MEITY and Co-Convener of the Committee for the formulation of this Report is appreciated, as is the support provided by Shri Suneet Mohan, Young Professional, NITI Aayog and Dr. B. Bishoi SRO NITI Aayog. It is possible that I may not have been able to list all the names of those who have contributed to this Report, as Committee members have individually benefited from several consultations. I acknowledge and appreciate the contribution made by all to this Report.

In conclusion, this Report provides policy makers with suitable inputs for designing and implementing appropriate interventions for transforming India's gold market. This Report contributes to the vision of the Honourable Prime Minister for New India by 2022, wherein a transformed Gold Market has the potential to double the contribution of the gold industry to GDP; more than double the exports of gold; enhance employment opportunities, increase FDI inflow and increase the gold market size, without negatively impacting upon India's Current Account Deficit. This Report also provides a robust foundation for realising the policy intent stated in the Union Budget (2018-19) presented by the Finance Minister, of developing a comprehensive Gold Policy to develop gold as an asset class and outlines the way forward for realising the transformational potential of India's Gold Market.

Ratan P Watal

Ratan P. Watal

Principal Adviser, NITI Aayog
and Member Secretary, EAC-PM

New Delhi

Dated: February 22, 2018

Report of the Committee to Transform India's Gold Market

Table of Contents		Page
	Foreword by Shri Ratan P. Watal, Principal Adviser, NITI Aayog and Member Secretary, EAC - PM	3
	List of Abbreviations and Acronyms used in this Report	8
	Executive Summary	12
	Key Recommendations and Timelines	25
Section		
	Chapter 1: Overview of the Gold Industry	
I.	Vision for the Gold Industry of India	27
II.	Gold Market Overview	31
III.	Gold and Current Account Deficit	38
	Chapter 2: Make in India in Gold	
I.	Gold Mining	43
II.	Gold Refining	49
III.	Gold Exports	54
IV.	Hallmarking	63
V.	Digital Payments	74
	Chapter 3: Financialization of Gold	
I.	The Gold Monetization Scheme: The Gold (Metal) Loan	78
II.	The Gold Monetization Scheme: Gold Deposits	83
III.	The Indian Gold Coin	88
IV.	The Sovereign Gold Bond Scheme	90
V.	New Financial Product: The Gold Savings Account	92
	Chapter 4: Tax Reforms	
I.	Tax and Duty Structure	95
	Chapter 5: Regulatory Infrastructure	
I.	The Proposed Gold Board of India	101
II.	Proposed Bullion Exchange of India	107
III.	Proposed Gold Domestic Council	116
	Chapter 6: Employment Generation and Skilling	
I.	Employability: Skill Development and Technology Upgradation	119
	Chapter 7 : Summary Recommendations of the Committee	
		127
	Annexures	
		138
	Appendix	
		164

List of Tables

	Pg No.
Table (1.2.1): Gold traded on Commodity Exchanges	32
Table (1.2.2): Price of gold	35
Table (1.2.3): FDI in gold as compared to total FDI	37
Table (1.3.1): Gold Imports and Current Account Balance	38
Table (2.1.1): Gold Production over last 5 years	45
Table (2.2.1) Indian Supply Estimates (Tons)	50
Table (2.3.1): Total Exports in US\$ billion	54
Table (2.3.2): The Minimum Supply Requirement	57
Table (2.3.3): Value addition as specified in the Handbook of Procedures	60
Table (2.4.1): Growth in BIS Hallmarking Scheme for gold	64
Table (2.4.2): Findings of sample tests conducted by BIS	66
Table (2.4.3): Permitted purities across regions	68
Table (5.1.1): Regulators and their scope	102
Table (6.1.1): Estimated Human Resource Requirement across All Sectors	121

List of Figures

	Pg No.
Figure (1.2.1): 2016 Per Capita Consumption (grams)	33
Figure (1.3.1): Gold Imports in Value and as % of GDP	39
Figure (1.3.2): Share of Gold Imports in Total Imports	39
Figure (1.3.3): Gold Deficit as Ratio of Trade Deficit	40
Figure (1.3.4): Gold Exports as Ratio of Total Gold Imports	40
Figure (1.3.5): Value addition in the gold sector	41
Figure (2.1.1): The Mining Process	44
Figure (2.2.1): Role of Gold Refineries	49
Figure (2.3.1): The scope for Jewellery Exports	56
Figure (5.1.1): Functional Structure of the Proposed Gold Board of India	105
Figure (5.2.1): Proposed Bullion Exchange Framework	111
Figure (6.1.1): Roadmap for Skill Development and Technology Upgradation	120

1. List of Annexures

Annexure	Content	Pg No.
Annexure 1	Order of Constitution of the Committee and Terms of Reference	139
Annexure 2	Composition of Sub-Groups for the Committee to Transform India's Gold Market	142
Annexure 3	Statement on Top 25 FDI Equity Inflow Cases	143
Annexure 4	List of RBI Circulars	148
Annexure 5	SBLC Format	150
Annexure 6	Response from ICAI on Clarification sought in the Context of Gold Metal Borrowings by Gold Bullion Traders or Jewellery Makers/Traders Only	152
Annexure 7	Number of Approved Purities As Mentioned on BIS Website	154
Annexure 8	China's Position in Mining	155
Annexure 9	LBMA Good Delivery Norms	156
Annexure 10	Responsibilities of Participants of the Bullion Exchange	157
Annexure 11	Details of various tranches of the SGBS issued by the RBI	163

2. List of Appendices

Appendix	Content	Pg No.
Appendix 1	Summary Proposals of Sub-Groups	164
Appendix 2	Summary Recommendations of FICCI	184

1. List of Abbreviations and Acronyms used in this Report

AGC	Allocated Gold Certificates
AHC	Assaying and Hallmarking Centers
ANMI	Association of National Stock Exchange Members of India
ASB	Accounting Standards Board
ASSOCHAM	Associated Chambers of Commerce and Industry of India
B2B	Business to Business
B2C	Business to Customer
BCD	Basic Customs Duty
BIS	Bureau of Indian Standards
BOP	Balance Of Payments
BRS	Bank Reconciliation Statement
BSE	Formerly Bombay Stock Exchange
CAB	Conformity Assessment Bodies
CAD	Current Account Deficit
CAM	Computer Aided Manufacturing
CAPEX	Capital expenditure
CBDT	Central Board of Direct Taxes
CBEC	Central Board Of Excise Customs
CC	Cash Credit
CD	Cluster Development
CEA	Chief Economic Advisor
CFCs	Common Facilitation Centers
CFTC	Commodity Futures Trading Commission
CIS	Commonwealth of Independent States
CPTC	Collection and Purity Testing Centre
CTT	Commodity Transaction Tax
DGFT	Director General of Foreign Trade
DIPP	Department of Industrial Policy & Promotion
DTA	Domestic Traffic Area
EAC-PM	Economic Advisory Council to Prime Minister
EDC	Electronic Data Capture
EMI	Equated Monthly Installments
EOUs	Export-Oriented Units
ETCs	Exchange Traded Commodities
ETF	Exchange Traded Fund
FDR	Fixed Deposit Receipt
FEMA	The Foreign Exchange Management Act, 1999
FICCI	Federation of Indian Chambers of Commerce and Industry
FOB	Free On Board
FTA	Free Trade Area

FTP	Foreign Trade Policy
GBI	Gold Board Of India
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GDS	Gold Deposit Scheme
GIFT-IFSC	Gujarat International Finance Tec-City— International Financial Services Centre
GJEPC	Gem Jewellery Export Promotion Council
GJF	All India Gems & Jewellery Trade Federation
GJSCI	Gem and Jewellery Skill Council of India
GLR	Gold Lease Rates
GML	Gold Metal Loan
GMS	Gold Monetisation Scheme
GOI	Government of India
GSA	Gold Savings Account
GST	Goods and Services Tax
HUF	Hindu Undivided Family
IBJA	India Bullion and Jewellers Association
ICAI	The Institute of Chartered Accountants of India
ICP	Inductive Coupled Plasma
IDA	Investment Dealers Association
IFRS	International Financial Reporting Standards
IGC	India Gold Coin
IGE	Istanbul Gold Exchange
IGLR	International Gold Lease Rates
IGST	Integrated Goods and Service Tax
IIGJs	India International Jewellery Show
IJF	India Jewellers Forum
IMG	Inter-Ministerial Group
Ind AS	Indian Accounting Standards
INR	India Rupee Rate
IOSCO	International Organization of Securities Commissions
ITC	Industrial Training Centers
ITI	Industrial Training Institutes
JC	Jewellery Certificate
JPs	Jewellery Parks
kWh	Kilo-Watt Hour
KYC	Know Your Customer
LBMA	London Bullion Market Association
LTM	Limited Trading Member
MCX	Multi Commodity Exchange of India
MDR	Merchant Discount Rate

MEIS	Merchandise Exports from India Scheme
MLTGD	Medium and Long Term Government Deposit
MMDR	Mines and Minerals Development and Regulation
MMTC	Metals and Minerals Trading Corporation of India
MOEFCC	Ministry of Environment, Forest and Climate Change
MPBF	Maximum Permissible Bank Finance
MSDE	Ministry of Skill Development and Entrepreneurship
MSMEs	Micro- Small and Medium Enterprises
MT	Metric Tons
MTM	Mark To Market
NABL	National Accreditation Board for Testing and Calibration
NASD	National Association Of Securities Dealers
NBFC	Non-Banking Financial Company
NCAER's	National Council of Applied Economic Research
NFBL	Non Fund Based Limits
NID	National Institute of Design
NIFT	National Institute of Fashion Technology
NMEP	National Mineral Exploration Policy
NMET	National Mineral Exploration Trust
NOS	National Occupational Standards
NPA	Non-Performing Asset
NRI	Non-Resident Indian
NSDC	National Skill Development Corporation
NSE	National Stock Exchange
NSQF	National Skills Qualifications
OECD's	Organization for Economic Co-operation and Development
OPEX	Operating expense
OTC	Over The Counter
PAMCAF	Post-Auction Mining Clearances and Approvals Facilitator
PAMP	Produits Artistiques Metaux Precieux
PAN	Permanent Account Number
PCM	Professional Clearing Member
PMJDY	Pradhan Mantri Jan-Dhan Yojana
PMLA	Prevention of Money Laundering Act, 2002
PSB	Public Sector Banks
PTHs	Premier Trading Houses
QR code	Quick Response code
RBI	Reserve Bank of India
ROFR	Right of First Refusal
RPL	Recognition of Prior Learning
RSE	Regional Stock Exchange

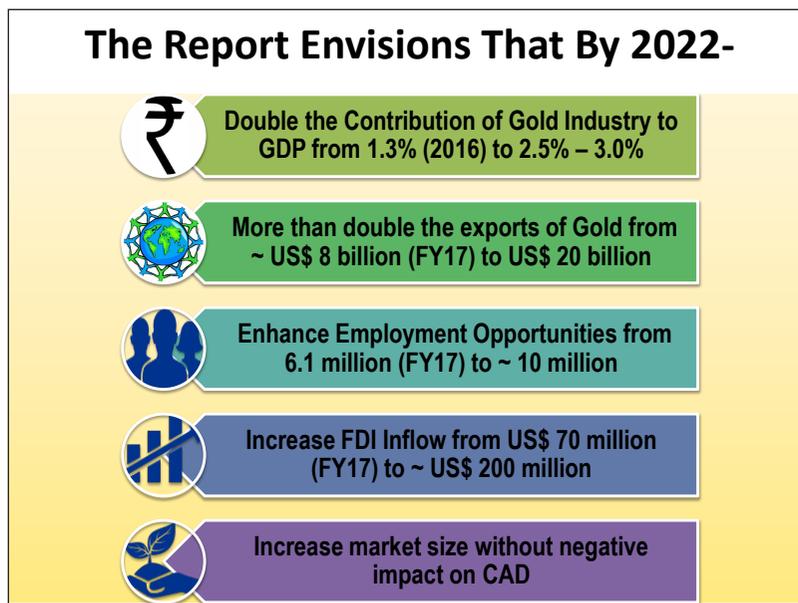
SBLC	Standby Letter of Credit
SCM	Self-Clearing Member
SEBI	Securities and Exchange Board of India
SGBS	Sovereign Gold Bond Scheme
SGE	Shanghai Gold Exchange
SHCIL	Stock Holding Corporation of India Limited
SLR	Statutory Liquidity Ratio
SOP	Standard Operating Procedure
SRO	Self-Regulatory Organization
SSBC	Swarna Shilpa Bachao Committee
STBD	Short-term Bank Deposits
STHs	Star Trading Houses
TBJA	The Bullion and Jewellers Association
TCM	Trading cum Clearing Member
TCS	Tax Collection at Source
TM	Trading Member
TTD	Tirumala Tirupati Devasthanams
UAE	United Arab Emirates
UGC	Unallocated Gold Certificates
UPI	Unified Payments Interface
US\$	United States Dollar
USGS	United States Geological Survey
VAT	Value Added Tax
WCL	Working Capital Limit
WGC	World Gold Council
WTO	World Trade Organization
XAU	Emirates NBD's Gold Investment Account
XRF	X-ray fluorescence

Executive Summary

*Transform India's Gold Market;
By Creating Additional Jobs;
Increasing Value Addition of Exports; and,
Promoting an Organized Market that Shall
Make India the Global Destination for Gold*

1. Introduction

1.1 Currently, the gems and jewellery industry (including gold) of India is approximately Rs. 650,000 crores in size, constituted of 90-95% of MSMEs and contributes significantly to National Industrial Production. It has grown at a CAGR of 14.5% over the past 50 years. In FY 2016-17, the sector constituted around 16% of the country's total merchandise exports. As of January 2017, the industry employs around 6.1 million skilled and semi-skilled workers across the entire value chain. It is expected to provide employment opportunities to more than 9.4 million persons by 2022. Moreover, 60% of gold jewellery is sold in rural areas where there is need to increase financial inclusion.



1.2 Recognizing the criticality and untapped potential of the gold market for providing a stimulus to exports, economic growth and employment a Committee was constituted on 25th August 2017, under the Chairmanship of

Principal Adviser, NITI Aayog, to suggest transformational measures for the gold market. The Terms of Reference of the Committee, as detailed in Annexure 1, are as follows-

- Study the global gold market and identify factors which will help India leverage the growing international market.
- Identify Government policies which will help in optimum utilization of the gold reserves of the Reserve Bank of India.
- Study the Gold Monetization Scheme and recommend policy measures required to reinvigorate the scheme.
- To examine the Gold (Metal) Loan scheme and suggest changes, if any required.
- Analyse the growth drivers of gold and gold related industries in order to comprehend the issues faced by them and identify indigenous methods of incentivizing this sector to fully report financial transactions, including digital ones, so as to facilitate curtailment of black money quotient from this industry.
- Explore the benefits of launching a "Bullion Exchange" to increase the usability of gold throughout the nation, thereby reducing imports of gold.
- Examine the duty structure on the sector and suggest changes, if any required.
- Formulate a strategy for boosting exports from the sector, including on e-platform.
- Examine and recommend measures regarding Hallmarking.

1.3 The Committee brought together diverse stakeholders from across the gold ecosystem, including representation from Ministries /Departments concerned, RBI, industry associations and academia. The Committee met three times during the last three months and also enabled in depth consultation with a wider group of stakeholders, through sub-groups formed on seven themes. The themes were: Current Industry Profile, Market Segmentation & Estimating Trends for Gold Market in 2022 including Bullion Exchange, Trade and Investment Issues – Incentive Structure & Ease of Doing Business, Regulatory Framework for Gold, Tax Issues, Gold in the Financial System and Digital Payments, Bridging Skill Development and Employment Generation & Technology Upgradation. The sub-groups met regularly to finalize and fine tune the contours of the recommendations in their respective theme areas. The composition of the sub-groups has been provided in Annexure 2. Various experts gave valuable insights which enriched the deliberations of the Committee.

1.4 Through this consultative process with major stakeholders, the Commit-

tee synthesized various deliberations, recommendations of the sub groups and formulated its Report, structured into five focus areas:

- Make in India in Gold
- Financialization of Gold
- Tax and Duty Structure
- Regulatory Infrastructure
- Skill Development & Technology Upgradation

Accordingly, this report provides a framework for repositioning the gold sector within the economy and in the policy space. It lays out a vision for the sector which aims to boost exports, reduce the dependence on gold imports, not only reducing Current Account Deficit (CAD) but also promoting employment in the sector.

- 1.5 The vision spelled out in this Report will also provide the basis for further policy development as the Union Budget (2018-19) presented by the Finance Minister has recognised the role of the gold ecosystem in promoting economic growth.

“The Government will formulate a comprehensive Gold Policy to develop gold as an asset class. The Government will also establish a system of consumer friendly and trade efficient system of regulated gold exchange sin the country. Gold Monetization Scheme will be revamped to enable people to open a hassle-free Gold Deposit Account”.

*Finance Minister
Union Budget (2018-19) Speech
1 February 2018*

The different aspects and focus areas are discussed briefly in the following sections and subsequently in detail in the relevant chapters.

- 1.6 The Report provides detailed recommendations for Transforming India’s Gold Market; creating additional jobs, increasing exports and the value addition thereof, promoting an organized market, greater social and financial inclusion and making India the global destination for gold. The Report recognizes that it is essential to integrate the gold industry ecosystem into the mainstream financial system, thereby allowing gold to serve as a legitimate asset class and play a dynamic role in accelerating employment, exports and economic growth in the economy.

- 1.7 The Report is divided into 7 Chapters. Chapter 1 relates to the overview of the Gold Industry in India. This defines the Vision and provides an Overview of the Global and India Gold Market. It also revisits the impact of

Gold on the Current Account Deficit. Chapter 2 looks at the issues relating to Make in India in Gold. It covers Gold Mining, Gold Refining, Exports, Hallmarking and Digital Payments. Chapter 3 relates to Financialization of Gold. It provides an analysis of the Gold Monetisation Scheme (the Gold Metal Loan), Gold Deposits, Indian Gold Coin, Sovereign Gold Bond scheme and proposed New Gold Savings Account. Chapter 4 covers issues relating to Tax and Duty Structure pertaining to gold. Chapter 5 covers the Regulatory Infrastructure and in three different sections deals with the proposed Gold Board of India; the proposed Bullion Exchange and the proposed Gold Domestic Council. Chapter 6 covers issues related to Employability- Skill Development and Technology Upgradation. Chapter 7 provides the summary recommendations made by the Committee, as related to the five focus areas, detailed in the preceding chapters viz. Make in India in Gold; Financialization of Gold; Tax and Duty Structure; Regulatory Infrastructure and Skill Development & Technology Upgradation.

- 1.8 Each chapter provides an analytical overview of the theme it addresses- the current status; issues; challenges and opportunities; strategic options; the rationale for the strategic choice of interventions and recommended interventions. Where required, in addition to delineating what needs to be done, the recommendations also provide some indication of how this can be done.
- 1.9 Based on the above analysis, the Key Recommendations of the Committee with Indicative Timelines are highlighted in the next section. Detailed Recommendations of the Committee, structured into five focus areas are provided in Chapter 7. The summary recommendations of the seven sub groups are also provided in Appendix 1 as background information.
- 1.10 The draft emerging recommendations of the Committee were also presented to the Chairman and Members of the Economic Advisory Council to the Prime Minister on 10th November 2017 and to the Vice Chairman of NITI Aayog on 11th January 2018, incorporating valuable insights from the dialogue.
- 1.11 The recommendations of this Report contribute to fulfilling the transformational vision for India's gold market seeking to double its contribution in GDP and more than double the exports of gold by 2022; enhance employment opportunities, increase FDI inflow and increase the gold market size, without negatively impacting upon India's CAD. The Report also provides a robust foundation for fulfilling the policy intent stated in the Union Budget (2018-19) of developing a comprehensive Gold Policy to develop gold as an asset class.

2. Background

Gold has a very important place not just in the cultural milieu in India, but also in the economy. It is a commonly held perception that marriages in India are incomplete

without gold jewellery. This close relationship with gold may be viewed not just from the perspective of tradition but in economic terms as well.

2.1 Impact of Gold on the Economy

Gold impacts the Indian economy in multiple ways. The first impact is on the scale of economic activity in the economy. Gold is used as a raw material for jewellery fabrication and making coins. This in turn creates business opportunities, value addition and employment. A study by A.T. Kearney with reference to the year 2012-13 mentions that value addition in the sector is to the tune of 25 percent of the value of gold imported into the country¹. This includes value addition in jewellery manufacturing, retailing and exports and metals trading. In addition, the industry value-chain has a potential capacity for refining and mining, which can further generate jobs in the rural areas. The second way, which is the conventional way of looking at gold, is the impact of gold imports on trade balance and current account in the Balance of Payments (BoP).

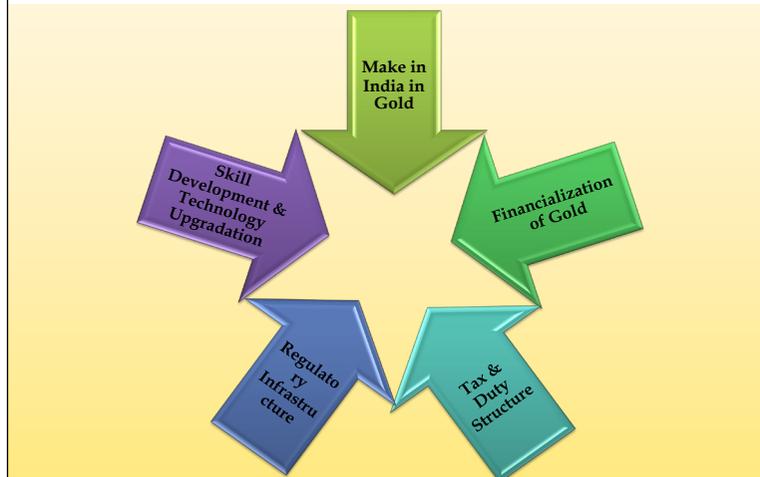
India has consistently been experiencing CAD. High levels of deficit are considered detrimental to the economy since it would necessitate capital flows to maintain the BoP which can be volatile in nature. However, since gold imports are also used for export of gold jewellery, it has the potential to mitigate the adverse impact of imports on CAD.

The policy position in India vis-à-vis gold in the recent years has focussed on gold imports and CAD. The period since 2007-08 saw a sharp increase in the price of gold as well as in the demand for gold from India as well as from the rest of the world, partly perhaps in response to the international financial crisis. This in turn led to the widening of the CAD in India which the Government sought to control by increasing the customs duty to 10 percent. While the immediate impact was a reduction in gold imports through official channels, it increased the quantity of unofficial imports into the country and adversely affected domestic jewellery industry.

It is therefore time to take a balanced view of the domestic gold eco-system whereby the focus is on creating an organized gold sector, that is integrated both with reference to the multiple regulators and also with reference to the scattered market place, while addressing the impact of net imports on CAD. Therefore, the Committee is in favour of a gold policy which would boost the supply ecosystem, translate demand into productive investment and make the industry world class.

1 AT Kearney, All that Glitters is Gold: India Jewellery Review 2013

The Five Focus Areas Of The Report



The five focus areas identified by the Committee, as highlighted in the Introduction, are discussed briefly in the following sections and subsequently in detail in the relevant chapters.

3. Gold Industry of India

An overview of the gold industry covers details of its supply and demand. The primary supply of gold is through its mine production. Gold as a precious metal is virtually indestructible and once made available in pure form, is always available. This gold can be recycled and the process involves an entire recycling and refining industry. The demand for gold covers its uses for jewellery and coins, industrial use in electronics and for medical purposes, and as a backup for financial products like exchange traded funds (ETF). At each stage, there is value addition of gold related activities with social, economic and fiscal impacts.

The data on gold industry in terms of its' size, direct contribution to GDP and employment, is not easily available. However, gold and gold jewellery form a significant portion of the Gems and Jewellery industry. They account for a third of the total Gems and Jewellery exports². Jewellery accounts for the largest proportion of gold fabrication and consumption demand. India and China account for more than half of global gold jewellery fabrication and consumer demand³. There are further externalities due to value addition through fabrication process and other industry uses, to subsequent retail and industrial activity. The lack of data on consumption of all manufactured good using gold as input prevents a detailed analysis on the estimates of Gross Value Added(GVA) or employment in this sector. A look at the gems and jewellery industry would, however, give some indication on the importance of gold in the economy.

2 India's Gold Market: evolution and innovation, page 37, 2016

3 The direct economic impact of gold', pg 5, (2013), PWC and WGC, 2017

As per the estimates for FY 2016 -17, the gems and jewellery industry of India is approximately INR 6.5 trillion in size, constituted of 90-95% of MSMEs. It has grown at a CAGR of 14.5% over the past 50 years. As of January 2017, the industry employs around 6.1 million skilled and semi-skilled workers across India, apart from the numerous entrepreneurs that it houses, and is expected to provide employment opportunities to more than 9.4 million persons by 2022.

3.1 Make in India in Gold

3.1.1 Supply of Gold

The 'Make in India' initiative of the Government of India was launched in September 2014. This was devised to transform India into a global design and manufacturing hub. Currently it covers 25 sectors, which does not include the Gems and Jewellery or Gold manufacturing sectors. This is a highly manufacturing intensive sector, primarily dominated by MSMEs. There is a need to include Gold as one of the thrust sectors in 'Make in India', so that the supply ecosystem is transformed. There are four sources of Gold supply. They are imports and the domestic gold availability through local mining, refining and recycling, and monetization. Of the total supply, around 1 percent comes through local mining, about 10 percent from recycling and the rest from imports⁴.

GOLD SUPPLY	GOLD DEMAND
<input type="checkbox"/> Domestic mine production of Gold is minimal ~ 1%	<input type="checkbox"/> India - second largest consumer of Gold (25% of Global demand)
<input type="checkbox"/> Recycling: The other source of supply - undeveloped accounting for 10%	<input type="checkbox"/> Jewellery consumption (73.1%), Industrial* (1.4%), ETF (2.7%), Coins (6.9%) and Bullion (15.9%)
<input type="checkbox"/> Imports account for ~ 89 %	<input type="checkbox"/> Rural India accounting for 60% of Jewellery Demand

To reduce dependence on gold imports, it is necessary to boost domestic supply, which has to happen through the 'Make in India' initiative for mining, recycling and refining and increased monetisation.

The primary gold supply through gold mining remains relevant and valuable in today's global economy. The global gold mining industry employs over 4 million people directly and indirectly, with a 5-10 dependency ratio for each direct employee in emerging countries. India's rank in mining does not feature amongst the top producers globally⁵. The policies around gold mining may need to be revisited with regard to the auctioning process, providing for single window clearance for the pending proposals and increasing co-operation between the states and the Centre.

4 World Gold Council and Metals Focus

5 USGS information(<https://minerals.usgs.gov/minerals/pubs/commodity/gold/mcs-2017-gold.pdf>)

The Indian refining sector is said to be laden with under-utilisation of capacities. There are approximately 32 refineries, with a combined capacity of around 1300-1400⁶ tons. Utilisation across the industry averages just 20 percent–30 percent with just five Indian refineries accounting for refining of 90 percent of doré imports⁷. Around 11 refineries have been certified by the BIS, with just one LBMA gold delivery refinery. The Committee has recommended exploring the possibilities of re-exporting the refined gold by likening gold refining to the diamond polishing industry. There is an urgent need to develop “Indian Good Delivery Standard”, which would encourage refining for exports and also be acceptable by banks and exchange traded funds.

The Committee took stock of the various sources of the supply and concluded that there may be a need to augment the domestic supply of gold under the ‘Make in India’ initiative. Accordingly, it has inter-alia recommended review of the policies on gold mining and refining in India, with an objective to revamp it.

3.1.2 Exports

Currently, India is not a major exporter of gold and gold jewellery. On an average, over the past three years, India has exported gold jewellery of around US\$ 9 billion⁸. This is despite the fact that gems and jewellery is a major item of export for India. Therefore, there may be a need to review the export strategy through greater value addition as a part of ‘Make in India’ initiative.

The jewellery exports are a quartet combination of the two types of businesses, B2B and B2C, and the two types of jewellery, handmade jewellery and machine-made jewellery. The existing Government policies focus on enabling B2B trade of jewellery. Direct sales to the customer (B2C) are not currently possible for international customers, thereby constraining the ability to increase the value addition on exports of gold jewellery.

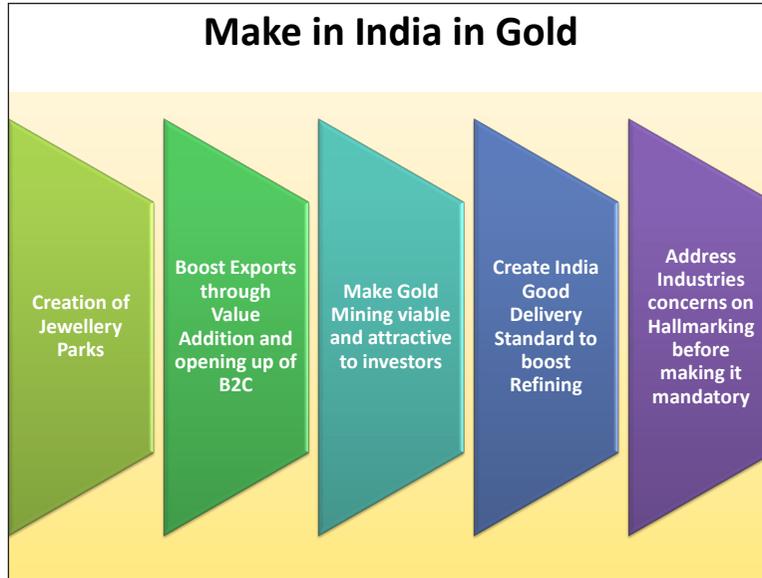
Most of India’s gold jewellery exports cater to the demands of the South Asian population settled overseas. However, the global jewellery market also includes the demands of the Caucasian customer, who prefer the light-weight machine-made jewellery. It may be noted that countries such as Turkey, Thailand and China are aspiring to become larger players in this segment, as should India.

The policies of the Government may emanate from recognizing these two distinct categories of types of jewellery and two distinct buying groups. The Committee, therefore, is of the view that the export policies should be aimed at targeting the increase of the exports of gold jewellery and value addition in exports, with the opening up of B2C channels.

6 Estimates provided to the Committee Metal Focus based on their internal study (2016)

7 Estimates provided to the Committee by Metal Focus based on their internal study (2016)

8 Data provided by Department of Commerce to the Committee, Dec 2017



3.1.3 Hallmarking

The Committee looked at the consumer perspective, which is of paramount importance. The Committee was informed that the Bureau of Indian Standards (BIS) has come up with the BIS Hallmarking Act, 2016 and the Draft BIS Regulations, 2017 for consultation.

In accordance with BIS, the objective of Hallmarking is as follows:

- Protect the consumer against irregular gold quality
- Develop export competitiveness
- Develop India as a leading gold market centre in the world.

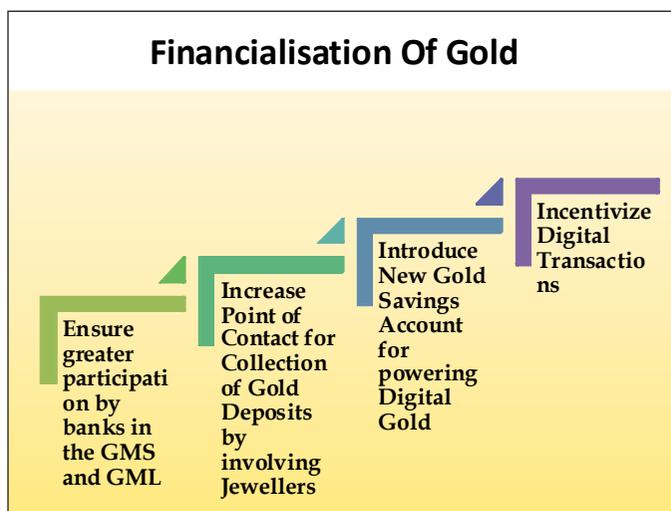
It would help India to become a member of the Vienna Convention, so that articles hallmarked in India can be imported into member countries without further testing or marking.

The Committee has welcomed the concept of Hallmarking as a means to protect consumer interest. However, the industry has felt that certain provisions in the Act and the Draft Regulations may hamper the ease of doing business and hinder trade. These concerns of the industry have been discussed in the respective chapters.

After weighing the considerations of consumer interest vis-à-vis producers' responsibility the Committee has concluded that the Government may consider review of some of the provisions of the BIS Act and the Draft Regulations so that the interest of both the producers and consumers are harmonised. While stipulating standards, it is important to bear in mind that the standards themselves should not restrict the growth of the industry, but instead should help enable greater trade.

3.2 Financialization of Gold

It is estimated that around 23,000-24,000 tons⁹ of gold lies unused with the households and religious institutions throughout the nation. It is with the view to monetise this unutilized gold that the Government introduced the Gold Monetisation Scheme (GMS) in the Union Budget, 2015. The gold accumulated under the GMS was to be used productively and profitably, by banks through the Gold (Metal) Loan (GML), a low interest rate financial product for meeting inventory financing needs of the borrower. This would be a win-win situation for all. As the depositors' wealth is secured by the bank, the bank is able to profitably use the gold deposits and the MSME dominated industry may benefit from the low interest bearing GML. The Committee has also reviewed the response to the GMS which has met with limited success for various reasons, explained in later sections of this report. The Committee feels that the success of the GMS lies in a robust GML. The major recommendations of the Committee focus on how to make the deposits attractive and how to create greater acceptability of GML in the industry.



The Government had launched the Sovereign Gold Bonds Scheme (SGBS) on November 5, 2015. The main objectives of the scheme were to reduce the demand for physical gold and shift a part of the gold imported every year for investment purpose into financial savings. There is a concern that the SGBS is currently not backed by physical gold. The Committee recommends that both the GMS and SGBS be revamped to make them more attractive to investors. This could be facilitated through the proposed Bullion Exchanges. The Committee recommends a new Gold Savings Account (GSA), as in its current form, it has not been able to mobilize the necessary resources. It is noted that gold is purchased throughout the nation as a savings instrument. It is further noted that these customers purchase gold coins or jewellery after paying labour charges, taxes etc., all of which are forsaken at the time of encashment or exchange. Moreover, while the people living in urban areas may have the option of other financial tools to choose from, the citizens living in the rural areas often shy away from complex financial products and therefore choose to invest in gold, which also provides them an opportunity to encash the

9 India's Gold Market: evolution and innovation, page 7, WGC, 2016

gold/jewellery when required.

It is for these very people that the new GSA is being proposed, as it would provide the citizens, particularly from rural areas, with the opportunity to save in gold with no losses due to labour charges and taxes at the time of encashment. The bank could further back the savings by procuring gold from other domestic suppliers through the proposed Bullion Exchanges. Simultaneously, incentives need to be given for digital payments which could encourage shift in gold transactions and assist in migration to a formal marketplace.

3.3 Tax Reforms

Gold bullion, gold doré and gold jewellery are subjected to multiple taxes. They are- Customs duty on import of raw gold, GST, Commodity Transaction Tax (CTT) and Capital Gains Tax. The Committee has reviewed the impact of these taxes on the industry.

The Committee observed that the customs duty was raised from about 1 percent to 10 percent between 2011 and 2013. This was done with the intention of curtailing gold imports. It also resulted in gold coming in from countries such as South Korea and Malaysia, with whom India has signed Free Trade Agreements (FTAs), increasing the price arbitrage in the domestic markets. Cheaper import in the grey market encourages unofficial gold business in a big way. The resultant gap in the price of official gold imported through the banking channel and unofficial imports is hurting the entire group of manufacturers/retailers/bullion importing agencies/refiners and many others involved in the tax compliant business systems. The high import duty is indirectly creating a disincentive to the organized players in the industry. A lower Basic Customs Duty (BCD) on gold should help make the unofficial route for gold imports unattractive. Accordingly, the duty on gold doré should also be reduced.

With the introduction of GST, the excise and the VAT on gold and jewellery has been subsumed. The rate of GST is fixed at 3 percent. The provisions in GST that are reviewed cover the treatment of inter-state job work requirements, job-work, small service requirements and the IGST on imports of gold. On gold derivatives, the current levy of CTT may be reviewed.

These issues have been reviewed by the Committee with suggestions to rationalize the taxes to give a competitive edge to the industry.

3.4 Regulatory Infrastructure

Gold as a commodity has multiple uses. Gold reserves are held by the central bank to support the value of national currency and are regulated by the RBI. It is a preferred item of consumption as jewellery and also finds use in multiple industrial applications and as a major export item it is regulated by the Ministry of Consumer Affairs and Ministry of Commerce and Industry. The domestic production through domestic gold mines is under the Ministry of Mines. To integrate the gold industry and from the perspective of creating coherent policies, the Committee recognizes a need for setting up (1) an independent advisory body with representation from

all the current regulators, (2) a single domestic industry representation and (3) a unified market place for all physical and digital (financial) gold products. These are as outlined below.

The Proposed Gold Board of India

The gold industry has multiple regulators and ministries working in silos regulating a single product that result in policies that hinder the growth of the industry. There is need to foster an ecosystem that provides a single-window, one-stop interface for the industry that will encourage standardisation, transparency and accountability, which will generate focused efforts that are comprehensive and inclusive. The Committee feels that there is a requirement of such an institution and the “Gold Board of India” (GBI) should be set up as an advisory body under the Ministry of Finance. Gold as a foreign exchange asset would continue to be professionally managed by RBI. The GBI could setup an integrated “Make in India in Gold” portal that provides all information relating to gold industry, Government policies and programs on gold.

The Proposed Bullion Exchange of India

The Committee was informed that India currently has few commodity exchanges. They operate as futures exchanges which are primarily used to hedge against gold price risk and take proprietary positions on gold price movement. A spot exchange, on the other hand, focuses on price discovery and hence, provides the entire ecosystem around physical deliveries.

The Committee proposes setting up of Bullion Exchanges that would provide an efficient and trusted ecosystem for trading gold and ensure the success of financialisation of gold, with an aim to improve market transparency, protect the interests of market participants and facilitate India to emerge as a price setter for gold.

The Proposed Gold Domestic Council

The gold industry, primarily as a part of the Gems and Jewellery Industry, is represented through industry associations with major focus on exports and export promotion. The domestic gold industry has no single industry association or agency that represents its interests and concerns. The Committee is therefore of the opinion that an association of all the domestic gold industry players be formed under the aegis of a proposed Gold Domestic Council. It will be the principal forum that can be used by the Government for considering all policy matters for the gold industry. It will be seen as the voice for its members on issues related to the gold industry. This may also be linked to State Gold Forums.

3.5 Employment Generation and Skilling

The Committee was informed that the gold industry primarily consists of MSMEs (90–95 percent)¹⁰ and employs about 6.1 million directly or indirectly across the entire value chain. By 2022, this sector is estimated to employ about 9.4 million, which projects an incremental human resource requirement of 3.3 million¹¹.

Skill development will play an important part in transforming India's gold market as the industry requires specific skill sets. From the perspective of employment generation over the industry value chain, skill development needs to focus on four major sub-divisions:

1. Mining/Refining
2. Manufacturing
3. Standardisation (Assaying/Hallmarking)
4. Sales

The Committee, after considering the current status of skill development, has felt that it should be taken on a priority basis. Skill development can be achieved by integrating institutes of repute such as the NID and NIFT to provide courses on innovation, creativity and new ways of sales and marketing. The skill development requirements need to consider both domestic and export market requirements. Various levels of technological upgradation are required in the mining and refining space to create efficiencies in the operations and meet global standards. Further, there is the requirement for Cluster Development, Jewellery Parks and Common Facility Centres, which would assist the development of this largely MSME dominated industry and further the cause of Make in India in Gold.

4. Recommendations

The Committee received various suggestions and proposals for transforming India's Gold Market. These included proposals from the Sub-Groups constituted by the Committee¹². The proposals were examined by various stakeholders like RBI, BIS, SEBI, Ministries/Departments concerned and other prominent stakeholders in the field. On careful consideration of all the suggestions, keeping in view the evolving agreement and interests of all stakeholders, the Committee decided to recommend 84 of them which are provided in Chapter 7.

Out of these 84 recommendations, the Committee synthesized 20 priority areas for policy/ program intervention along with tentative timelines and implementing agencies, aligned to the five focus areas that have been envisaged for this Report. These are given in the following table. These recommendations cover the spectrum of changes required in the gold policy for Transforming the Gold Market.

10 India's Gold Market: evolution and innovation, page 36, WGC, 2016

11 Ministry of Skill Development and Entrepreneurship Annual Report 2016-17.

12 Appendix 1 and 2

Key Recommendations and Indicative Timelines¹³

Category	Recommendation	Implementing Institution	Time-lines
I. Make in India in Gold	R1.1 Creation of Jewellery Parks by Cluster Development, along with Common Facility Centres	Department of Commerce	3 months
	R1.2 Boost Exports through Value Addition and opening up of B2C	Department of Commerce	6 months – 1 year
	R1.3 Make Gold Mining viable and attractive to investors- including Gold in the Tier I list of Make In India industries	Ministry of Mines	6 months – 1 year
	R1.4 Create India Good Delivery Standard to boost Refining	NABL	6 months – 1 year
	R1.5 Address industry concerns and ensure necessary infrastructure on Hallmarking before making it mandatory	Ministry of Consumer Affairs	6 months – 1 year
II. Financialisation of Gold	R2.1 Ensure greater participation by banks in the GMS and GML	Ministry of Finance/RBI	3 - 6 months
	R2.2 Increase Point of Contact for Collection of Gold Deposits by involving the Jewellers		3 - 6 months
	R2.3 Introduce New Gold Savings Account		3 - 6 months
	R2.4 Sale of India Gold Coin may be permitted through the proposed Bullion Exchange		3 - 6 months
	R2.5 Incentivise Digital Transaction	MeitY	6 months
III. Tax Reforms	R3.1 Rationalize and reduce the Import Duty on gold and gold doré	Ministry of Finance	3 months
	R3.2 Remove CTT on gold derivatives		
	R3.3 Review provisions of GST to support the MSME sector		

13 Note: the timelines are suggestive corresponding to the recommendation

IV. Regulatory Infrastructure	R4.1 Set up Gold Board of India	Ministry of Finance	3 months
	R4.2 Creation of Bullion Exchange/s	Ministry of Finance	1 year
	R4.3 Creation of Gold Domestic Council, linked to State Gold Forum/s.	Ministry of Commerce	3 months
V. Skill Development and Employment Generation	R5.1 Encourage MSMEs to shift to clusters by offering incentives	MSME	6 months to 1 year
	R5.2 Integration of institutes of repute such as NID and NIFT to provide courses on innovation, creativity and new ways of marketing	MSDE/ Ministry of Commerce/ Textiles	6 months to 1 year
	R5.3 Identify and tie up with leading international jewellery designing and training centres		
	R5.4 Provide a 50 percent grant for obtaining technology and machines from the international markets	MSME	

Chapter 1 : An Overview of the Gold Industry

India is among the highest consumers of gold in the world. With inadequate domestic supply, the demand is met through imports, adversely impacting upon the country's Current Account Deficit. Over the years, policies around gold have targeted reduction in gold imports without necessarily taking into cognizance the size of the industry it supports, the current and potential employment opportunities and scope for exports. There are significant new opportunities for development of the industry under the Make in India initiative. This Report is the first major endeavor to view the gold ecosystem in a holistic perspective. This chapter highlights the vision for the gold market ecosystem. It also provides an analytical over view of the global and Indian gold market and highlights the impact of various policy measures on the Current Account Deficit in a macro-economic perspective.

Chapter 1: Section I Vision for the Gold Industry of India

1. Introduction

India's gold market is currently unorganized, fragmented and suffers from various inefficiencies. Policy formulation has not addressed the issues facing the industry. This is due to the fact that there is a lack of a comprehensive vision which takes into consideration the concerns of all stakeholders, and transforms the gold market into an efficient, integrated and organized setup. Therefore, the Committee decided to formulate a vision as a first step for the gold industry in India. The vision will provide a long term road-map for all the stakeholders to provide enabling conditions for the growth of the industry and its contribution to the economy.

2. Gold Market Ecosystem

The Committee first took into consideration the large number of stakeholders who are part of the gold ecosystem and current context of gold industry in the global scenario. Key stakeholders include participants involved in the process of production, manufacturing, wholesale and retail trade, exports, imports, quality certification, vaulting, policy formulation and above all the final consumption of gold and gold related products. Other stakeholders include insurance agencies, courier agencies and other ancillary service providers.

3. Gold in the Global and India Context

In order to formulate the vision, the Committee was seized of the fact that India's role in the global supply chain is not significant unlike China. China is the largest gold producer accounting for around 14 percent of the total global production. India's share in the global

gold production is around 0.05 percent and India's aggregate demand for gold is very high, accounting for around 25 percent of the global demand. And yet, in per capita terms, India has one of the lowest consumption rates in the world at 0.51g¹⁴ per person as against China which has a consumption rate of 0.66g. One of the reasons for this low demand is low per capita income compared to other gold consuming countries. But with India's growth trajectory, the per capita demand for gold is likely to increase in the foreseeable future. With limited domestic supply and rising prospects of gold consumption, imports of gold are likely to rise unless suitable measures are taken to address this issue.

4. Issues and Challenges

In the last five years, the measures taken to address the issue of gold imports have evolved around the import duty structure. Import duties have been reviewed multiple times to dissuade gold imports. This, however, has an adverse effect on the overall industry growth. It is estimated that the gold market has shrunk in size over the last five years. Both gold imports and exports have declined. Though time-series data on employment is not readily available, but it is possible to assume that this consistent rise in import duty has squeezed employment opportunities in this sector.

It is therefore a challenge to design a gold policy which aims at increasing exports, boosting domestic supply, provide greater employment opportunities while simultaneously curbing gold imports. The vision for gold has been formulated to address this challenge.

5. Vision for the sector

The Committee thus proposes the following vision for the gold industry as foreseen for this report:

“Transform India's Gold Market by Creating Additional Jobs, Increase Value Addition of Exports and Promote Social and Financial Inclusion That Shall Make India the Global Destination for Gold”

6. Translating the Vision to Action

The vision for the sector is designed to provide an enabling policy framework that will integrate the various facets of the gold industry. The key actionable components of this vision are:

1. Make in India in Gold: Augmenting domestic supply and boost exports
2. Financialisation of gold: Integrating gold with the mainstream
3. Tax Reforms: Aiding the migration to the organised sector
4. Regulatory: Creating an integrated institutional gold eco-system
5. Skill Development and Employment Generation: Enhancing the industry standards to world-class

6.1. Make in India in Gold: Augmenting domestic supply and boosting exports

The MSME dominated gold industry can augment the domestic gold supply through mining, recycling and refining with appropriate policy incentives. This is the primary

14 World Gold Council and UNFPA, from the information provided by the Sub-Committee Report, 2017

focus of the 'Make in India in Gold' initiative. It would therefore be desirable to include gold as one of the industries under Tier 1 of the Make in India initiative.

Mining of gold should be actively pursued to the extent there are considerable gold reserves available in India. This would create additional employment in rural areas, add to domestic supply of gold and reduce the extent of gold that needs to be imported. Secondly, gold refining and recycling industry needs to be incentivized as India has a cost advantage and can support refining for both domestic and global requirements. There is also a need to set 'India Good Delivery Standard' for gold refineries, that it is acceptable to Indian banks and regulatory authorities paving the path for achieving greater export potential.

The 'Make in India in Gold' also aims at boosting exports. There is plenty of scope in promoting exports to cover both B2B and B2C businesses. The B2B business is high sales and low value addition, while the B2C business requires higher value addition.

'Make in India in Gold' also means quality products and consumer protection. This can be achieved via 'Hallmarking' that has been introduced to set industry standards.

Finally, for translation of vision requires development of clusters, jewellery parks and common facility centers which would assist the development of MSME dominated industry and further the cause of 'Make in India in Gold'.

6.2 Financialisation of Gold: Integrating gold with the mainstream

Financialisation of gold is the second component of the vision. It means three things. First, to integrate existing above-ground stocks of gold into the financial system and real economy. Second, to ensure that all future investment demand for gold is made in financial products that are backed by gold and not held as physical gold. Third, to ensure that the economic value of an individual's gold holdings are realised (e.g.: loan against gold jewellery). Financialisation of gold and incentivizing digital payments will bring about transparency in gold transactions and may well contribute towards India's savings rate.

6.3 Tax Reforms: Aiding the migration to the organised sector

The third component of the vision is tax reforms. Tax policies should be so designed that it enables migration of the largely MSME sector to an organised sector. These can be achieved by taking a decision on rationalizing the import duty on gold and gold doré, as that would remove the arbitrage between Indian and international gold prices thus dis-incentivising smuggling. It will get a parity of pricing of Indian and the global jewellery just making the exports competitive on prices. There is a need to incentivize digital payments and reducing compliance requirements under the PMLA. The GST applicable for the industry also needs to be rationalized.

6.4 Regulatory: Creating an integrated institutional gold ecosystem

The fourth component of the vision is regulatory reform. Gold as a product is currently regulated by multiple entities with no congruence in the policies around it. The gold manufacturing sector itself is largely unorganised with 90-95 percent of MSMEs¹⁵ and no single unified representation.

15 India's Gold Market: Evolution and Innovation, WGC (2016)

To help integrate the sector into one common market, the vision aims at creating an advisory body to the Government in the form of Gold Board of India. This will be a multi stakeholder body with representation from concerned Ministries, regulators and industry. For taking the vision forward there is a need to have a Gold Domestic Council which could be the representative body of the industry. The vision aims at setting up Bullion Exchanges. This will result in development of an integrated market that provides for price discovery.

6.5 Skill Development and Employment Generation: Enhancing the industry standards to world-class

The fifth component of the vision is skill development. Skill development needs to cater to new and modern methods while preserving traditional skills that would uplift the capability of domestic manufacturing to create competitive exports. The vision accordingly focuses on a need to develop specific skill sets over the industry value chain covering four major sub-divisions, (1) Mining and Refining, (2) Manufacturing, (3) Standardisation and (4) Sales.

Enhancement of skill would require institutions of repute such as NID and NIFT to come together to provide courses on innovation, creativity and new ways of sales and marketing. Various levels of technological upgradation and appropriate training are required in the mining and refining space to create efficiencies in the operations and meet global standards.

7. Outlook 2022

This vision adopted by the Committee in this report is the first major effort to capture gold from India's perspective and takes a holistic view of the entire gold market ecosystem. There is a huge untapped potential to further enhance the productivity of gold. The policy framework envisaged in this report, if implemented in totality, will not only increase the growth of the industry but also significantly enhance its contribution to the economy and GDP. In addition, this could double the value of gold exports and the FDI inflows in gold. This will directly impact employment opportunities in this industry and the MSME sector.

Chapter 1: Section II

Gold Market Overview

This chapter provides an outline of the global and Indian gold market dynamics, the supply and demand trend, its applications, the primary intermediaries and the role of various stakeholders.

1. Global Gold Market

The global gold market has three aspects – supply aspect, demand aspect and the marketplace. These aspects and their bearing on the industry are discussed below.

1.1 Global Supply

The total world gold supply comes from mining, and recycling of above ground gold stocks. Mine production accounts for the largest part of gold supply – 75 percent each year¹⁶. Currently, about 90 countries mine gold of which there are just seven major players. Over last 5 years, mines and gold mining operations have become increasingly geographically diverse. China has been the largest gold producer in the world, accounting for around 14 percent of total annual production. But no one region dominates. The other major countries are Australia, Russia and the United States which have around 8 percent of global gold mining production. India's share in the global gold production is less than 0.05%.

As it is virtually indestructible, nearly all of the gold ever mined is theoretically still accessible in one form or another and potentially available for recycling. The majority of recycled gold, about 90 percent, is extracted from high value gold jewellery and 10 percent from industrial gold¹⁷.

1.2 Global Demand

Global demand for gold is for diverse uses. It covers jewellery fabrication (~54 percent), technology and industrial purpose (~10 percent), investments in financial products like ETFs backed by gold and other physical gold investments (~30 percent) and those held by central banks (~6 percent)¹⁸.

Over last 5 years, China accounted for around 30 percent of the global demand. India's demand accounted for around 25 percent. The rest of the world accounts for the balance of around 45 percent, with no single country's demand being greater than 10 percent.

The demand for gold jewellery is also highest from India and China. Investment for financial assets like physically backed gold exchange traded funds (ETFs), exchange traded commodities (ETCs), and similar funds account for approximately one-third of investment gold demand. These funds were first launched in 2003 and as of March 2016, they collectively held 2,300 tons of physical gold on behalf of investors around the world.

The past decade has seen a fundamental shift in central banks' behaviour with respect to gold, prompted by reappraisal of its role and relevance after the 2008 financial crisis. Emerging market central banks have increased their official gold purchasing, while European banks have ceased selling, and the sector now represents a significant source of annual demand for gold. Central banks sold 7,853 tons of gold between 1987 and 2009;

16 Information provided by WGC to the Committee

17 'Commodities at a Glance', UNCTAD (2015), WGC Sub-Committee report (2017)

18 Thomson Reuters, GFMS, World Gold Council, sub-Committee Report (2017)

between 2010 and 2016 they bought 3,297 tons.

1.3 Gold – International Marketplaces

Table (1.2.1): Gold traded on Commodity Exchanges

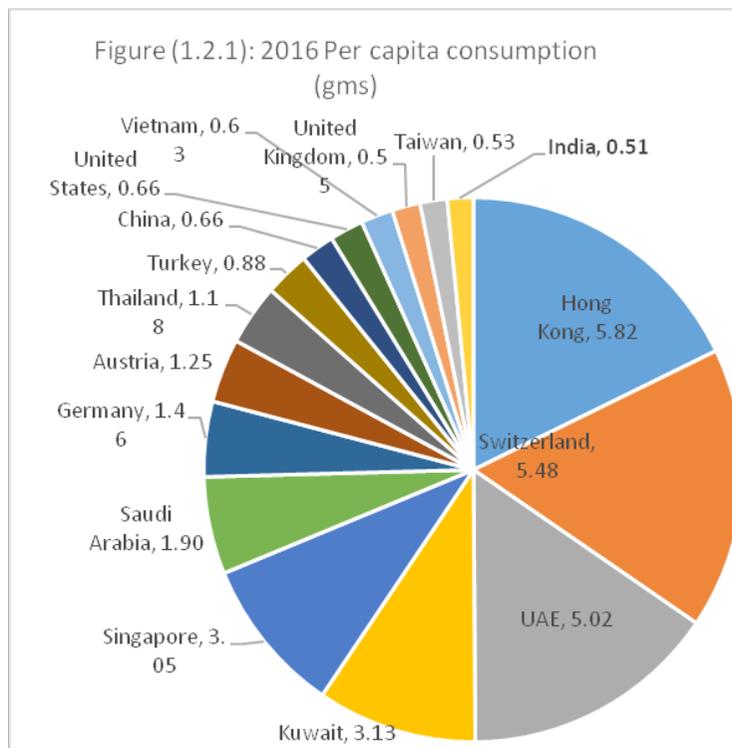
GOLD TRADED ON COMMODITY EXCHANGES				
(total volume in nominal tonne equivalents)				Change
	2014	2015	2016	y-o-y
COMEX	126,028	130,135	179,047	38%
SHFE	23,858	25,317	34,760	37%
SGE ^{*1}	4,931	7,288	11,793	62%
TOCOM	8,745	7,928	8,541	8%
MCX	3,972	3,947	4,094	4%
SGE Spot	2,645	4,756	3,699	-22%
DGCX ¹	426	312	412	32%
ICE Futures US	508	294	354	20%
Borsa Istanbul ²	239	256	243	-5%
^{*All SGE contracts excluding SGE Spot.}				
¹ Physically backed. ² 100% Physical Delivery				
Source: Thomson Reuters, relevant exchanges				

Gold is a unique asset: highly liquid, yet scarce; it's a consumer good as much as an investment and carries no counterparty risk. As such, it can play a fundamental role in an investment portfolio.

New products, such as gold-backed ETFs, have provided alternative ways to access the market. The top commodity exchanges for gold trading are the US and China. (Table 1.2.1)

Including the OTC markets, the three most important gold trading centres are the U.K., U.S. and China. These markets comprise more than 90 percent of global trading volumes and are complemented by smaller secondary market centres around the world (both OTC and exchange-traded). Gold is becoming more mainstream: investors range from individuals to pension and sovereign wealth funds, and they are located in developed as well as in emerging markets.

2. India's Gold Market



India's gold market is characterized by low per capita consumption, huge idle stock and savings primarily in the physical form

The strong significance of household savings in gold is both due to deep rooted traditions and economic reasons. Gold has been a wealth preserving asset, as a hedge against inflation, in collateralising lending and in ensuring credit access to rural households. A notable fact is that as of 2016, India has one of the lowest per capita consumption of gold (0.51g) amongst both emerging economies (Vietnam – 0.63g, Turkey – 0.88g, Thailand – 1.18g) and developed economies have consumption rates in excess of 5 grams (USA – 0.66g, Hong Kong – 5.82g, Switzerland – 5.48g, UAE – 5.02g)¹⁹. The difference between consumption patterns in India and other countries is two-fold. First, per capita consumption of gold in most countries is channelled through financial products. Second, unlike other countries, every household in India buys gold, and mostly, in its physical form.

The total gold stock in India with the domestic households and institutions is estimated at 23,000-24,000 tons²⁰.

The lack of data on consumption of all manufactured good using gold as input prevents a detailed analysis on the estimates of GVA or employment in this sector. A look at the gems and jewellery industry would however give some indication on the importance of gold in the economy. As per the estimates for FY 2016 -17, the gems and jewellery industry

19 World Gold Council and UNFPA, from the information provided by the Sub-Committee Report, 2017

20 India's Gold Market: evolution and innovation, WGC, 2016

of India is approximately INR 6.5 trillion in size²¹ and constitutes of 90-95% of MSMEs²². As of Jan 2017, the industry employs around 6.1 million skilled and semi-skilled workers across India, apart from the numerous entrepreneurs that it houses, and is expected to provide employment opportunities to more than 9.4 million persons by 2022²³.

2.1 Gold Supply

Gold supply in India is primarily met through imports, less than 1 percent coming from local mining and about 10 percent from recycling. India's gold imports consist of gold in refined form and gold in doré form. In 2016, the top 3 countries from which India sources gold imports are Switzerland, UAE and South Africa. Of the total imports, bullion accounted for around 78 percent and doré the rest.

In 2016, India mined less than 2 tons of gold from the Hutti gold mines in Karnataka.

In 2016, refining of domestic scrap of gold stock accounted for about 1 percent of total household gold stock. There are three sources of gold recycling: jewellery scrap, manufacturing scrap and end-of-life industrial products. Jewellery scrap is the largest segment, accounting for 90–95 percent of all recycled gold.

2.2 Gold Demand

India is the second largest gold market (800-900 tonnes p.a. of domestic demand on average) and accounts for around 25 percent of world's gold demand. India's gold demand is primarily through jewellery (73.1 percent), coins (6.9 percent), industrial (1.4 percent), ETFs (2.7 percent) and bullion (15.9 percent).

In 2016, India bought 505 tonnes of gold jewellery, second to China. India's diversity is reflected in its jewellery consumption, with rural India accounting for around 60 percent of jewellery demand²⁴.

3. Price of Gold

The interplay of demand and supply of gold determines the market price of gold. The price of gold in India has an import duty component, which is over and above the international price. The table (1.2.2) below gives the price trend of gold in the international markets and the India's gold market.

21 Based on aggregation of imports and exports of gold – values from RBI handbook of statistics as of FY 2017

22 India's Gold Market: evolution and innovation, page 7, 2016, referring to India's gold manufacturing sector

23 Ministry of Skill Development and Entrepreneurship Annual Report 2016-17

24 India's Gold Market: evolution and innovation, page 18, WGC, 2016

Table (1.2.2): Price of Gold		
	LBMA A.M price (\$/oz.)	INR price (Rs/10gm)
2007	695	9,379
2008	872	12,316
2009	972	15,291
2010	1,225	18,320
2011	1,572	23,921
2012	1,669	29,692
2013	1,411	29,303
2014	1,266	28,319
2015	1,160	26,396
2016	1,251	29,358
2017	1,318	28,488

Source: LBMA, MCX Spot Price

The prices of gold in international markets fell by 21% over the period 2012 to 2017. The price of gold in India, has however remained constant, with a decrease of a mere 4% over the same period.

4 India Gold Market Ecosystem

The Indian gold market ecosystem is a largely unorganised segment that co-exists with a fast-growing organised segment in all areas of the supply chain in gold.

4.1 Wholesale importers - Trading Houses and Nominated agencies

Various government agencies, including the RBI, the Director General of Foreign Trade (DGFT) and the Ministry of Finance, control who can import gold into India. Banks are authorised by the RBI, while agencies are covered by foreign trade policy (FTP) and are licensed by the DGFT for importing gold.

Aside from the companies named specifically as nominated agencies there are two larger groups of importers: Premier Trading Houses (PTHs) and Star Trading Houses (STHs). Banks import gold on a consignment basis, whereas nominated agencies, STHs and PTHs are only allowed to import on a direct payment basis. Since October 2017, STH and PTHs are allowed to import gold only for export purpose and not for domestic use.

4.2 Bullion dealers

Bullion dealers play a pivotal role in the trade and are seen instrumental in filling the gaps that otherwise banks would be addressing. They lend gold on the basis of their long-standing relationship and they have the flexibility to hedge on futures exchange. As of December 2017, there are around 4,500 – 5,000 bullion dealers in India²⁵.

4.3 Refineries

The organised refining landscape has grown sharply from a mere 3 or 4 refineries in 2013 to around 30 in 2015, taking the total refining capacity above 1,450 tons. The majority of refineries have an annual capacity of less than 50 tons. However, of these 30, only 10 refineries have been accredited by BIS. India has just one LBMA-accredited gold refinery,

while globally there are over 70 LBMA refineries²⁶.

4.4 Manufacturers and Jewellery Retailers

Around 90-95 percent of India's gold manufacturing market constitutes of MSMEs. The industry is dominated by small, standalone retailers, often family jewellers, with limited marketing and advertising. As per data of 2016, there are an estimated 3.85 lakh to 4.10 lakh jewellers in India²⁷. India's gold jewellery retail industry is also highly fragmented.

The jewellery industry is primarily constituted of the Karigars, the Manufacturers, the Wholesalers, the Commission Agents and the Retailers.

Karigars on Job Work

The jewellery is primarily handmade, and this is a cottage industry, where Karigars, (artisans), generally work independently from their respective homes or in small 'home-grown' units. They receive gold bars from other people in the value chain and convert it into jewellery, which is then sold by the entity that had given them the gold.

Jewellery Factory

Jewellery factories are manufacturing units that employ Karigars, and/or 'house' Karigars on a job work basis, by giving them space and modern facilities to work with. Most of the units are unorganised due to low capital requirements of small workshops.

Wholesaler

The wholesaler is the intermediary between the Karigar and the other parts of the jewellery industry. The value add of the Wholesaler is that he/she is a 'stockist' of jewellery and the bulk of his/her business would vest in the B2B space.

Commission Agents

The Commission Agents may be independent entrepreneurs that have a scarcity of capital, thus use their skill set of sales and their contacts to sell the jewellery.

Retailer

The Retailer is the entity that deals with the end-use customer. While there may be Retailers that only deal with end-use customers, all the entities in the value chain may perform the role of the Retailer, as it is not necessary to possess a showroom or retail outlet through which sales may be conducted to the end-use customer.

The role of the various participants in the value chain is highly inter-changeable and there is no clear demarcation of their roles.

Listed Jewellery Companies

Of the estimated 4 lakh jewellers, a miniscule number of 32 are listed on the stock exchanges. Their aggregate market cap is US\$ 15 billion. Most of these firms have businesses that are not purely gold but include gems and watches. If we exclude Titan Company Ltd., the market cap of the 31 others add up to US\$ 7 billion only – which is 0.1 percent of the total market cap of BSE firms²⁸.

4.5 Jewellery Exporters

The Indian gems and jewellery sector plays an important role in India's export economy. Gold takes second spot with 30 percent share in gems and jewellery exports. In FY2016-17, gold jewellery worth US\$ 8.7 billion was exported to nearly 90 countries and regions,

26 India's Gold Market: evolution and innovation, page 61, WGC, 2016

27 India's Gold Market: evolution and innovation, page 29, WGC, 2016

28 Moneycontrol.com, as on October 9-2017

with UAE accounting for around 50 percent of the total. Around 50 percent of gold jewellery exports are plain gold jewellery sets or chains. Most of the export focus is on the B2B business. Currently, the B2C space is not available for the Indian industry. As of December 2017, there are around 2,457 exporters in India²⁹.

4.6 Assaying and Hallmarking Centres (AHCs)

BIS, the national body of standards in India launched a long-term scheme to encourage the voluntary hallmarking of gold jewellery in 2000. The objectives of the BIS certification of gold are to protect consumers, support the export of gold jewellery and to develop the country as a reliable gold centre. As of January 2018, out of about ~400,000 jewellers, there are about 22,309 BIS-licensed hallmarked jewellers serviced by close to 554 AHC in India³⁰.

5. FDI in Gold

Although it is the second largest market for gold, the gold industry in India is not integrated into the global market as is seen from the foreign direct investment (FDI) in this sector. This is despite the fact that 100 percent FDI is permitted under the automatic route.

*Table 1.2.3: FDI in gold as compared to Total FDI
Figures in US\$ million*

Financial Year	FDI in Ornament & Gold	Total FDI flows	% share
2012-13	26.7	34,298	0.08%
2013-14	33.6	36,046	0.09%
2014-15	268.8	45,148	0.60%
2015-16	42.7	55,559	0.08%
2016-17	69.0	60,082	0.11%
2017-18*	106.8	33,749	0.32%
* Apr-Sept			

Source: Department of Industrial Policy & Promotion

As seen from the above table, FDI in gold constitutes an insignificant part of total FDI in the country³¹. Given the potential, there is a significant scope for enhancing FDI into the Gold sector especially in refining and mining areas.

6. Industry Outlook

The gold industry has tremendous potential for growth. With adequate policy stimulus, the industry is expected to double its contribution to GDP from 1.3% in 2016 to 2.5% to 3.0%, boost exports from US\$ 8 billion in FY2017 to about US\$ 20 billion, enhance opportunities for employment for over 10 million people and increase FDI from US\$ 70 million in FY2017 to over US\$ 200 million by 2022.

29 GJEPC

30 BIS Website (www.bis.org.in)

31 For a detailed list of FDI in Gold, refer Annexure 3.

Chapter 1: Section III

Gold and Current Account Deficit

1. Introduction

Globally, India is the second largest gold market with a demand of around ~800 tons and accounts for around 25 percent of world's gold demand. Since domestic production of gold is minimal, demand is met largely through imports. This large demand on gold imports has an adverse impact on the CAD and further implications on the external sector stability.

2. Gold Imports and Implication for CAD

In January 2013, the KUB Rao Committee³² presented its concerns on increasing gold imports for the period from second half of FY2000 to FY2012-13 and recommended a need to moderate the demand for gold. However, it also gave due recognition to the fact that *“demand for gold in India is not strictly amenable to policy changes and also is price inelastic due to varied reasons”*.

The KUB Rao Committee made the following key observations with respect to gold and its impact on CAD. The observations were based on data for the period 2007-08 to 2011-12. The key observations regarding import of gold were:

- 1) Increasing trend in gold imports
- 2) Rising share of gold imports to GDP
- 3) Contribution of gold imports to CAD rising
- 4) Gold re-exports as a percentage of gold import was falling

Based on these observations, the KUB Rao Committee, inter-alia recommended moderation of gold imports and a rise in import duty for gold. Consequently, gold imports have declined from US\$ 53.8 billion in 2012-13 to US\$ 27.5 billion in 2016-17.

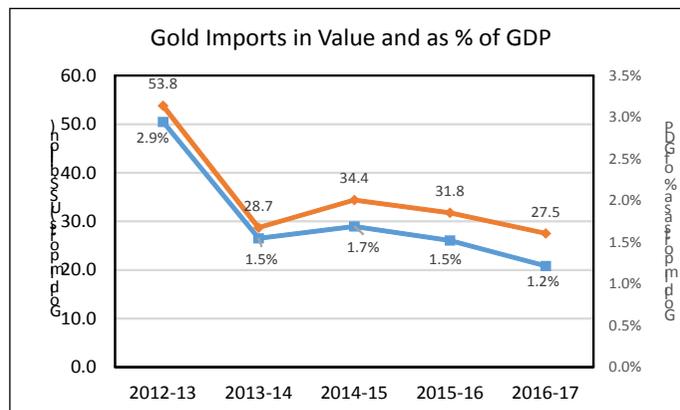
But the overall macro-economic context has also changed. The table (1.3.1) summarizes the context. Based on this data, the trends on the share of gold imports with reference to the GDP, the total imports, the trade deficit and gold exports clearly show the need for change in perspective with reference to gold imports.

<i>Table (1.3.1): Gold Imports and Current Account Balance</i>						
Sr.No.	Items/Year	2012-13	2013-14	2014-15	2015-16	2016-17
1	Balance of Trade (in US\$ billion)	-195.7	-147.6	-144.9	-130.1	-112.4
2	Current Account Deficit (US \$ billion)	-88.2	-32.3	-26.9	-22.2	-15.3
3	Total Merchandise Imports (in US \$ billion)	489.3	490.7	450.2	448.0	381.0
4	Gold Imports (in US \$ billion)	53.8	28.7	34.4	31.8	27.5
5	Gold Exports* (in US\$ billion)	12.8	9.6	10.3	7.9	7.8
6	Net Gold Imports (Net Value in US\$ billion: 4-5)	41.0	19.1	24.1	23.9	19.7
	Source: RBI					
	* Figure received from DGCI&S					

32 KUB Rao Working Group to Study the Issues Related to Gold and Gold Loans by Non-Banking Finance Companies

2.1 Share of gold imports in GDP

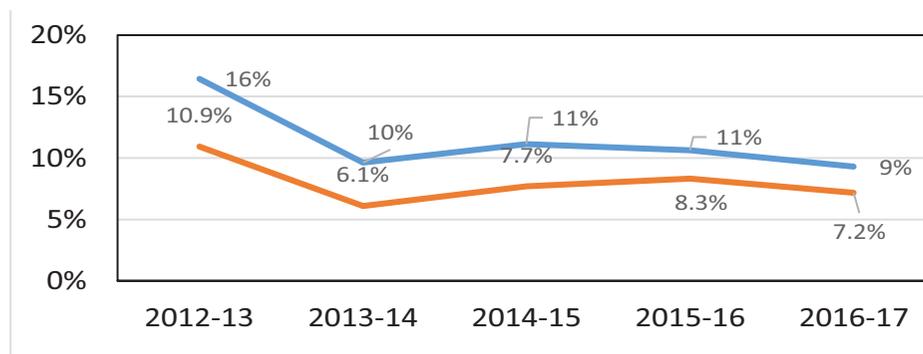
Figure (1.3.1) Gold Imports in Value as % of GDP



Over the period, from 2012-13 to 2016-17, the gold imports as an import item has shown a decline trend in value terms. Secondly, the share of gold imports in GDP has also shown a declining trend, indicating declining preference for gold in the economy. This is in contrast to the trend in the period covered by the KUB Rao Committee.

2.2 Share of gold imports in total imports

Figure (1.3.2): Share of Gold Imports in Total Imports

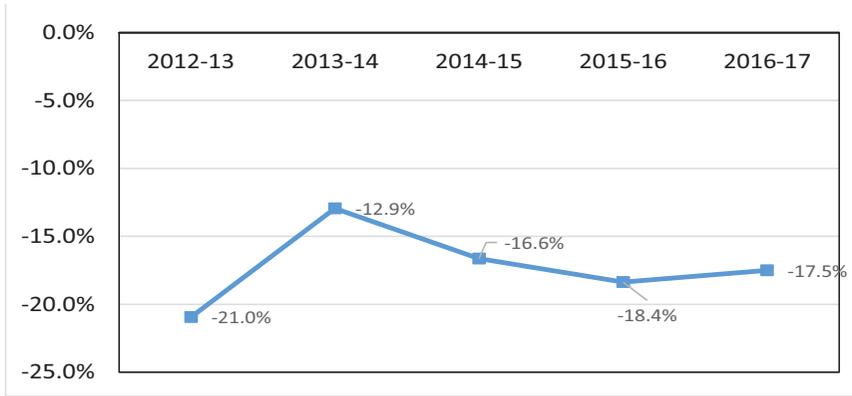


The share of gold imports in the total merchandise imports of the country has shown a declining trend over the last five years. This is again in contrast to the rising trend as observed for the period of study used in the KUB Rao Committee.

2.3 Gold deficit in trade deficit

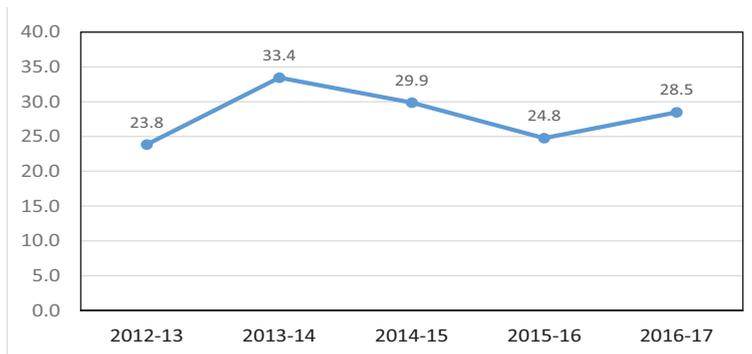
Gold deficit defined as the net gold imports, as a proportion of the trade deficit has also been on a declining trend over the last five years. This indicates contribution of gold to trade deficit has weakened.

Figure (1.3.3): Gold Deficit as Ratio of Trade Deficit



2.4 Share of export in imports

Figure (1.3.4): Gold Exports as Ratio of Total Gold Import



After a fall over two years, FY 2015 and FY 2016, the gold exports have seen a recovery and are now increasing as a proportion of the total gold imports.

Given these facts, it is imperative at this stage to re-access the impact of gold imports on CAD. Further analysis in terms of uses of the total gold imports, indicates, that most gold imports are used for jewellery and coins fabrication, as an underlying for the ETFs, industrial use and kept for investment as bullion. As per the data for last 5 years, on an average, of the total gold imported, 80 percent was used for fabrication of gold jewellery and coins, around 2.5 percent in ETFs, 1.4 percent for industry use and only balance of 16.1 percent is held as bullion for investment³³.

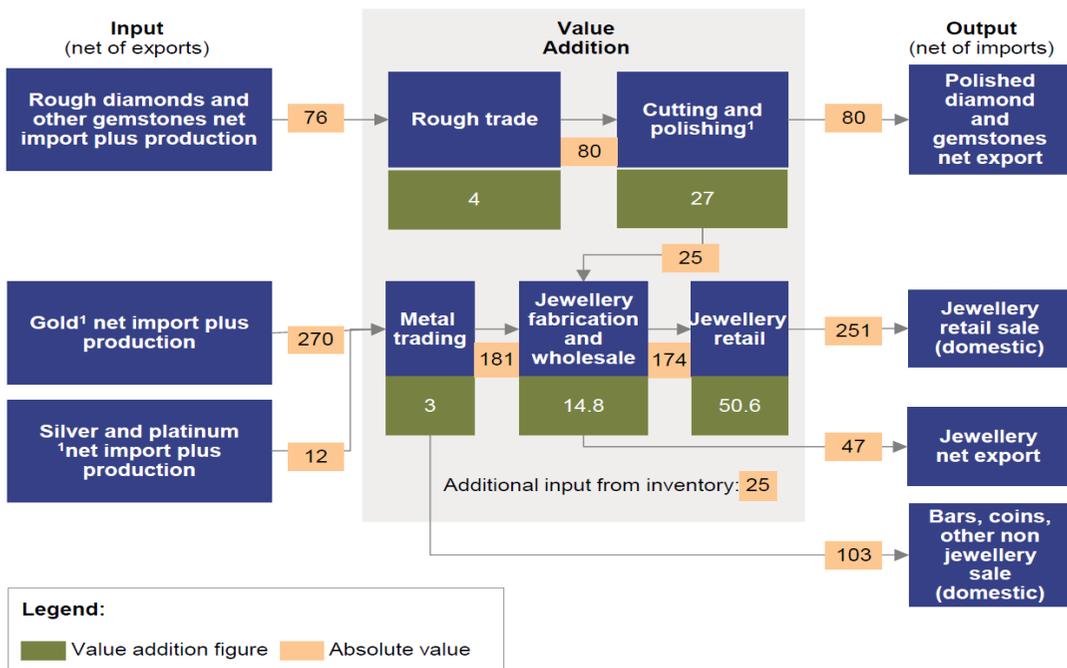
Hence, around 84 percent of the total gold imported is used for productive purposes, as it supports an employment of 6.1 million people in the primarily MSME gold industry. In addition to providing employment and entrepreneurship opportunities, the industry provides value addition for exports of Indian jewellery in the global markets.

33 As per data submitted to the Committee by WGC (2017)

3. Value Addition

The value addition provided by the gold sector provides further insight into the importance of this sector for the economy. The figure (1.3.5) below, indicates the flow of activities and value addition in this sector. For FY 2012-13, for an import of absolute INR 270 ('000 Crores) of gold, the value addition in the economy was INR 68.4 ('000 Crores)³⁴. In other words, value addition was to the tune of 25 percent of the value of gold imported.

Figure (1.3.5): Value addition across segments in the gold sector (INR '000 Crores)



4. International Experience: Gold Markets in Turkey

A comparative study of the gold markets in Turkey provides interesting insights³⁵. Turkey imports around 180 tons of gold annually and it is the world's fourth largest gold consumer, accounting for about 6 percent of the global demand. It is estimated that Turkish households have at least 3,500 tons of gold. Like India, Turkey had significant shortage of local production to match the demand. It had a small but growing gold mining industry. The domestic gold production was about 33 tons in 2013, leaving a large gap between domestic demand and production.

Till about 1980s, the gold sector in Turkey was highly regulated. Turkey started to significantly liberalize gold trade from 1993. In 1995, it established the Istanbul Gold Exchange (IGE) to provide a price discovery mechanism and to ensure the quality of gold. The IGE prices quickly established the benchmark price for gold in Turkey.

34 AT Kearney, "All that Glitters is Gold", India Jewellery Review, page 37, 2013

35 Turkey: Gold in action", World Gold Council Report, 2015

In 2011 Turkey started monetising its stock of gold and started to further integrate gold into its financial system and introduced various gold linked products. By the end of 2013, commercial banks held around 250 tons which also included 40 tons of household stock of gold. The proportion of recycled gold had been rising in the Turkish market. The recycling is supported by the establishment of several LBMA accredited refineries.

The initiative of Turkey has led to a number of tangible outcomes (a) it was able to monetize around 300 tons of gold (b) with a number of gold related products, the consumer appetite started to shift away from physical gold (c) the creation of high quality gold infrastructure increased trust in the domestic market and significantly increased the pricing efficiency and (d) the CAD significantly narrowed as an outcome of the new policy initiatives in gold.

5. Measures to Reduce CAD

Any review or design of gold policy for India has to focus on the impact of import of gold on the CAD. It is well understood that CAD would widen when imports grow much faster than the exports. Most policies targeted changing (mostly increasing) the import duty rates to curb gold imports. In recognition of the importance of gold in the changed circumstances it is also important to take a fresh perspective at targeting measures which would boost exports to reduce the CAD. These measures should be liberal so as to have long term implication on the growth of the sector and also the concerns on CAD. Some of the key tasks to reduce CAD are:

1. Boosting exports by reducing the import duty levels where the unofficial route for import of gold become unattractive and which opens up avenues for enhancing gold jewellery exports using duty paid gold, provided duty and tax refunds are streamlined. Also widening the scope of exports to cover both B2B and B2C business.
2. Increasing domestic supply of gold through mining, refining and recycling of gold. This would imply a need to explore the possibilities of revamping the domestic gold mining industry, optimize the use of existing excess capacity with domestic refineries, and incentivise and spread the network of intermediaries for increasing domestic household and institutional participation in the GMS.
3. Incentivising use of gold as against hoarding by providing for alternate financial savings instruments backed by gold.

In this context, the Committee feels that gold policies may be revisited and should be designed in such a way that integrate the various facets of the gold industry which lead to an increase in domestic supply, boost exports thereby reducing dependence on gold imports.

Chapter 2: Make in India in Gold

The high and increasing demand for gold in the Indian society has been primarily met by imports. This is also heightened due to the fact that domestic supply of gold is miniscule. While the 'Make in India' initiative launched by Government in September 2014 covers as many as 25 sectors, Gems and Jewellery or Gold manufacturing sectors do not form part of the list. Accordingly, there is scope to extend 'Make in India' drive to the gold industry. Similarly, Indian expertise in handmade jewellery is well-known, but exports have not truly taken off due to various issues. This chapter aims to achieve optimal utilization of India's gold through sustainable and transparent process of exploration, mining and refining. It also addresses aspects relating to development of an export market for gold, mandating hallmarking in India and steps to enable digital payments in gold.

Chapter 2: Section I Gold Mining

To excavate gold and use the mineral wealth of India in an ecologically and environmentally responsible manner.

1. Introduction

Gold mining remains relevant and valuable in today's global economy for several known reasons. Given its scarcity, it is rarely found in concentrations that make extraction economically viable. In order to support a profitable mining project, gold explorers conduct geological surveys targeting concentration levels that are 1,000 times higher than normal.

After discovering an ore, geologists and engineers will engage in a feasibility study to determine whether the project has economic value, prior to the commencement of any mining operations. After seeking the necessary approvals, the next phase focuses on extracting gold from other natural materials. Once the gold is purified, it is smelted and pressed into gold bars to be sold in the market. The figure (2.1.1) provides a detailed look at the mining life cycle.

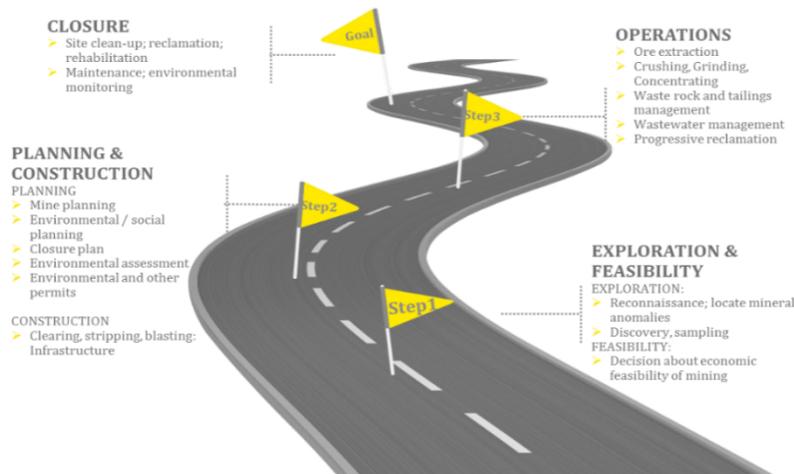


Figure (2.1.1): The Mining Process

Global gold supply is a mixture of mined gold, recycled gold and gold scrap. More than half of gold supply worldwide comes from mined gold. China is the largest producer of mined gold. It overtook South Africa in terms of gold production volume in 2007³⁶. As per the USGS minerals information, India's rank in mining does not feature amongst the top 50 producers globally³⁷.

2. Mining and Exploring for Gold in India

India has a long history of gold mining, but current production levels are very low; in 2016 India mined less than 2 tons. As of March 2012, there were 12 mining leases granted for gold across India. However, as of 2014, mining was only undertaken at Hutti Gold Mines, located in the Raichur district of Karnataka. The other source of gold in India, extracted as a by-product, is from Birla Copper's copper smelter at Dahej, Gujarat, which processes imported copper concentrate.

Gold reserves in India are primarily located in Karnataka. According to data published by the Ministry of Mines, India's current defined gold reserves total 71.9 tons. In addition, 568.5 tons of gold is defined in the primary (hard rock) resource category, while 5.9 tons has been defined within placer deposits. These reserves are concentrated regionally with over 99 percent of gold mineral reserves are located in the state of Karnataka. The remaining gold reserves are in Jharkhand. Gold resources, i.e., gold deposits that are potentially economically viable, are a lot more geographically diverse. Over 50 percent of mineral resources are located in Karnataka, 33 percent in Rajasthan, 6 percent in Bihar and 5 percent in Andhra Pradesh, while the remaining 6 percent are spread across a further eight states.

In its 12th five year plan (2012-17) formulated in 2011, a GoI working group outlined that with adequate investment annual production could be as high as 70 tons by 2030. It then needs to be measured and monitored and the Government needs to commit and push the existing projects. This can only be achieved if there is a re-look at the mining policy.

In May 2016, the Parliament approved an amendment to the Mines and Minerals (Development and Regulation) Act 1957 (MMDR), which allowed private companies to

36 Annexure 8

37 USGS information(<https://minerals.usgs.gov/minerals/pubs/commodity/gold/mcs-2017-gold.pdf>)

bid for mining leases via a competitive auction process and proposed that mining leases for major minerals be granted for a period of 50 years, compared with the previous 30-year limit. Further amendments were also accepted, under which transfer of captive mining blocks could be allowed without the need for an auction. Under the initial issue of 43 mining blocks for tender, three are gold mining deposits.

India also plans to launch a massive aero geophysical survey of minerals to unearth deep-seated resources such as gold and copper, as it seeks to develop its mining industry and reduce its dependence on imports.

3. Economic Impact of Gold Mining

Gold mining has a potential to contribute significantly to sustainable socio-economic development of India. Over the past five years, domestic gold mining has generated over INR 2,050 crore in value terms.

Table (2.1.1): Gold Production over last 5 years³⁸

	FY2013	FY2014	FY2015	FY2016 (P)	FY2017 I
Gold Production (kg)	1,588	1,564	1,441	1,323	1,569
Value (INR Crores)	517.25	422.53	360.27	321.46	436.78

The contribution of gold mining to India's GDP has been quite negligible as production has hovered below 2 tons. The mining industry, by its very nature, impacts a wide variety of stakeholders, triggers various downstream economic activity and, therefore, has a multiplier effect on the economy.

Gold mining can provide substantial sustainable socioeconomic development to India, more so to rural India as mines are located mainly in rural India. Mining can provide significant employment opportunities to rural areas. Furthermore, mining helps bring infrastructure investment to a region and helps initiate and support associated service industries, all of which often persist long beyond the working life of the mine.

As per the World Gold Council (WGC), Hutti Gold Mines employs 5,000 skilled workers and contractors, and it is estimated that each of those workers supports around five dependants. The social and economic impacts of gold mining showed that 70 percent of total expenditure by gold-producing companies was via payments to local suppliers and contractors, as well as wages to employees³⁹. This highlights the important impact even a small gold operation can have on the community. Given that India is one of the world's largest gold-consuming countries, it makes sense for it to develop mining capacity. For mining to develop in India, regulations need to be reviewed and the industry needs investment.

With the right policy support, the gold mining sector can boost national GDP, increase state-level and national taxes and royalties and provide employment, especially to the population in remote areas.

With India currently home to only one active gold-producing operation, a competitive global benchmark exercise would not be representative of the potential cost benefits of producing gold in the country. However, what can be assessed is the relative prices of the main operational cost constituents in India versus other major gold producing regions.

38 Ministry of Mines Annual Report 2017

39 India's Gold Market: Evolution and Innovation, WGC (2016)

Accordingly to Metal Focus, “Gold mine cost service report” the product costs across regions given in US\$/oz. varies around US\$ 800-US\$ 1,000 as of 2016. Assuming the average cost of producing gold in India is US\$ 700–US\$ 800 an ounce, it would be feasible to produce gold in India due to a combination of gold expertise and technology with local affordable mining skills compared to other regions around the world. Given the cost structures, it may be prudent to do a study on existing gold mined locations. If India can retain costs on gold mining, this will certainly be highly beneficial to the nation looking at the current gold import prices of approximately US\$ 1,200/ounce. Hence, more needs to be done in getting quality gold mining data from across the country.

4. Recent Gold Mining and Exploration Activity

Some of the recent measures undertaken by the Government to realise the potential of gold mining are listed below:

- The Government planned to auction a total of 42 blocks in the second phase of the mineral auctions during 2016-17. These blocks have been identified by seven state governments for auction under the Mines & Minerals Development & Regulation (Amendment) Act, 2015. By April 2016, the auction of one block of gold in Chhattisgarh along with other mineral blocks was held. The Ministry of Mines has also decided to constitute an IMG (Inter-Ministerial Group), i.e., Post-Auction Mining Clearances and Approvals Facilitator (PAMCAF), in a bid to fast-track mining activity in the country⁴⁰.
- Vedanta, a unit of London-listed Vedanta Resources, won India’s first auction of a gold mine last year, as the Government opened up the sector to private companies.
- The State Government of Andhra Pradesh is also in the process to collaborate with Australian Indian Resources Ltd. For mining gold in known deposits of gold-bearing quartz rocks in the Rayalaseema region of Andhra Pradesh, including Anantapur, Chittoor and Kurnool⁴¹.

5. Issues in Gold Mining

As of September 2015, total world exploration expenditure was US\$ 10.74 billion, of which about 50 per cent was on gold exploration. 32% of global mining expenditure was spent in Canada, Australia and China, but gold mining activity in India attracted no FDI, despite having proven reserves.

To have increased domestic gold mining capabilities is a good initiative under ‘Make in India’, but there are a few pending issues brought to the notice of the Committee. They are as under:

1. Ease of doing business:

The National Mineral Exploration Policy (NMEP) was launched in July 2016 to transform the Indian mining sector. NMEP recognizes the need to incentivize private sector participation and has various provisions for that. However, permitting applications still needs to be signed off by a large number of departments and different ministries, which can make the processes very lengthy.

40 <http://economictimes.indiatimes.com/industry/indl-goods/svs/metals-mining/government-to-auction-42-blocks-in-secondphase-of-mines-auction/articleshow/51411655.cms>

41 <http://timesofindia.indiatimes.com/city/visakhapatnam/ap-has-huge-gold-mining-potential/articleshow/56840679.cms>

Reducing the time and paper work required to obtain permits would lower the cost of bringing a new mine into production. This can be achieved by single window clearances with incentives on profit sharing on a model similar to Australia and Canada. This should include forest clearance and environment clearance. The Government should consider convergence in procedures and approvals adopted by MOEFCC⁴².

The Government should also engage with the private sector as envisaged in the NMEP as globally exploration is largely funded by private enterprises. They have access to state-of-the-art technology and the necessary expertise to carry out such a risky and capex-intensive activity.

2. Promoting investment:

The mining sector needs fund to grow not only for initial equipment investment and risk capital. The uncertainty of revenue streams constrains raising funds

either via equity or debt. All currently available mines may not be of an economic size or viability but some may be critical for development either due to strategic use or supporting downstream or other objectives.

The auction route for gold mining may not be the only option for the intended development activities, which can only be addressed by government participation in development. One such approach is building a pool of risk capital that can be earmarked for providing seed capital for development of such resources — in private or joint sector. The development of such a resource may not follow an auction route, but may rather rely more on selecting a partner with relevant competency.

3. Availability of Suitable Exit Option:

There should be the possibility and scenarios of exiting at various stages. For junior exploration companies, it has been observed in mature mining regions such as Canada and Australia that one of the major incentives to undertake such a high-risk activity is that the exploration company can then sell the mining license at a premium to a larger, better-capitalized company. Currently, in India, the licences are non-transferable.

For brownfield exploration, the current mining lessee has the best contextual expertise in mining the existing minerals. In such case, continuity beyond lease expiry period may be considered.

4. Improve quality and availability of digital data

The Fraser Survey indicates that India ranks low in the quality of its geological database (which includes quality and scale of maps and ease of access to information). One of the reasons could be that the information so far was non-digitised and was not available freely in the public domain. Moreover, most of the exploration in the country has so far been near the surface

(50 meters–100 meters) with little or no information on the deep-seated miner, which is where most of the gold is found globally.

42 Minutes of the first meeting of the Committee constituted to review the National Mineral Policy 2008 held on 28.08.2017

5. Tax policy

Currently, the mining companies are burdened with high capital expenditure and little tax incentives for exploration. Globally countries do provide attractive and innovative tax incentives as a way to attract exploration companies, for whom such incentives may make or break their decision to engage.

Therefore, for gold mining to truly take-off, a comprehensive taxation policy should be drawn up to align India's taxation framework with the strategic needs of the gold mining sector. Making gold mining a strategic sector and bringing it under the Infrastructure category would provide a tax break for investors. This would boost rates of return on the high capital investment project and bring in FDI.

The Government may consider a study to benchmark the mineral policies of successful gold mining countries like Canada, Australia and South Africa⁴³. There are some international benchmarking from where leading practices could be adopted or amended to suit Indian gold mining regulation.

6. Recommendations

To boost domestic gold mining capabilities under the "Make in India" Initiative, the Committee recommends:

1. Make gold mining viable and attractive to investors by promoting ease of doing business with single window clearances.
2. The Government could consider making available the risk capital for the long term capital intensive mining projects to attract investments
3. The mining policy should consider availability of suitable exit option. Aspects related to brownfield exploration may also be considered.
4. Improve quality and availability of digital data, covering geological database (which includes quality and scale of maps and ease of access to information)
5. A comprehensive taxation policy should be drawn up to align India's taxation framework with the strategic needs of the gold mining sector

43 see www.eisourcebook.org

Chapter 2: Section II Gold Refining

To replicate the success of India being the global diamond cutting hub and becoming the gold refiner of the world.

This chapter highlights the multiple issues plaguing the refining segment of the Gold industry, particularly the import duty and lack of a gold standard. Suggestions are made to mitigate these factors, so that the benefits can be accrued. This is also a potential area where lot of FDI can be attracted.

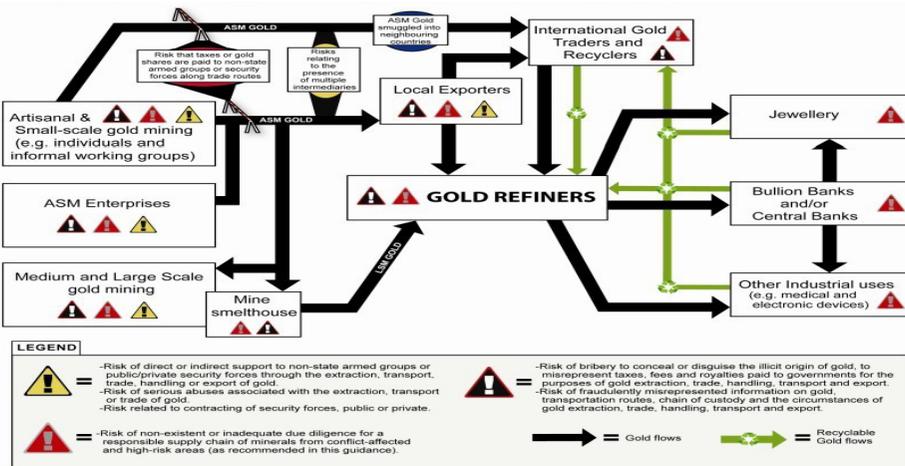
1. Gold Refining Standards

Gold mines produce rough gold, called doré, which is typically about 80 percent pure gold. This gold doré is then sent to a refinery, where it is refined into gold of different forms and purity. The most widely produced gold bars are the London Good Delivery bars. Under rules established by London Bullion Market Association (LBMA), these bars, set the gold standard of the gold world. (Refer Figure 2.2.1)

Refiners approved by the LBMA have to maintain excellent laboratory and production facilities, and there is a proactive monitoring of these refineries on the good delivery list. These are usually the only bars that are used for vaulting and storing purposes by bullion banks.

This refined gold is mostly purchased or financed by central banks and/bullion banks, who are the main link between wholesale buyers, jewellers and consumers.

Figure (2.2.1): Role of Gold Refineries⁴⁴



Switzerland plays a vital role in the gold refining industry. According to the U.S. Geological Survey, approximately 3,100 tons of gold was produced in 2016; Switzerland imported 2,716 tons or 88 percent⁴⁵. It is truly the global hub for the gold refining industry, as four out of the world's five largest gold refineries are located there.

44 OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict Affected and High Risk Areas, OECD, <http://www.oecd.org/daf/inv/mne/GoldSupplement.pdf>

45 http://host.madison.com/business/investment/markets-and-stocks/the-world-s-biggest-gold-importers/article_e57d83c2-3d28-52e9-be09-4e93773e4a82.html

2. Refining Gold in India

India is dependent on gold imports, either in refined or doré form, to meet its needs. India imports doré from approximately 17 countries spread across the Americas, Asia and Africa, with the latter dominating doré supplies into India. Nearly 80 percent is sourced from five countries: the United States, Ghana, the Dominican Republic, Tanzania and Peru⁴⁶.

Gold imports account for around 85 percent of total supply, and the refining sector plays an important role in taking these imports and putting them in a form suitable for India's gold industry. The distribution of gold supply between imports and domestic supply is given in Table (2.2.1).

Table (2.2.1) Indian Supply Estimates (Tons)⁴⁷

Supply	2012	2013	2014	2015	2016		Year-on-Year percent Change
Gross Bullion imports	974.5	959.4	994.8	1,065.0	648.3	▼	-39
of which Doré ¹	23.2	36.9	84.1	229.0	141.9	▼	-38
Net Bullion Imports	842.8	876.4	898.6	913.6	557.7	▼	-39
Scrap	118.0	95.8	92.5	80.2	81.8	▲	2
Domestic Supply from Other Sources ²	10.0	9.6	9.9	9.2	9.9	▲	8
Total Supply ³	970.8	981.8	1,001.0	1,003.0	649.5	▼	-35

1 Volume of fine gold material contained in the doré.
2 Domestic supply from local mine production, recovery from imported copper concentrates and disinvestment.
3 This supply can be consumed across the three sectors – jewellery, investment and technology. Consequently, the total supply figure in the table will not add to jewellery plus investment demand for India.

By processing or refining more gold, India can benefit from value addition. Buying the raw material from miners and selling processed gold provides a value addition that gives saving of approximately US\$ 25 million for every 100 tons of raw materials⁴⁸. If India can have more refineries and long-term doré availability, there will be a substantial benefit in building the supply chain and physical availability of gold in India.

3. Issues and Challenges

The major issues plaguing the gold refining industry are as follows:

3.1 Limited Refining Capacity

There are around 32 refineries in the Indian refining sector, with a combined capacity

46 India's Gold Market: evolution and innovation, page 58, 2016

47 Metals Focus, 'Gold Focus', 2016

48 Rajesh Khosla, Managing Director, MMTc PAMP. <http://www.thehindubusinessline.com/>

of around 1,300 to 1,400 tons⁴⁹. Some of the refining of domestic scrap is also undertaken by the medium and large-scale gold refineries operating in the organised sector, as well as by the hundreds of smaller refineries operating in the unorganised sector in the smaller towns and cities. Utilisation across the industry averages just 20 percent–30 percent with just five Indian refineries accounting for 90 percent of doré imports. Around 11 of the 32 refineries have been certified by the BIS, and there is only 1 LBMA Good Delivery refinery in India⁵⁰.

3.2 Import Duty on Gold Doré

The Government currently levies an import duty of 9.35 percent on gold doré. This has hindered the growth of the nascent domestic gold refining industry as more and more refineries are operating below 25 percent capacity utilization. As per MMTC PAMP India, “gold is available at a disparity in India compared to international price. Therefore, the refining margins are not adequate to support doré import for refining locally. This is the major reason for a sharp decline in doré import for processing in Indian refineries.”

While the Indian refiners do get this duty back, it locks their working capital and funding. It may appear far-fetched but it may also encourage some of the local players such as Vedanta (which set up a refinery in the UAE) and Rajesh Exports (which acquired a refinery in Switzerland) and other potential large players to view India as a destination to set up refineries. Taking a leaf out of the books of leading refining countries around the world, if the Government of India reduces the import duty (which is zero if the doré is exported), the working capital of refiners working on razor thin margins shall improve. For the government, this shall have a cash flow impact. With lower duty, refiners will be encouraged to compete with global refiners. This will help the economy as jobs will be created and direct tax base will grow.

3.3 Long-term commitments

The medium and major gold mines around the world have committed or tied up their long-term production capacities with the major refinery groups operating in Europe, Africa and Australia. The vertical drilling operations of these rock gold mines entail huge capital investments, calling for long-term commitments. Policy hurdles on doré import are restraining the Indian refineries from engaging with these mines for long-term contracts. The Government of India could help the domestic refiners to procure ore by establishing FTAs with bigger gold-producing countries of the world.

3.4 Good Delivery Standards

The increase in competition is also partly a function of the growth in accredited LBMA gold refineries, which now stand at 73 globally. Set against this, India has just one listed LBMA gold refinery. In comparison, China accounts for 12 percent of the global total accredited refined gold. An India Good Delivery Standard needs to be defined for the local refineries. This standard should be acceptable to Indian banks and regulatory authorities.

3.5 LBMA Accreditation

Ore imports in India fell by 38 percent to 142 tons in 2016 due to a change in the tax structure, as it became unprofitable for refineries to import doré. Since most of the refineries in India are not LBMA certified, gold bars produced by them cannot be used for exchange traded funds or brought back by banks. As a result, refineries are not a part of

49 Estimates provided to the Committee by Metals Focus based on their internal study (2016)

50 Annexure 9

the financial system. For criterion related to LBMA accreditation, the following need to be achieved:

- A net worth of at least £ 15 million;
- A minimum of 10 tons of annual production
- A minimum of five years of operations
- Minimum production output in three of those years
- Satisfying Know Your Customer (KYC) tests
- The ability to implement the LBMA's Responsible Gold Guidance

4. Gold Refining: Case for Policy Change

If the above mentioned issues are addressed, suitable policy change, would lead to enhanced availability of good quality gold, additional export business, job creation and social inclusion. These are discussed below.

4.1 Recycling – Increasing Supply / Availability of Good Quality Local Gold

Refining and reusing old jewellery are important as they would augment domestic gold supply. As gold prices have increased and have remained high, Indian families have resorted to selling old jewellery at current rates. Incentivizing refining of gold will also positively impact GMS where multiple recommendations have been given in the report to increase the participation in the GMS.

4.2 Improved Refining Capability can provide an Additional Export Business: Import Doré to Export Gold

Some Indian refiners need to adopt LBMA standards to meet the growing global demand for gold compared to Indian demand. Having refining capacity for international and local markets would be a strategy that could be adopted and encouraged so that India can play a role similar to Switzerland or similar to how the diamond industry works.

4.3 Job Creation

Doré or raw material sourcing for the refiners can further be eased by stimulating domestic mining. Increasing domestic mining of gold has multiple benefits. For example, availability of gold domestically will ensure ready supply of gold doré to India refiners which will ensure their capacity utilisations. The advantage of doré refining over imported finished gold is that the value addition is done within the country, thereby generating employment, saving foreign exchange and generating tax revenue for the government in the form of taxes. Above all these generic benefits, there is a core benefit of developing core competence required by a world-class refining facility. All in all, this will create more rural jobs, in locations where the refineries are situated.

Increased focus on domestic gold recycling implies that a network of logistics needs to be created around the recycling setups. This would include the courier, vaulting infrastructure, security and skilled staff for the refining process and would imply opening up additional possibilities of job creation.

4.4 Social Impacts

Having world-class refineries can address economic, health and social impacts, including workers' health and safety in rural India, and can also benefit the industry. It can also enhance the participation of stakeholders, including local and indigenous communities

and women, in developing the industry. And finally, it can foster sustainable practices through the provision of financial, technical and capacity-building support to developing rural economies.

5. Recent Refining Activity

The Indian Government and bullion industry are likely to collaborate with the OECD to prepare a policy on responsible sourcing of gold, covering import, refining and delivery. Refiners are operating with a 0.65 percent margin, which is the import duty difference between imported gold at 10 percent and doré at 9.35 percent. South Korea is favoured for importing gold over other countries that India has FTAs with because of its ability to deliver bullion in the form of coins or other articles, which do not attract import duty.

6. Recommendations

The Committee has reviewed the recent development in the gold refining industry and feels that this segment has lot of potential for FDI. The following recommendations may be considered in this regard:-

- 1 The duty on doré may be reduced in line with import duty on gold, while increasing margins, so as to promote domestic refining.
- 2 Adopt responsible sourcing guideline for refineries and develop an 'India Good Delivery Standard' or adapt to LBMA. The proposed Gold Board of India should be able to provide the framework for good delivery norms for Indian refiners.
- 3 Refining for exports should be encouraged and restrictions on gold medallions, coins and jewellery above 22 carat purity from domestic tariff areas (DTA) and export-oriented units (EOUs) should be addressed.
- 4 Policies around mining certificate for doré imports should be reviewed, to ensure Indian refiners are competitive and can gain by utilising the idle capacity and large investments in the refinery.
- 5 Due to the government's policy of not allowing free exports of gold bullion, Indian refineries are only encouraged to meet domestic demand and do not cater to international gold centres. Given India's importance in global gold trade, enabling measures are needed to help promote India as a refining hub.

Chapter 2: Section III

Gold Exports

“To increase the contribution of jewellery in the global markets and to fulfil India’s legacy of becoming the “Jeweller to the World”.”

1. Introduction

The Indian gems and jewellery sector plays an important role in India’s export economy. The sector is one of the leading sector in India in terms of its contribution to foreign exchange earnings and employment generation. In the year 2016-17, this sector accounted for about 15.74% of India’s total merchandise exports amounting to US\$ 43.41 billion as compared to US\$ 39.28 billion in 2015-16. The sector primarily consists of 3 sub-sectors, viz. Cut & Polished Diamonds, Gold Jewellery and Coloured Gemstones & other items. In 2016-17, the percentage share of exports of Gold Jewellery in total exports from gems and jewellery sector was 18% and stood at US\$ 7.84 billion. Top export destinations for Indian gold jewellery exports are the United States, Hong Kong, the United Kingdom and Singapore, although the UAE accounted for around 55 percent of the total.

India’s gold jewellery exports grew from US\$ 4.3 billion in FY08 to US\$ 7.8 billion in FY17, peaking in FY13 with US\$ 12.5 billion. In FY18, India’s gold jewellery exports stood at US\$ 5.88 billion between April-November 2017 as compared to US\$ 5.91 billion in corresponding period in previous year. Indian handmade jewellery is popular primarily amongst South Asian communities.

The details of gold jewellery export and its share in total gems and jewellery export in previous five years is given in table (2.3.1)⁵¹:

Financial Year	Total G&J Export	Gold Jewellery Export	% share
2012-13	42.99	12.83	29.8%
2013-14	41.39	9.64	23.2%
2014-15	41.27	10.28	24.9%
2015-16	39.28	7.87	20.0%
2016-17	43.41	7.84	18.1%

2. Recent Policy changes

- Implementation of Goods and Services Tax (GST) regime
- An upper limit of purity, i.e. 22 carat prescribed for export of gold jewellery, whether plain or studded. (DGFT’s Notification No. 21/2015-2020 dated 14.08.2017)
- Gems and Jewellery, articles of gold and precious metals excluded from scope of entitlement of Status holder to export freely exportable items on free of cost basis for export promotion. (DGFT’s Notification No. 23/2015-2020 dated 23.08.2017)
- The import policy for import from South Korea of articles of jewellery and parts

51 DGCIS

thereof, of precious metal or of metal clad with precious metal under Exim Code 7113; articles of goldsmiths' or silversmiths' wares and parts thereof, of precious metal or of metal clad with precious metal under Exim code 7114; other articles of precious metal or of metal or of metal clad with precious metal under Exim code 7115; and coins under Exim code 7118 changed to 'Restricted'. (DGFT's Notification No. 25/2015-2020 dated 25.08.2017)

- Four Star and Five Star Export Houses with Nominated Agency Certificate is subjected to actual user condition and are permitted to import gold as input only for the purpose of manufacture and export by themselves during the remaining validity period of the Nominated Agency certificate. Also, henceforth no Nominated Agency Certificate shall be issued/renewed for Four Star and Five Star Export House status holders. (DGFT's Notification No. 34/2015-2020 dated 18.10.2017)
- The Gems and Jewellery industry was specifically brought under the PMLA, vide Notification No. 5/2017/F.No. P-12011/4/2015-ES Cell-DoR dated 23.08.2017 and made the members of the industry to act as reporting entities for the sales of jewellery worth Rs. 50,000 or more. This notification was rescinded vide notification dated 06.10.2017

2.1 Government Schemes relating to Gold and Gold Jewellery

- Jewellery exporters may obtain precious metal gold from nominated agencies/banks under following schemes/provisions of the Foreign Trade Policy 2015-20 and Handbook of Procedure 2015-20:
 - (i) Replenishment basis after completion of export
 - (ii) Outright purchase basis in advance
 - (iii) Loan basis
- Also, where export orders are placed on nominated agencies / status holder / exporters of three years standing having an annual average turnover of INR 5 crores during preceding three financial years, foreign buyer may supply in advance and free of charge, gold / silver / platinum, alloys, findings and mountings of gold / silver / platinum for manufacture and export.
- Department of Commerce provides financial assistance for export promotion activities under Market Access Initiative (MAI) Scheme. Activities included in scope of MAI Scheme are National Level Participation & Organising Trade Festival of India etc., abroad, Opening of Showrooms and Warehouses, Displays in International Departmental Store, Publication of World Class Catalogues, Publicity Campaign and Brand Promotion, reverse visits of the prominent foreign buyers, etc.
- Department of Commerce is operating a Scheme for setting up Common Facility Centres (CFC) in manufacturing clusters of gem and jewellery sector to provide access to common pool of advance technology and equipment to small and medium manufactures and artisans. The scheme is 100% funded by the Government of India and being implemented through GJEPC. Out of 13 CFCs proposed to be set up under the scheme, six will be set up in jewellery manufacturing clusters at Delhi, Kolkata, Coimbatore, Hyderabad, Rajkot and Jaipur.

The Indian exports of gold jewellery are facing a major challenge. In January 2017, the

UAE imposed an import duty of 5 percent on finished gold jewellery while import of gold bars remains untaxed. This discourages Indian exports (as the duty makes the jewellery expensive), and it opens up possibilities for local businessmen to set up units in UAE. They merely shift the Indian Karigar to the UAE and manufacture 'Indian' jewellery to be sold in the UAE⁵². This has adverse consequences for Indian exports as mentioned below:

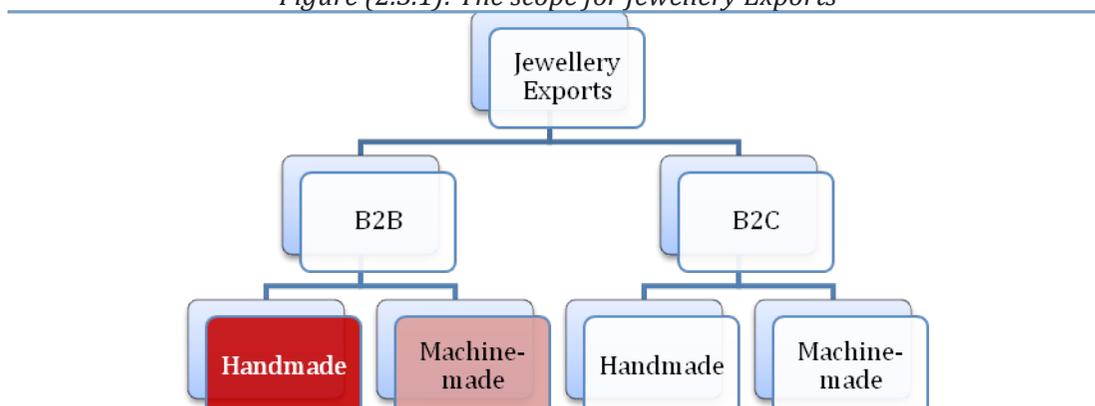
1. Decline in exports from India⁵³
2. Negative impact on the 'Make in India' initiative
3. Shift of skilled manpower (Karigar) out of India

In this context, the further sections present a discussion of the major issues affecting exports and the changes that should be envisaged in the export environment.

3. Major Issues Hindering Exports – B2B and B2C

The scope of exports would have to cover four aspects of the global market (figure 2.3.1).

Figure (2.3.1): The scope for Jewellery Exports



The current Indian export policy is oriented towards exports that cater to the B2B export for Indian handmade jewellery. This is a high sale but low-profit business with low value addition. The scale of manufacture of machine-made gold jewellery in India is low, hence the B2B export for the same is extremely low.

The other two approaches to boost exports is the B2C trade, which results in higher value addition but with lower sales turnover as the retailer has a direct interface with the customer. The exponential rise in technology-enabled trade through e-commerce trade platforms has created a vast opportunity for promoting B2C transactions for exports. This route has not been considered anywhere in the export policy for Indian gold jewellery. The Committee recognizes that greater emphasis is required by the development of a policy aimed at promoting B2C sales allowing benefits from a higher value addition of the exports made.

The various issues around the enablement of exports are discussed in the following sections with the issues segregated around the ones faced in B2B and those around B2C.

The related issue of providing greater impetus for machine-made jewellery by providing

52 http://www.business-standard.com/article/markets/india-s-gold-jewellery-exports-to-uae-decline-56-in-january-117030100701_1.html

53 http://www.business-standard.com/article/markets/india-s-gold-jewellery-exports-to-uae-decline-56-in-january-117030100701_1.html

the necessary technology and developing the skill set for the same are discussed in a separate chapter.

4. Issues in the Current B2B Export and Recommendations

The B2B trade is high sales but low-profit business. The primary concern is the availability of gold to the export business and the import duty requirements.

4.1 Role of Banks

The banks are the nominated agencies for import of gold. There are very few banks active in their role as the nominated agencies for import of gold. The Committee recommends that the RBI ensure greater participation by the banks to enter the gold business thereby ensuring the necessary supply of gold to the exporters.

The banks further are the controllers of the price and quantity for the supply of gold to the industry. The international suppliers sell gold to the Indian banks for a price which includes a premium over and above the LBMA price. In addition, the banks charge a premium on the supply of gold in the range of US\$ 2.2–US\$ 2.3/oz., over and above what the international supplier charges were paid by the bank. In markets such as the UAE, gold may be procured at a discount from the LBMA quoted prices. The Committee recommends that the banks review their arrangements with overseas suppliers and also check for the competitive pricing benefit that they can accrue.

The Handbook of Procedures permits banks to supply gold for a request of as low as 10 grams. However, industry feedback indicates that each bank decides unilaterally on the minimum quantity of gold (usually 1 kg) that they can supply for exports and further the rounding available.

Table (2.3.2): The Minimum Supply Requirement

Customer Requirement	Permitted by Handbook of Procedures	Bank Constraints the Supply ⁵⁴ with Min. Requirement
Any amount (in grams)	10 grams	– In multiples of 1 kilogram – Min. requirement 50 kilograms

The Committee recommends that the banks should work out a mechanism to be able to adopt the provisions of the Handbook of Procedures.

4.2 Merchandise Exports from India Scheme

The Government of India has introduced the Merchandise Exports from India Scheme (MEIS) through FTP 2015-20 w.e.f. 01 April 2015. It seeks to promote the export of notified goods manufactured/produced in India and considered a major export promotion scheme of the government implemented by the Ministry of Commerce and Industry. Rewards under MEIS are payable as a percentage (2 percent, 3 percent or 5 percent) of the realised FOB value of covered exports, by way of the MEIS duty credit scrip. The scrip can be transferred or used for payment of a number of duties/taxes including the customs/excise duty/service tax. Scripts and inputs imported under the scripts are fully transferable⁵⁵.

However, gold and other precious metals in any form including plain and studded jewellery are not eligible for incentives under this scheme.

54 As per numbers reported to the Committee by some banks who supply gold to exporters

55 <http://pib.nic.in/newsite/PrintRelease.aspx?relid=148539>

Such an exclusion places jewellery exports from India on a weaker footing compared to all other exports even though they bring in considerable amounts of foreign exchange and contribute to employment and value addition in the economy, thus they be made eligible under this Scheme.

The Committee recommends revisiting these discrepancies and allowing all forms of gold jewellery be considered for incentives under this scheme.

4.3 Duty Drawback Scheme

The Duty Drawback Scheme seeks to rebate duty or tax chargeable on any imported/excisable materials and input services used in the manufacture of export goods. The import duty varies based on the price of gold on the prevailing date. At present, the duty drawback rate for gold is INR 246.50 per gram and Rs. 3513.80 per kg respectively w.e.f. 1 October 2017 against the 10 percent basic import duty on gold. The rates are announced annually by the Drawback Committee. These drawback rates are economically unviable which is deterring various small and medium exporters to utilize this scheme.

The Committee feels that the design of this scheme needs to be reviewed and changed to ensure full duty drawback on gold for the purpose of jewellery export. The periodicity of revision of rates may also be looked at, with a possibility to disburse the same on a daily basis.

4.4 Replenishment Scheme for Export and Import on a Consignment Basis:

Duty exemption schemes enable duty free import of inputs required for export production. An Advance Licence is issued as a duty exemption scheme. A Duty Remission Scheme enables post export replenishment/ remission of duty on inputs used in the export product.

Exports to the world markets in the B2B business happen under two conditions: one when there is an export order that mentions the requirements of the buyers and, second, when there are multiple export promotion tours and exhibitions are held.

Para 4.53 and 4.93 of FTP and Handbook of Procedures 2015-2020 respectively allow the export of jewellery items on a consignment basis. In the case of consignment export, exporters utilise gold from their own stock procured from the domestic market, manufacture jewellery and export on a consignment basis for sale in the overseas markets.

The consignment is fully appraised by the customs authorities, pictures of the same are taken and appraised and thereafter it is exported on a consignment basis. The unsold goods are verified through the pictures and re-imported into the country. The procedure is the same for jewellery exported through export promotion tours and overseas exhibitions.

The concern is that under the replenishment scheme for the consignment export of gold jewellery, there is a differential treatment of claim replenishment of the precious metal, when the export is through export promotion tours and overseas exhibitions, as compared to when it is a consignment export. There may be a need for rationalisation of this differential treatment for the same commodity.

The replenishment scheme should be allowed for the consignment export of gold jewellery, which shall be claimed by the exporter post receiving of remittance from its overseas buyers.

4.5 Global Export Agreements:

In 2016, around US\$ 4 billion worth of gold jewellery was exported to the UAE, accounting for more than half of total Indian jewellery exports. Gold jewellery has not only been purchased by Indians living in the UAE, but also by Indian tourists that visit Dubai, who carry it back home due to the cheaper price of gold. In January 2017, the UAE government introduced a 5% import tax on jewellery that has led to a slowdown in the export of gold jewellery from India for consumption in the UAE⁵⁶. Given the significance of gold jewellery exports to Gulf countries, it may be prudent to explore duty free import and export of gold with these countries. A duty free corridor will help boost exports.

Gulf Cooperation Council (GCC) countries already have FTAs with Singapore, Malaysia and in talks with other countries to expand in order to boost the business of gold jewellery among themselves. It is prudent that India being among the largest trading partner of GCC countries has a similar agreement. This could not only aid overall trade but also provide the much-needed impetus to intensify jewellery exports to the GCC region, which is home to more than 7 million people of Indian origin.

The Committee recommends that possibility of creating a gold corridor between India and GCC countries may be explored through which duty free import and export of gold and gold jewellery can happen. To begin with, a study may be conducted to examine the same.

5. Issues in the Current B2C Export and Recommendations

There is currently no policy to address how the export business should cater directly to a foreign customer base. There are multiple ways where the sale (export) can be made directly to the customer and such practices are prevalent in other global markets.

While a great boost has been given to tourism in India, there is also a need to need to provide an incentive for gold jewellery sale to the rest of the world customer base. Further, with the internet the world marketplaces are shrinking. Indian export policies should increase their scope to enable sales directly to the customers who are tourists and also to customers who may want to place an order from anywhere around the world.

5.1 Courier Agencies

Companies around the world are moving at a frantic pace in terms of expanding trade and business. In the gold industry in India, the courier agencies can play a very important role in enabling trade, i.e., in both the supply of gold to the industry and the sale of jewellery to the consumer. They can even play a vital role in the success of the GMS, where they would be a link between the customer, banks and the CPTC centres. The GMS is envisaged as a major source of gold supply to the industry (explained in the chapter on GMS). The courier agencies would also play a major role in enabling remote deliveries for the proposed Bullion Exchanges and ushering India into a new age of efficiencies of usage of gold through the country.

The cost-effectiveness of the courier service is a major criteria for jewellers as they sell their products through a highly transparent pricing method, where the customer is informed of the gold price, labour charges, miscellaneous charges, taxes, etc. The trade functions through a minimal margin available for the jeweller.

Many consumers opt to shop online today not only because of the time convenience but also due to the large variety of range and options that they can get.

56 Metal focus, India focus Monthly, Issue 33

The Committee recommends that a set of policies need to be deliberated upon with the Courier Agencies to enable the supply-chain for gold jewellery exports and also to assist the penetration of GMS.

5.2 Value Addition

The value addition is determined by the jewellery design and also the consumer and market preferences. It may be high or low based on the utility, i.e., whether it is meant for an occasion/special purpose or whether it is for daily wear. This cannot be confined to a fixed set of minimum value-addition requirement that is specified in the Handbook of Procedures.

The Handbook of Procedures stipulates in Clause 4.61 the value addition required for the export of gold jewellery. Table (2.3.3) provides the details of the value addition specified for the jewellery to be exported.

Table (2.3.3): Value addition as specified in the Handbook of Procedures

Sr. No.	Items of Export	Minimum Value Addition
1	Plain gold jewellery, articles, and ornaments like Mangalsutra containing gold and black beads/imitation stones, except in the studded form of jewellery.	3.50 percent
2	All types of studded gold	6.0 percent (for those studded with coloured gemstones) and 7.0 percent (for those studded with diamonds).
3	Any jewellery/articles manufactured by fully mechanised process	2.00 percent
4	Gold medallions and coins (excluding coins of nature of legal tender)	1.50 percent
5	Gold/silver/platinum findings/mountings manufactured by mechanised process	2.50 percent

It is essential that the exporter decides whatever value addition he or she feels appropriate. As we look to cater to the preferences of the 'rest of the world' customer, it becomes important to provide for machine-made jewellery exports. A majority of this category of jewellery has low-value addition. However, due to risk of round tripping attached with gold jewellery export and in absence of any standard input-output norm, a minimum value addition limit for allowing export is necessary.

The Committee recommends rationalization of minimum value addition requirement to allow for jewellery exports so that it can cater both the handmade and the machine-made jeweller in both the B2B and B2C markets.

6. Strategy to increase Gold Jewellery Export

Currently, the GJEPC conducts promotional campaigns to showcase Indian jewellery in

the global markets. These are low key promotional events that require to be scaled up. There is a need to identify and prioritize export markets for gold jewellery export and also strengthen existing markets by providing additional marketing & promotion initiatives on a larger scale.

Currently the budget allocated for holding or participating in overseas exhibitions is around US\$ 5 million and in the case of export promotion tours, the budget allocated is around US\$ 1 million. This allocation is not sufficient to showcase Indian jewellery in a competitive global market.

However, prior to participating in global promotional campaigns, Indian jewellery manufacturers need to upgrade manufacturing standards and enhance overall quality of product. There is also a need to upgrade skills that can develop products to cater to the foreign customer based on their jewellery preferences. Additionally, constant design innovation and keeping abreast of trends should be inculcated in the core curriculum at schools. In summary, focus on skill development programs (with industry involvement) is required to upgrade skills to international standards at multiple centres across the country.

Simultaneously, Common Facility Centres at manufacturing centers with modern and state-of-the-art machines to manufacture jewellery based on western designs need to be setup. SEZ's must also be upgraded to cater to this international demand.

7. Recommendations

The multiple concerns from the exports market perspective were separated as those that impact the B2B export and those that impact the B2C business. However, it may be noted that these could be interchangeable as the business entity that caters to domestic sales also has export setup and can also potentially be direct suppliers to the customers. The concerns addressed on the existing provisions cover the role of banks, duty drawback mechanism, the customs appraiser and global export agreements.

The Committee therefore recommends the following measures:

1. Enabling policy measures to boost exports and increase value addition. This would also cover the inclusion of Gold in Tier I of 'Make in India' industries. Widen the scope of exports from high sales, low value addition set up of B2B to low sales, high value addition set up of B2C, as related both to the handmade and machine made jewellery market segments.
2. Ensure greater participation by the banks, with efficient supply requirement with reference to the price and quantity made available to the industry.
3. All precious metal jewellery (both plain and studded) should be clubbed with the MEIS, thereby extending the benefits to the gold industry. The exporters of precious metal jewellery need to be incentivised through the inclusion of gems and jewellery products under Merchandise Exports from India Scheme (MEIS). To begin with, all jewellery products (both plain and studded) may be included for MEIS benefits at the rate of 2 percent, subject to achieving value addition as per the following details:
 - Precious metal plain jewellery – Achievement of minimum 8 percent of value addition.
 - Precious metal studded jewellery – Achievement of minimum 15 percent value addition.

4. Simplify the duty drawback mechanism and allowance of full duty drawback on gold used for the purpose of jewellery export.
5. The duty drawback rates for gold may be announced and disbursed on a daily basis. Both the foreign exchange rate for import and export as well as tariff value for calculating the price of gold and silver is declared by the Government every fortnight. By calculating the duty paid on gold and silver on a particular day, an exporter/importer can declare the duty amount to be claimed at the time of export on the invoice itself and have the same appraised by customs. Hence, price fluctuation of gold and silver can be addressed without causing any revenue loss to the government.
6. The replenishment scheme should be allowed for the consignment export of gold jewellery, which shall be claimed by the exporter post receiving of remittance from its overseas buyers.
7. A study may be conducted to explore the possibility of creating a gold corridor between India and GCC countries.
8. Prepare a fair, transparent and robust policy so that the courier agencies enable the distribution of jewellery in both the domestic and the global markets.
9. Allow for the value addition levels to be set such that they cater to both hand-made and machine made jewellery to be considered for exports.
10. Increase in the value of gems and jewellery products in case of holding/ participating in overseas exhibitions from US \$ 5 million to US \$ 15 million and in export promotion tours from US \$ 1 million to US \$ 5 million.
11. Encourage branding and international promotion of handmade jewellery exports.
12. Improve jewellery designs by matching the designs with international market requirements, by associating expertise of NID and NIFT. (Also referred to in the skill development chapter).

Chapter 2: Section IV

Hallmarking

“To make the Indian hallmark the benchmark of internationally accepted quality thereby propelling India to become the ‘Jeweller of the world.’”

1. Introduction

Hallmarking is the accurate determination and official recording of the proportionate content of precious metal in precious metal articles. Hallmarks are thus official marks used in many countries as a guarantee of purity or fineness of precious metal articles. In India, at present two precious metals namely gold and silver have been brought under the purview of Hallmarking. Hallmarking of gold jewellery was started by BIS in April 2000 to provide third party assurance to consumers on the purity of gold jewellery or its fineness. The scheme for Hallmarking of silver jewellery/ artefacts was launched in October 2005. Under the Scheme, while the jewellers are granted licence to sell hallmarked jewellery, Assaying & Hallmarking (A&H) centres are recognized to assay the purity of the jewellery submitted by the licensed jeweller and to apply hallmark on such jewellery which conforms to relevant Indian Standard.

The hallmarking scheme, presently voluntary in nature, was started with the following objectives:

- Protect the consumer against irregular gold quality
- Develop export competitiveness
- Develop India as a leading gold market centre in the world⁵⁷
- The integrity of hallmarking scheme is heavily dependent on the functioning of the A&H centers. A&H centres, set up by private entrepreneurs, are initially recognised and periodically assessed by BIS for their performance. These centres are expected to fulfil the requirement of Indian Standard IS 15820. Purity or fineness of gold and gold jewellery are specified in IS 1417 and that of silver and silver jewellery in IS 2112. The procedure for determination of gold content is specified in IS 1418 and that of silver in IS 2113.
- The progress of BIS Hallmarking Scheme for Gold since its launch is as below:

57 BIS website, “FAQ on Hallmarking Gold and Silver”

Table (2.4.1): Growth in BIS Hallmarking Scheme for Gold⁵⁸

	2001	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	Jan 18
Jeweller License	186	286	560	795	935	1410	3466	5808	7051	7393	7643	9872	11281	12743	14031	15887	19606	22309
A&H Centres	8	12	13	15	24	36	45	91	137	149	155	186	210	285	331	370	454	554
Cumulative Articles Hallmarked (in lakhs)	1	5	15	31	62	115	210	382	581	777	1025	1275	1552	1825	2130	2479	5639	8378

- The Bureau of Indian standards (BIS) Act 2016, notified on 22 March 2016, and brought into force with effect from 12 October 2017 enables provisions for making hallmarking of precious metal articles such as gold mandatory. This is further supplemented by the Draft BIS (Conformity Assessment) Regulations, 2017 framed under the provisions of BIS Act 2016.

1.1 Accession to Vienna (Hallmarking) Convention:

Vienna Convention on the Control and Marking of Articles of Precious Metals is an international treaty between States on the cross-border trade in precious metal articles. It was signed in Vienna in November 1972 and entered into force in 1975. Currently 19 countries are members of the convention and 5 countries, who are in the process of accession, are observer members. The prime objective of the convention is to facilitate trade in precious metal articles while at the same time maintaining fair trade and consumer protection by adopting a common set of technical requirements for the independent third-party verification (hallmarking), and a Common Control Mark (CCM) indicating fineness⁵⁹.

India as a prominent exporter of gold jewellery should become a member of the Vienna Convention. This would enable some of the AHCs in India to be assessed and recognized by the Vienna Convention, after which they can be authorized to put the Common Control Mark (CCM) on gold jewellery, which has international acceptance among the Vienna Convention's member countries. Therefore, the jewellery marked in India for export would not be required to be tested again for purity in member countries, unlike the current situation. It would greatly facilitate exports of gold jewellery from India. Further, approved Centres will also participate in regular inter-laboratory testing carried out amongst member countries' assay laboratories. It would also facilitate technological enhancement of the AHCs recognized by the Vienna Convention. This would enhance the credibility and acceptance of the centres in India. Further, BIS should have mutual recognition agreement with its counterpart authorities in leading export destinations of Indian jewellery exports.

2. Best Practices for Hallmarking: United Kingdom Model

Hallmarking has been prevalent in the United Kingdom (UK), for more than seven centuries. It was first introduced in the year 1238 and has seen multiple changes over the

58 Information provided by BIS to the Committee (January 2018)

59 <http://www.pib.nic.in/newsite/erelcontent.aspx?relid=63079>

centuries. A consolidated version of all the previous developments on hallmarking was put together in the Hallmarking Act, 1973. It is the modern law regarding the assaying and hallmarking of metals in the United Kingdom. Hallmarking of all jewellery sold is mandatory in the UK. The jewellery can be sent for hallmarking only by the ‘Sponsor’. A Sponsor is an entity that obtains the hallmarking of the jewellery from the AHCs, with whom the ‘Sponsor Mark’ is registered at a nominal fee that is valid for 10 years. The fee is based on the cost of manufacturing the stamp of the Sponsor by the AHC. The Sponsor may be anyone in the industry value chain. Thus, the focus of the hallmarking model is on the activity of hallmarking alone, while leaving the trade unencumbered. Fewer marks also mean that the designs remain unhindered. In case of any error in hallmarking, the marks are designed such that they are sufficient for identification purpose and for ascertaining the required identities of all parties involved. It is imperative to note that there is no license or certification needed for selling hallmarked jewellery throughout the UK.

The AHC maintains a detailed record of all the items that it has hallmarked. The Sponsor has no legal requirement to keep any records of the items sent for hallmarking. The AHC however has a legal requirement to keep detailed data of all the articles hallmarked by them. There are four hallmarking centres in the UK and each has to send a detailed report to the British Hallmarking Council on a quarterly basis. Gold jewellery below the weight of 1.000 g need not be hallmarked. It is well accepted that 100 percent verification of quality checking as done using ‘destructive testing’ leads to destruction of the ornament itself lending the process futile. The sample testing method is adopted. The AHC is responsible for the purity of the jewellery.

The precious metal fineness standard for UK hallmarking covers all the types of jewellery that are sold in the nation specifically it is, 9 carat, 14 carat, 18 carat, 22 carat and 24 carat. Any other standard is also approved based on the requirement of the customer and the manufacturer. The hallmark is made up of three compulsory symbols⁶⁰, which are:



1. The Sponsor’s Mark: this indicates the maker or Sponsor of the article. The Sponsor needs to register the mark with the AHC. No two marks are the same.
2. Metal and Fineness (purity) Mark: this indicates the precious metal content of the article and that it is not less than the fineness of the article indicated. The fineness is indicated by a millesimal number (parts per thousand) and the metal type is indicated by the shape of the surround.
3. Assay Office Mark: Indicates the particular AHC at which the articles are tested and marked. There are 4 Assay Offices in the UK – London, Edinburgh, Birmingham and Sheffield. They have multiple regional branches and their stamps are illustrated below:



60 Hallmarking guidance notes, Oct 2016, Information from the Assay Office of Great Britain

In the event of under-caratage of jewellery, the responsibility is with the AHC that has stamped the purity. The Trading Standards team works together with the assaying office in the interest of trade and the consumer to rule out any fraudulent cases. Trading Standards is a government department and under the Trading Legislations, if it finds any jewellers guilty, can then prosecute jewellers who sell jewellery that should have been hallmarked but hasn't been, or have fraudulently marked jewellery with the wrong hallmark.

The hallmarking activity in the UK is simplified where it works to the advantage of the industry. The provisions allow for an overall ease of doing business and an incentive to ensure that trade in hallmarked jewellery is encouraged.

3. Consumer protection through BIS Act, 2016 – Issues

BIS had conducted two market surveys in the year 2001 & 2006 of non-hallmarked gold jewellery being sold by the jewellers across the country. The jewellery thus purchased was found to be short in purity (gold content) as per the details given in Table (2.4.2).

Table (2.4.2): Findings of sample tests conducted by BIS⁶¹

Particulars	2001 (120 samples of gold jewellery drawn from 8 cities)	2006 (162 samples of gold jewellery drawn from 16 cities)
Samples failing	89%	90%
Average shortage in purity	11%	13.5%
Highest purity shortage	38.6%	44.6%

The Committee notes that the last such sample survey was conducted in 2006. There is a need for BIS to quickly undertake another survey so as to assess the present position. Such surveys would need to be conducted periodically in the future.

In a recent report the World Gold Council has stated that shortage in purity of the gold jewellery which used to be in the range of 20 to 40% before hallmarking has now come down to 10 to 15%. This shows that there is need to augment the consumer protection in purchase of precious metals. In 2016, the BIS introduced *The BIS Act, 2016* (henceforth, the BIS Act, 2016) and in April 2017 the BIS issued *The Draft BIS Rules and Regulations* (henceforth, the Draft Regulations). The regulatory requirements should enhance the jewellery trade, and establish transparency and creditworthiness in the business to move trade from an unorganised to organised setup. They should preserve consumer interest and ensure that trade is not disabled with over regulation. The Government of India has enacted the BIS Act, 2016, which will enable the Government to make the hallmarking scheme mandatory.

A comparative understanding of global best practices on hallmarking provides a benchmark to best practices. The various sections / sub-sections of the BIS Act, 2016 and the Draft Regulations have been discussed further in detail.

61 Information provided by BIS to the Committee (January 2018)

3.1 Application for the Jeweller Certificate (License)

The BIS Act, specifies:

- *Chapter III, Section 14.2: “The goods or articles notified in subsection (14.1) may be sold through retail outlets certified by the Bureau after such goods or articles have been assessed for conformity to the relevant standard by testing and marking centre, recognised by the Bureau and marked with Hallmark or Standard Mark, as the case may be, as specified by regulations*
- *Chapter III Section 15.1.: “No person shall import, distribute, sell, store, or exhibit for sale, any goods or article under sub-section (1) of section (14) {hallmarked articles}, except under certification from the Bureau.*
- *Chapter III Section 15.2: “No person, other than that certified by the Bureau, shall sell or display or offer to sell goods or articles that are notified under sub-section (3) of section 14 and marked with the Standard Mark, including Hallmark and claim in relation to the Standard Mark, including Hallmark, through advertisements, sales promotion leaflets, price lists or like.*

The Draft Regulations further specify:

- *Section 1.4.1- Application: Any jeweller established as a proprietorship firm, partnership firm, private limited company, public limited company or any other established firm or company or organization under relevant laws engaged in manufacturing of precious metal articles for sale or selling of precious metal articles or both may apply for grant of Jeweller Certificate*
- *Section 1.7.2- Terms and Conditions: The Jeweller Certificate shall be valid for the premises mentioned in the certificate.*

The industry has brought it to the notice of the Committee that there is lack of clarity relating to the requirement of jeweller certificate. The above Sections of the BIS Act and the Draft Regulations, propose that the manufacture of jewellery only be permitted to holders of the Jeweller Certificate. It is imperative to note that there is no license or certification needed for selling hallmarked jewellery throughout the UK. In India too, it is recommended that the Jeweller Certificate be reconsidered, at best in the form of a simple registration. It may also be suggested that an evaluation of the rights of the consumer that is buying jewellery is done, and it should be ensured that the consumer is not compromised or inconvenienced. It is important to point out that the jewellery being sold should be of the caratage as is mentioned, but this goal may be achieved through the act of hallmarking itself. Thus, it is important to seek examples from other countries that have already implemented the activity of hallmarking and to see how they have implemented to the same to mitigate problems for the industry. To that effect, in a comparison drawn with the UK it is found that the system adopted there is based on a singular focus on increasing the sale of hallmarked jewellery and ensuring that there is ease of doing business while do so. Thus, any entity (Sponsor), may send the jewellery for hallmarking and it may be sold by the entity thereafter.

3.2 Purities permitted for sale

At the outset, it is important to remember that hallmarking is an activity through which the rights of the consumer may be protected by ensuring that the purity of the jewellery sold is the same as mentioned at the time of sale. By that logic, so long as the jewellery is of the caratage as claimed, the sale of jewellery of any caratage should be permitted. However, the BIS Hallmarking Scheme proposes to permit the sale of only 22 carat, 18 carat and 14 carat hallmarked jewellery⁶² and to disable the sale of any other purity of gold jewellery, irrespective of the choice of the customer.

It may be prudent to point out that in 1963 the government prohibited the production and sale of gold jewellery above 14 carat fineness. This met with much resistance from the citizens of the nation and, on November 16, 1966, the sale of all purities of gold jewellery were permitted once again. This example from history is acknowledged and recognised as being an error of judgement and the government should ensure to not repeat such a mistake.

Once again, it is imperative to compare the proposed legislation with the learning of global peers in an effort to mitigate any difficulties for domestic industry.

A comparison of purity grades practiced in various countries is given below:

Table (2.4.3): Permitted purities across regions⁶³

Country	Grades for hallmarking
India	999,995 for bullion and coin 916,750,585 for jewellery/artefacts
UK, China	999,990,916,750,585,375
USA	916,750,585,416
Iran	916,750,585

As may be seen, the UK permits the sale of any purity of gold as desired by the customer. It is important to point out that the policies of hallmarking in the UK are aimed at the singular focus of providing hallmarking as a tool for validation of purity of the ornament and, as such, the policies comprehensively support the industry.

The concern from the consumer protection is that permitting multiple purities would lead to confusion for the consumer, especially in India, where majority of the population lives in the villages. However, the Committee feels that the purpose should be to hallmark the appropriate purity as is present in the article and the primary concern should be preventing under-caratage or mis-representation of purity. Hallmarking should permit customers to acquire jewellery in the purity of their own choice, while the government plays its role in ensuring that the jewellery being sold is hallmarked. Such type of legislation respects the individual choice of the customer, which is the basic tenet of democracy, and focuses on ensuring the quality is appropriate.

62 As mentioned on the BIS website <http://www.bis.org.in/cert/hallbiscert.htm>, as of 18 November 2017, Annexure 7

63 Information provided by BIS to the Committee (January 2018)

3.3 Number of Stamps on the Hallmarked Item⁶⁴

The stamp (Mark) of the hallmark serves three purposes. They are to identify the:

1. Purity of the jewellery.
2. The Assay and Hallmarking Centre (AHC).
3. The Sponsor that sent the jewellery for hallmarking.

The UK focuses on obtaining the information that is required and marks the jewellery with three stamps only. This mitigates any impact on the design of the ornament and recognises that the customer purchases jewellery based on its design. The BIS Hallmarking Scheme⁶⁵ on the other hand, requires five stamps including the BIS logo, the AHC stamp, the manufacturer's stamp, the purity and the stamp of the year for jewellery manufactured before 1st January 2017⁶⁶, (this is not required for jewellery manufactured after January 1, 2017, thus it may be argued that only four stamps are required).

It is also noted that the BIS has recommended using a six-digit notation for purity, i.e. 22K916 for 22 carat, 18k750 for 18 carat and 14k585 for 14 carat jewellery. This notation method is a duplication of the same information and could also be conveyed with stamps of only 22K, 18K and 14K, or 916, 750 or 585 as it will reduce the size of the mark.

The Committee recognises that the sole purpose of the stamps on the jewellery is to identify the:

- Purity of gold of the ornament.
- Identify the Sponsor.
- Identify the AHC.

As all this information may be found in the UK method of stamping, the Committee is of the opinion that the number of stamps should be confined to only three stamps, specifically, the purity, the Sponsor Mark and the AHC Mark. Furthermore, the stamps should be simplified and in the form of the caratage of the jewellery sold, 22k, 18k etc., so that the customer is able to understand the purity of the ornament being purchased. Thus, the Committee feels that the BIS logo, year of marking etc. should all be removed from the required stamps, even in the case of old jewellery.

3.4 Responsibility and Compensation for Under-caratage

The BIS Act, 2016, states that:

- *Chapter III Section 18.1 (Obligations of license holder, seller etc.) The license holder shall, at all times, remain responsible for conformance of the goods, articles, processes, systems or services carrying the Standard Mark.*

64 As mentioned on the BIS website: <http://www.bis.org.in/cert/hallbiscert.htm>

65 As mentioned on the BIS website: <http://www.bis.org.in/cert/hallbiscert.htm>

66 http://www.bis.org.in/cert/mark_jwell1.htm

The relevant sections from the Draft Regulations are quoted below:

- *Section 1.7.1: The Certified Jeweller shall remain responsible for purity and fineness of the hallmarked article sold by him.*
- *Section 1.7.2: The certified jeweller may sell hallmarked precious metal articles, which are marked with the identification mark of any other certified jeweller, provided evidence of purchase or authorisation in any other form is available with him.*
- *Section 1.7.4: The certified jeweller, who makes the sale to the consumer shall pay compensation to consumer for any shortage in purity or fineness as specified by the Bureau irrespective of whether the article bears his identification mark or he is selling articles under provisions of sub-regulation (2).*
- *Section 1.7.5: The Certified Jeweller may also sell such hallmarked precious metal articles, which are marked with the identification mark of any other certified jeweller, provided evidence of purchase or authorization in any other form is available with him. In such cases, the jeweller getting the article hallmarked and whose identification mark is on the article shall be responsible for purity and fineness.*
- *Section 1.7.10: The Certified Jeweller, who makes the sale to consumer shall pay compensation to consumer for any shortage in purity or fineness as specified by Bureau irrespective of whether the article bears his identification mark or his selling articles under provisions of regulation 7(5) above.*

The relevant sections pertaining to the AHCs from the Draft Regulations are:

- *Section 14.1: The Assaying and Hallmarking Centre shall remain responsible for determination of purity and fineness of the precious metal articles hallmarked by them.*

The industry, has welcomed hallmarking as it provides third party validation of the purity of the jewellery being sold. The industry members are aware of the fact that the general perception is that jewellery of under-caratage is sold, but this may not necessarily be true as many large jewellery chains of high repute continue to abstain from hallmarking yet guarantee the purity of the jewellery. However, while it is certainly essential for the Government to introduce hallmarking and to ensure the interests of the consumer are maintained, it is equally important that hallmarking is enforced in a fair and equal manner. It must do so by permitting the industry to continue to function efficiently and ensure the ease of doing business.

Chapter III, Section 18.1 of the BIS Act and the Draft Regulations Section 1.7.1 and Section 1.7.5 state that the license holder (holder of the Jeweller Certificate, if such remains in future) would be responsible if jewellery sold was found not to conform to the relevant standard. Jewellery can be manufactured on job-basis from the Karigar, or procured from the jewellery factory or wholesalers, etc. The procured items are sent to the AHC for hallmarking by the entity that has had the jewellery manufactured and it is sold, thereafter, either within the value chain of the industry or to the end-use consumer of the jewellery. In case under-caratage is found in a hallmarked item, it is important to note

that the seller of the jewellery may have had no role to play in either the manufacturing process, nor in the hallmarking process. This may therefore be taken into consideration re-looked at within the BIS Act and the Draft Regulations. While the responsibility of selling the jewellery of hallmarked purity is given to the jeweller, the responsibility of accurate determination is given to the AHC. Responsibility of under-caratage should be well defined between the industry and the AHC.

The Committee recommends that the Department of Consumer Affairs may re-examine the desirability of this provision and take appropriate action while keeping in mind the interests of the consumers and the industry. The regulatory framework and rules may be developed for the effective working and quality control of the A&H centers with necessary checks and balances.

3.5 Powers to officials

The Chapter III, Indian Standards, Certification and Licence and Chapter V Miscellaneous and the relevant sections are quoted below:

- *Chapter V, Section 28 (Powers to Search and Seizure): (1) If the certification officer has reason to believe that any good or articles, processes, system or service in relation to which the contravention of section 11 or sub-section (6) or (8) of section 14 or section 15 or section 17. {violated sell articles with Standard mark (14), Prohibition to import sell, exhibit (15), Prohibition to manufacture, sell, etc. without standard mark (17)} has taken place are secreted in any place, premises or vehicle, he may enter into and search such place, premises or vehicle for such goods or articles, processes, system or service as the case may be”.*

The powers to authority under Chapter V, section 28, raise concerns on the greater possibilities of misuse. Under this section, the authorities have been given powers for search and seizures. Recognising that the jewellery industry is made up of 90-95 percent MSMEs, such type of sweeping powers would have the potential to be misused by the officials, which would result in the oppression of the industry members.

The Committee feels that due consideration be made of the fact that this industry comprising of MSMEs and, as a safeguard against the misuse of powers by any official, it recommends that the powers be curtailed and that due permissions should be sought from senior officials of a level appropriately identified and declared by BIS before engaging in any search or seizure. Such a process should be articulated and should form a part of the Regulations to ensure that no member of the trade is harassed unnecessarily.

3.6 Hallmarking of 24 carat Gold Coins

The Committee has been informed that the BIS proposes to provide hallmarking for 24 carat coins through BIS approved refineries and not through the AHCs, as has been done in the past. There are only 10 BIS approved refineries throughout the entire nation out of which 4 refineries are located in Ernakulum and Ahmedabad (two refineries each).

The Committee has been informed that the BIS proposes to provide hallmarking of coins

of 999 and 995 purity through BIS approved refineries and mints. Jewellers may get medallions of fineness 916, 750 and 585 made and hallmarked. There are 10 BIS approved refineries throughout the nation out of which 3 are GoI mints.

Presently, the coins of 999 fineness are manufactured by GoI mints with unique serial numbers and tamper proof packaging for each coin.

With jewellers spread all over the country, and citizens purchasing locally manufactured 24 carat gold coins throughout the nation, trade may be significantly hampered due to this. It is important to point out that the current methodology for hallmarking of 24 carat gold coins is through the AHCs that, although are not enough to service the entire nation, are higher in number than the BIS refineries. It may be further noted that the globally accepted model for the hallmarking of coins is through the same AHCs that hallmarks jewellery, as the method to ascertain the purity is the same.

The Committee recommends that BIS permit the hallmarking of 24 carat coins by the AHC and that BIS should consider permitting the refineries to also hallmark coins, but this should be in addition to the Hallmarking Centres.

3.7 Mandatory hallmarking in India

The Committee is given to understand that the Draft BIS Regulations, are proposed to be made mandatory for all gold jewellery sold in the country in 2018. While mandatory hallmarking should be the way forward, it would be necessary to have a plan for phased implementation with all the appropriate infrastructure in place. The BIS authorities need to put forth the details before declaring mandatory hallmarking and enactment of law. The existing infrastructure for hallmarking as per table (1.7.1) is inadequate to cater to the large network of jewellers spread across the country.

The Committee is of the opinion that while the concept of hallmarking is certainly appropriate, it is imperative for the necessary infrastructure and human capital resources to be in place to ensure there are no impediments to the implementation or any obstructions to the ease of doing business for the sector. The BIS may also consider developing a thorough timeline through which they should establish milestones that should be reached before commencing on the introduction of mandatory hallmarking in India.

The Committee has also taken note of the large stock of existing gold inventory available currently with jewellers. Therefore, appropriate measures need to be in place prior to enforcing mandatory hallmarking.

Finally, to achieve full acceptability of hallmarking, the BIS should plan and carry out awareness programmes preferably in each district across the country.

4. Recommendations

The Committee has welcomed the concept of Hallmarking as a means to protect consumer interest. However, the industry has felt that certain provisions in the Act and the Draft Regulations may hamper the ease of doing business and hinder trade. The Committee

considered a host of recommendations on the issue of making Hallmarking consumer and producer friendly. The comments received from the industry were circulated and feedback was received from BIS and concerned stakeholders.

After weighing the considerations of consumer interest vis-à-vis producers responsibility the Committee has concluded that the Government may consider review of some of the provisions of the BIS Act and the Draft Regulations so that the interest of both the producers and consumers are harmonised. While stipulating standards, it is important to bear in mind that the standards themselves should not restrict the growth of the industry, but instead should serve the interests of both consumers and producers.

After due consideration, of the comments and feedback received, the Committee recommends the following measures for consideration of the Government. These measures would help safeguard the interest of the consumer and also address the concerns of the producer simultaneously.

1. The regulations regarding Jewellery Certificate need to be relooked keeping in view the need for ease of doing business. It can be considered as simple registration process to be done online.
2. BIS technical committee may consider the need for inclusion of any other grade in the Indian Standard.
3. The hallmarking stamp should only have the purity of the item, the mark of the Hallmarking Centre and the mark of the Sponsor (entity).
4. Department of Consumer Affairs may re-examine the desirability of the provision of making jewellers responsible for under-caratage on the lines of practice followed in UK, set appropriate responsibilities with AHC's and take appropriate action while keeping in mind the interests of the consumers.
5. Search and seizures must be permitted only with the prior approval of a senior official.
6. Hallmarking of gold coins of 24 carat, (or any other purity), should be conducted by Hallmarking Centres, along with refineries.
7. Hallmarking is essential for consumer protection. However before making hallmarking mandatory, the number of AHCs has to be increased and necessary infrastructure (testing machines and skilled manpower) has to be put in place.
8. BIS should formulate a plan with milestones for infrastructure development before recommending hallmarking to be mandatory in India.
9. Hallmarking should be made mandatory in a phased manner giving enough time for necessary infrastructure development and to the jewellers to clear the existing stock.
10. Regulatory framework and rules may be developed for the effective working and quality control of the hallmarking centres, with necessary checks and balances, in line with internationally accepted practices.
11. BIS should plan and carryout awareness programmes for hallmarking preferably in each district across the country.
12. BIS should conduct a fresh survey of samples of gold jewellery as the last such survey was done way back in 2006. Subsequently, such survey should be done periodically.

Chapter 2: Section V

Digital Payments

To provide convenience for the citizens of India by creating an ecosystem through which payments for the purchase of gold may be made in a transparent and secure manner.

1. Introduction

Initiatives such as Pradhan Mantri Jan Dhan Yojana, Aadhaar and the emergence of Unified Payments Interface (UPI) provide a good foundation to permeate 'last mile' touch points and boost digital payments across the country. More people are now using debit and credit cards on a daily basis. Credit cards especially, with interest-free windows, have seen huge rise in demand for big purchases such as electronic and luxury goods. The ease of conducting financial transactions and the increased transparency in payments are probably the biggest motivators for consumers and merchants to go digital. However, the gold industry, which has suffered from a negative perception, faces a host of issues when it comes to adopting digital payments. This is not because the industry is resisting digital payments, but because the concerns of the jewellery industry have not been addressed fully and thus they are not enabled to accept credit card transactions freely.

2. Concerns

While the use of credit cards and debit cards has increased over the last two years, the jewellery industry is facing issues which virtually prohibit the widespread use of credit cards for purchase of jewellery. There is a need to address these issues so that the gold jewellery industry can go digital. The issues are as follows:

1. Absence of a Standard Operating Procedure (SOP), through which the payment would be guaranteed to the merchant
2. Absence of a proper dispute resolution mechanism
3. High transaction costs
4. Non-availability of the acceptance infrastructure for credit cards
5. Regulatory restrictions on EMI-based sale

2.1. Absence of an SOP

The Committee has been informed that merchant establishments are facing a number of issues while accepting payments through credit cards and payment is not guaranteed by the credit card company. Apparently, while the systems are fairly clear while using domestic credit cards, the problems arise when a credit card issued in another country is swiped in India especially when the credit cards are just 'swiped' with no secondary level of security apparatus. Such transactions are often done by foreign tourists. The problems become acute when a complaint is registered regarding unauthorised or fraudulent use of that credit card or any other dispute raised by the customer. Jewellers have expressed that their payment gets stuck and there is no clear and cost effective grievance redressal

mechanism in the banks to redress this issue. Such mechanisms do exist in India in respect of international card service providers such as Visa and MasterCard but costs involved are heavy. Jewellers have expressed that the same companies while offering their services in US, guarantee such payments. Accordingly, there is a need for a clear SoP and a transparent and cost effective system to redress such complaints raised by merchant establishments.

It may be pertinent to note that all internet sales happen primarily through credit cards and online payments. Not guaranteeing payments shall hugely impact the business and disable sales online.

Thus, the Committee recommends that credit card companies be instructed to lay out SOPs, so that payments are guaranteed to merchants with no delays.

2.2. Absence of a Proper Dispute Resolution Mechanism

Feedback from the industry reveals that there are many occasions where a charge-back by the credit card holder is sought and, in such cases, the disputed amount is simply suspended pending the outcome of the enquiry. It is noted that there is no existing dispute settlement mechanism currently in place that takes into account the concerns of the industry. The Committee feels that this then becomes one-sided in favour of the credit card holder. Therefore, without compromising on the rights of the credit card holder or the merchant establishment, the Committee feels that the dispute can be amicably resolved by an Ombudsman.

Pre-empting this concern and in an effort to safeguard the interests of the credit card holder as well as the merchant establishment, the RBI had issued a Circular⁶⁷ instructing all banks to create a '*formal dispute resolution framework*'. The feedback received by the Committee suggests that this has not been implemented appropriately.

While Ombudsmen do exist in banks, they are often busy with resolving grievances of customers and issues raised by merchant establishments sometime get delayed. The Committee suggests that a dispute resolution framework to redress such issues should be created and 'housed' within the bank itself to ensure speedy resolutions. This mechanism may address all high value transactions and need not confine itself to Gold sector.

2.3. Non-Availability of Acceptance Infrastructure

There is a large network of jewellers spread across the country. To promote digital payments across this network, the minimum requirement is to have an Electronic Data Capture (EDC) terminal. The acceptance of credit cards is possible only if the retailer has an EDC terminal to accept credit cards; the terminal is issued by banks. As such, the Committee suggests that banks recognise that they need to launch a drive to place EDC terminals in all the small and large shops of the industry, thereby enabling the acceptance of credit cards.

2.4. Regulatory Restrictions

In an effort to control the consumption of gold in the nation, the RBI Circular⁶⁸ states:

67 RBI Circular - DPSS.CO.CHD.No.654/ 03.01.03 / 2010-2011 dated September 24, 2010.

68 RBI Circular - RBI/2015-16/95 DBR.No.Dir.BC.10/13.03.00/2015-16 dated July 1, 2015.

“2.3.10 Advances for purchase of Gold and lending against Gold Bullion/Coins/Primary gold

The significant rise in imports of gold in recent years is a cause for concern as direct bank financing for purchase of gold in any form viz. Bullion/ primary gold/ jewellery/ gold coin etc. could lead to fuelling of demand for gold. Accordingly, it is advised that with effect from November 19, 2012 no advances should be granted by banks for purchase of gold in any form including primary gold, gold bullion, gold jewellery, gold coins, units of Gold Exchange Traded Funds (ETF) and units of gold Mutual Funds.”

The above regulation designed to curtail consumption of gold inhibited purchase of gold jewellery by credit cards. Currently, it is understood that while purchase of jewellery through credit cards is allowed, many banks put restrictions in terms of time period since issuance of credit card or cap in terms of transactions.

This Circular also discontinued the purchase of gold jewellery through Equated Monthly Instalments (EMIs), which were earlier possible through a credit card purchase. The Committee suggests that this be reinstated and permitted once again, so that the citizens of India are able to easily acquire gold jewellery through EMIs offered by the credit card.

2.5. High Transaction Cost

Jewellery is sold through a highly transparent pricing method where the customer is informed of the gold price, labour charges, miscellaneous charges, taxes etc. The trade functions through a minimal margin available for the jeweller, thus leaving them no option but to transfer the cost of accepting the credit card to the customer. As such, customers hesitate to use their credit card when they are informed of the charges applicable. In order to increase payments through the digital mode, it is critical to reduce the transaction cost for the purchase of jewellery. It has been brought to the notice of the Committee that HDFC Bank, a large private bank, levies a charge of 2.75 percent for international and commercial card transactions⁶⁹.

In an effort to address the concerns raised, the RBI issued a Circular on 6 December 2017⁷⁰, revising the Merchant Discount Rate (MDR) for debit card transactions. For merchants with a turnover of up to INR 20 lakh, the MDR has been capped at 0.4 percent if the transaction involves physical infrastructure such as a swipe machine or 0.3 percent if conducted via a QR code, with a cap of INR 200 per transaction. For merchants whose annual turnover exceeds INR 20 lakh, the MDR has been capped at 0.9 percent for swipe machine based transactions and 0.8 percent for QR code based sales, subject to a maximum of INR 1,000 per transaction.

The Committee suggests that a similar cap may be extended to credit card transactions especially as the jewellery is a high value item and putting a cap on service charges for a transaction would be desirable which is fair in terms of costs involved in providing such services.

3. Recommendations

To incentivize digital transactions, the Committee recommends the following:

1. Create an SOP through which credit card payments would be guaranteed to the merchant establishment especially in the context of use of credit cards issued in other countries. The principles may apply to all sectors rather than just gold and

69 https://www.hdfcbank.com/assets/pdf/SCHEDULE_OF_CHARGES_%20Combined_PoS_PGMarch_14.pdf

70 RBI/2017-18/105 DPSS.CO.PD No. 1633/02.14.003/2017-18 - December 06, 2017

jewellery sector.

2. Create an efficient, time bound and cost effective dispute resolution mechanisms for high value credit card transactions in all banks.
3. Improve the availability of EDC terminals for accepting credit cards
4. Regulatory:
 - Provide more flexibility in purchase of jewellery by credit cards which are KYC compliant.
 - Permit EMIs for the purchase of jewellery via credit cards
 - Boost the use of digital payments: Lower the transaction cost for accepting the charge

Chapter 3: Financialisation of Gold

Gold is virtually indestructible and is available in some form as over ground stock. India's households and religious institutions hold one of the the largest reserves of gold in the world, a bulk of which lies unused. Yet attempts at monetization haven not met with desired success. This Chapter makes suggestions for translating idle gold holdings into additional supply for the gold industry and at the same time modulate demand of physical gold by encouraging its conversion into financial assets with greater transparency and use of digital means. The focus of this chapter is to integrate gold with the mainstream by strengthening the lending and deposit arms of the monetization scheme. It also proposes the launch of a new financial product viz. the Gold Savings Account and revamp of the Sovereign Gold Bond scheme.

Chapter 3: Section I

The Gold Monetisation Scheme: The Gold (Metal) Loan

To make gold a productive asset by using its low interest rate as a financial tool to help uplift the industry.

1. Introduction

It is estimated that around 23,000-24,000 tons of gold lies unused with the households and religious institutions throughout the nation. It is with the view to monetise this unutilized gold that the Government introduced the Gold Monetisation Scheme (GMS) in the Union Budget, 2015-16. The gold accumulated under the GMS was to be used productively and profitably, by banks through the Gold (Metal) Loan (GML), a low interest rate financial product for meeting inventory financing needs of the borrower. The scheme replaced the earlier Gold Deposit Scheme 1999 by a 'Revamped Gold Deposit Scheme' and added GMS linked 'Revamped Gold Metal Loan Scheme' vide RBI circular dated October 22, 2015 in pursuance of Government of India notification dated September 25, 2015. Both schemes were linked together under GMS.

The intent behind the scheme is laudable. The modifications were intended to make the existing schemes more effective and to broaden their ambit from merely mobilizing gold held by households and institutions to putting this gold into more productive use. The long-term objective sought through this arrangement was to reduce the country's reliance on the import of gold to meet domestic demand. Thus, on one side, not only the depositors' wealth is secured, but is also provides some returns to unused stock. On the other side, banks are able to use this stock profitability by lending to the MSME dominated industry at competitive rates of interest. However, the scheme has met with

limited success for various reasons as discussed later. This section, however, focuses on the Gold (Metal) Loan Scheme.

2. Scheme

The key features of GML Scheme are as follows:

Gold Metal Loan Account: A Gold Metal Loan Account (GML Account), denominated in grams of gold will be opened by the bank for the jewellers. The gold mobilized through the revamped GDS, under the short-term option, will be provided to the jewellers on loan, on the basis of the terms and conditions set-out by RBI.

Delivery of gold to jewellers: When a GML is sanctioned, the jewellers will receive physical delivery of gold from the refiners. The banks will, in turn, make the requisite entry in the jewellers' GML Account

Interest received by banks: The interest rate charged on the GML will be decided by the banks (depending upon the interest rate paid to the depositors of gold, fee paid to refiners and Collection and purity testing centres and the profit margin of the banks), with guidance from the RBI.

Tenor: The tenor of the GML at present is for 180 days. Given that the minimum lock-in period for gold deposits is 1 year, based on experience gained, the tenor of GML was to be re-examined in future and appropriate modifications made, if required.⁷¹

3. Understanding the GML Process

The GML is a financial product through which the bank is able to utilize the gold deposits accumulated under GMS profitability and pass on its gold liability of the depositor to the borrower. The financial contract between the bank and the borrower stipulates that the borrowing and repayment shall happen in terms of gold itself.

Currently, there are a total of 20 nationalised banks and 19 private sector banks which are permitted by RBI to provide GML. However, only 14 banks have provided GML as a product. These banks have multiple branches all over the nation (sometimes in thousands for each bank) but the number of bank branches that provide GML are very low (usually less than 25).⁷²

It is to be noted that the banks have not been able to use the gold deposits accumulated under the GMS profitably as they have not been able to obtain enough borrowers that are willing to use the low interest cost GML for meeting their inventory financing needs.

The issues in GML can be categorised as substantive issues and procedural issues.

3.1 Substantive Issues

The substantive issues that the Committee has observed are:

1. **Number of participating banks:** All banks are not providing the GML. For the number of participating banks only a meagre number of branches offer GML.
2. **Tenor:** GML tenor has been set at 180 days.
3. **Interest rate and other charges of GML:** The RBI Circular DBOD.No.IBD.BC. 33/23/67.001 /2005-06 Dated Sept 5, 2005 mentions that the interest rates on the GML

71 Ministry of Finance, Office Memorandum, September 2015, 'Introduction of Gold Monetization Schemes'

72 Data provided by RBI, leading PSU banks to the Committee

need to be in sync with the international Gold Leasing Rate, (GLR).

4. Standardisation: Banks should be able to procure 'India Good Delivery Standard' gold from local LBMA or NABL accredited refineries.

3.2 Procedural Issues

The procedural issues for the GML are:

1. Accounting treatment: Accounting treatment of GML by borrower needs clarity as banks issue either as a delivery note or a sales invoice. This has implications to the GST payable and the treatment of gold in the financial statements.
2. Forward Cover: The Ministry of Consumer Affairs vide Notification dated 19 August 1999 exempted banks from obtaining a forward cover. The gold taken from a bank under GML, is used for making jewellery and is always available as an inventory with the jeweller. Upon sale, the customer pays the prevailing days gold price, hence the jeweller is already hedged against gold price fluctuations. However, the banks insist that the borrower take a forward cover for the gold obtained under the GML, which removes the natural hedge that the GML offers and exposes the borrower to any volatility in the gold price.
3. Sanctioning GML in terms of weight of gold: Sanctioning of the gold is currently not in the weight of gold itself, which creates fluctuations in the levels of inventory.
4. Minimum quantity for repayment: Repayment of GML is currently determined by the minimum quantity as made available to the banks by the foreign suppliers of gold.
5. The GML is issued by the bank to the borrower through two methods:
 - i. As a sub-limit of the Working Capital Limits (WCL)

The bank sanctions a WCL to meet the inventory financing needs, along with a sub-limit for the GML based on the credit eligibility of the borrower. Using the notional price mechanism, the bank determines the eligible gold quantity for the borrower equivalent to the sanctioned WCL in INR terms. Any increase in the gold price reduces the total available inventory, thus impacting inventory levels and making the business unviable and subject to speculation.

- ii. Against a Stand by Letter of Credit (SBLC) issued by the bank in favour of the bank extending the GML.

The borrower instructs Bank A to issue an SBLC in favour of Bank B for obtaining a GML, based on which the Bank B keeps a 10 percent margin and extends approximately 90 percent GML in value terms. The bank receiving the SBLC (Bank B) creates an exposure against the issuing bank (Bank A) for the GML extended and not the borrower. Hence in case of a default in the repayment of the GML, it is the SBLC issuing bank that shall be held responsible as Bank A would encash the SBLC in its possession. The process is of concern as each of the Banks should provide credit to the borrower based on the borrower assessment and not be taking exposure against the other bank⁷³.

The Committee is informed that at the time of renewing any loan, the banks are forced to import gold and they are not allowed to source gold from the domestic sources. There is a case for allowing the same.

The GML provides an efficient source of gold for the entire industry covering both the domestic players and the exporters. The low interest rate of the GML makes it an attractive financing option for the primarily MSME dominated gold industry. However, there are some substantive issues and some procedural matters that restrict the access of all domestic players to the GML. The Committee is also concerned about the risks prevalent in the industry and looks to ensure that appropriate measures are in place to prevent risk being taken by banks.

As there has been no clarity on the accounting treatment of the gold received under GML, the Committee has approached the Institute of Chartered Accountants (ICAI) and has sought their view on the said matter, so that all the parties involved may charge taxes at the appropriate time, issue the correct financial document at the time of delivery of gold and are able to reflect the same correctly on the balance sheet. The ICAI has given a preliminary response where they have found that there is merit in both the methods and has requested further time for more research and deliberation.⁷⁴

4. Issues and Challenges

Even though the modifications introduced in 2015 through the Gold Monetisation scheme were well intended, they have not been fairly successful with the deposits themselves being around 11 tons so far. The Committee is convinced that the success of Gold Monetisation Scheme lies in a robust Gold Metal Loan Scheme. The Committee considered a host of proposals on the issue of making GML attractive. The comments received from the industry were deliberated and feedback was received from RBI and other stakeholders within and outside the Government.

The Committee deliberated upon both the substantive and procedural issues facing the GML scheme. In particular, from a substantive perspective, issues such as not enough banks offering the GML, a tenor of 180 days, the interest rate and charges of the GML, and the lack of standardization i.e. the inability to procure India Good Delivery Standard gold were key challenges. From a procedural perspective, the absence of clarity in the accounting treatment of GML, requirement of a forward cover, not sanctioning the GML in terms of weight, minimum quantity of repayment of GML restrictions on banks, and challenges with both methods of issuing of GML by banks- through WCL or SLBC methodologies. While making specific recommendations, the approach of the Committee has been to focus on major issues and for issues of a procedural nature, decisions may be taken in separate discussion forum led by Ministry of Finance.

5. Recommendations

After due consideration, of the comments and feedback received, the Committee felt that there is scope for strengthening the scheme for making it attractive. It cannot be left to the commercial considerations of the banks alone, to determine the future of the scheme. The Committee therefore recommends the following measures for consideration of the Government.

1. GML may be considered for sanction in terms of weight of gold.
2. Increase the tenor of the GML to match that of the gold deposit accepted under GMS or from the international supplier, with an annual renewal process that is done on paper and without importing physical gold, like that of WCL in INR terms without requiring further import of gold.
3. For the purposes of renewal of loan, banks should be allowed to source gold

from domestic sources.

4. Keep the interest rate charged of the GML charged in sync with the international gold leasing rates
5. Banks should await the opinion of the ICAI as to the accounting treatment of the GML on the balance sheet and the financial documents at the time of delivery of gold and all the banks should, thereafter, adopt the same accounting method thereafter. The banks may continue with the current accounting methodology till such time.
6. The industry has put forth many recommendations regarding GML. These include removal of the requirement of forward cover, permitting calculation of MPBF in 2 trade cycles, prohibiting banks to solely issue GML against SBLC only. The Committee recommends a thorough review of GML scheme to be undertaken by Ministry of Finance, in consultation with RBI, banks and industry representatives and make suitable changes in the interests of all stakeholders.

Chapter 3: Section II

Gold Monetisation Scheme: Gold Deposits

To provide a platform to enable all the citizens of India with the opportunity to help the economy of the nation by depositing their unused gold its productive use by the industry.

1. Introduction

As explained in earlier section, the Gold Deposits Scheme was revamped in 2015 vide Government of India Office Memorandum no. F.No 20/6/2015-FT dated 15th September 2015 following which directives were issued by RBI vide Master Direction No.DBR.IBD. No.45/ 23.67.003/2015-16. Accordingly, the revamped Gold Deposit Scheme (GDS) was introduced so as to provide the depositors of gold, improved infrastructure (in terms of ease of depositing, faster processing' transparency) and greater flexibility in the terms and tenure of deposits.

2. Key Features of the Gold Monetisation Scheme, 2015

Some of the key features of the GMS 2015 scheme pertaining to Gold Deposits are as under:

Collection, purity verification and deposit of gold under the revamped GDS: The infrastructure for depositing the gold in the revamped scheme has been proposed to be improved considerably to make the process faster, easier and more transparent.

Gold Savings Account: In the revamped scheme, a Gold Savings Account will be opened by customers at any time, with the KYC norms, as applicable, even prior to depositing gold at the Collection and Purity Testing Centres. This account would be denominated in grams of gold.

Transfer of gold to the refiners: There are about 32 refineries in the country. The laboratories of some of these refineries are NABL accredited. BIS is developing protocols so that it can conduct accreditation of the products being produced in these refineries also.

Tenure: The deposits under the revamped scheme can be made for a short-term period of 1-3 years (with a roll out in multiples of one year); a medium-term period of 5-7 years and a long-term period of 12-15 years (as decided from time to time). Like a fixed deposit, breaking of lock-in period will be allowed in either of the options and there would be a penalty on premature redemption (including part withdrawal).

Interest rate: The amount of interest rate payable for deposits made for the short-term period would be decided by the banks on the basis of the prevailing international lease rates, other costs, market conditions etc. and will be denominated in grams of gold. For the medium and long-term deposits, the rate of interest (and fees to be paid to the banks for their services) will be decided by the Government, in consultation with the RBI from time-to-time. The interest rate for the medium and long-term deposits will be denominated and payable in rupees, based on the value of gold deposited.

Redemption: For short-term deposits, the customer will have the option of redemption, for the principal deposit and interest earned, either in cash (in equivalent rupees of the weight of deposited gold at the prices prevailing at the time of redemption) or in gold (of the same weight of gold as deposited), which will have to be exercised at the time of making the deposit.

Utilization of deposited gold:

Under medium and long-term deposit: (a) Auctioning: The gold deposited may be auctioned by RBI or MMTC or any other authorized agency by the Government and amount realized will be used by the Government in lieu of government borrowing. (b) The deposited gold may be credited to RBI's reserves' (c) Banks may provide the mobilized gold to MMTC for minting the Indian Gold Coins'.

Under short-term deposits, (a) Banks may provide the mobilized gold to MMTC for minting the Indian Gold Coins and (b) Banks may lend to jewellers under the GML

Tax Exemption: Tax exemptions, same as those available under GDS, would be made available to the customers, in the revamped GDS, as applicable.

Gold Reserve Fund: The difference between the current borrowing cost for the Government and the interest rate paid by the Government under the medium/long term deposit will be credited to the Gold Reserve Fund.

3. Mobilization of Deposits under GMS - An Assessment

The total deposits accumulated by the banks under the GMS are 11.1 tons⁷⁵ (as of 31st August 2017), which is a meagre number as compared to the estimated holdings of 23,000-24000 tons⁷⁶.

Studies by NCAER have indicated that nearly 11 percent of Indian households' savings are in gold. Gold as an instrument of savings and investment holding is the highest amongst the 'bottom of the pyramid'. Maximum gold is held by the lowest wealth strata and as the wealth increases, there is a shift towards real estate.

On assessment of the performance of the scheme it is found that the mobilization of deposits has not been as per expectations. In this context, it is imperative to understand the reason of the non-participation in the GMS.

3.1 Participation of Banks

There are 20 public sector and 19 private sector banks with around 1.22 lakh branches all over India. However only 10 banks are providing GMS facility⁷⁷, with very few branches enabled as GMS collection points to accept deposits. Also, the network of banks offering GMS is inextricably linked to the network of CPTC's.

Given the limited number of locations available to the investor to deposit gold, it will always be difficult to gather a huge response to the subscription of the GMS. If access to appropriate banking channels for saving gold was available and their awareness is created, there is a huge potential for GMS participation.

A look at the numbers indicating the number of banks participating in the GMS deposit

75 Sub group 'Gold in the financial system and digital payment' (2017)

76 'India's Gold Market: Evolution and Innovation', 2016, WGC

77 Sub group 'Gold in the financial system and digital payment' (2017)

scheme and at the number of banks providing the GML loan indicates that there are some concerns preventing active participation by banks. The reasons for the same need to be understood with a view to provide the appropriate solution.

3.2 Interest Rates on Gold Deposits under the GMS

The interest rates on gold deposits vary based on the tenor of the deposits. Short-term gold deposits are considered on the bank balance sheet as liabilities where the banks are free to decide the deposit rate. Medium- and long-term gold deposits are accepted by banks on behalf of the Central Government. They do not reflect on the balance sheet of the designated banks. The interest rates are determined by the Central Government. The prevailing interest rate for the medium term is 2.25 percent p.a. and for long term is 2.50 percent p.a. The short-term deposits constitute 56 percent of total deposits under the GMS, medium term, 13 percent and long term, 31 percent⁷⁸.

3.3 Minimum Denomination on the Gold Deposits

Currently, the minimum permissible deposit at any one time is 30 grams of raw gold. While there is no maximum limit on this, creating a minimum requirement of 30 grams of gold will refrain most of the average household from approaching the bank for the GMS. The constraining factor usually discussed is about the fact that all gold deposits provided to the designated banks have to be assayed at the Collection and Purity Testing Centre (CPTC). This concern is discussed in the later sections' on CPTCs.

3.4 Liasoning with Religious Institutions

Only few institutions are participating in the GMS. They are Tirumala Tirupati Devasthanams (TTD), the Shri. Mata Vaishno Devi Shrine Board and the Siddhi- Vinayak Temple amongst others. While most temples have a trust/board which manages the regular activities, they also function as treasury managers. One of their primary objectives includes ensuring appropriating the temple income.

Currently, the banks do work with the heads of such institutions for the GMS. It may be noted that a few states have an endowment department, which controls all the operations of the religious institutions in the state. The administrative controls are based on the annual income of the temples. In case of Andhra Pradesh, temples with an annual income of less than INR 2 lakh are under the administrative control of the Assistant Commissioner and for annual income between INR 2 lakh and INR 25 lakh, under the administrative control of the Deputy Commissioner. Temples with annual income more than INR 25 lakh and all the Mutts and Dharmadayams are under the administrative control of the Commissioner⁷⁹.

Religious institutions should be encouraged to deposit all their gold donations as that would lower the cost of storing and the risk of theft at the same time, ensuring transparency for all gold donation received.

3.5 Vaulting of Gold and Taxes

Under the GMS, the deposits can get accumulated from the various branches of the banks spread all across the nation. Thus, gold needs to be transported across locations for the purpose of vaulting the deposits or at the time of redemption to be provided back to the depositor. The depository vaulting services and the redemption of gold deposits would

78 Sub group 'Gold in the financial system and digital payment' (2017)

79 <https://tms.ap.gov.in/portal/info/endowment>

involve the movement of gold across states. The deposits can get accumulated only if appropriate vaulting and transport arrangements are in place. Accordingly, appropriate tax provisions under GST may be provided to allow seamless transfer of gold collected under GMS.

3.6 Lack of CPTC Network

The role of the CPTCs is important for identifying the purity content of the jewellery deposited under the GMS. The key functions of the CPTC once the depositor tenders raw gold are as quoted below from the RBI Circular on the GMS⁸⁰:

'1. After assaying the gold, the CPTC will issue a receipt signed by authorised signatories of the centre showing the standard gold of 995 fineness on behalf of the designated bank indicated by the depositor. Simultaneously, the CPTC will also send an advice to the designated bank regarding the acceptance of deposit.

2. The 995 fineness equivalent amount of gold as determined by the CPTC will be final and any difference in quantity or quality found after issuance of the receipt by the CPTC including at the level of the refinery due to refinement or any other reason shall be settled among the three parties viz., the CPTC, the refiner and the designated bank in accordance with the terms of the tripartite agreement.

3. The depositor shall produce the receipt showing the 995 fineness equivalent amount of gold issued by the CPTC to the designated bank branch, either in person or through post.

4. On submission of the deposit receipt by the depositor, the designated bank shall issue the final deposit certificate on the same day or 30 days after the date of the tendering of gold at the CPTC, whichever is later.'

Given the number of steps involved between deposition of the raw gold and the issue of final deposit certificate, the preference of the banks has been to maintain high levels of gold deposit collection (minimum 30 grams).

There are only 48 CPTCs in the country, which is miniscule compared to the volume of gold estimated to be stored in Indian households. The Committee recommends considering an increase of the CPTC network or enhance their accessibility through an alternate existing network of jewellers who can be primary contact for customers.

3.7 Utilisation of gold mobilized under GMS for minting and selling Indian Gold Coin (IGC)

Gold mobilized under Medium and Long Term Gold Deposit Scheme (MLTGD) since the month of November 2015 is lying at refiner's vaults with no clarity and time frame for its off take. This is causing additional expense at bank's end as the storage costs have to be paid by banks to refiners. The refined gold is now being held by banks on behalf of the Government. The Committee suggests banks operating the scheme may be permitted to utilize the gold mobilized for minting, manufacturing and selling of IGC under license from RBI.

By permitting banks to get IGC minted, a virtuous cycle of re-circulation of gold within the country can be initiated, thus reducing demand for gold import, help lower the cost of IGC and make IGC more attractive option to general public.

80 RBI/2015-16/211, DBR.IBD.No.45/23.67.003/2015-16, dated 22 October 2015

4. Committees' Approach to Issues

While the Committee is convinced that the Gold Monetisation Scheme holds great potential for mobilisation of the unused stock of gold lying with public, there is a need to address the issues which impact the confidence and convenience of public in subscribing to the scheme. The problem lies both in terms of demand and supply side. Common public do not find the scheme very attractive due to high threshold of deposit and loss of making charges on conversion into gold and low returns offered. On supply side, banks too do not encourage the scheme too much as the margins offered are unattractive keeping in view the efforts involved. Both these issues need to be addressed. Incidentally, gold is currently covered as eligible item for meeting Statutory Liquidity Requirements (SLR) requirements of the banks. The Committee has received representations from banks that it may be made eligible item under Cash Reserve Ratio (CRR) also which will encourage banks to mobilise more gold under GMS.

Therefore, in the context of the GMS for Gold Deposits, the Committee identified some major issues impacting the scheme such as a) the almost negligible number of banks (10) providing the GMS facility with very few branches enabled as GMS collection points to accept deposits, b) the viability concerns with regard to interest rates on gold deposits under the GMS especially on short term loans, c) a minimum denomination of 30 grams of raw gold for deposits being too high a threshold, d) extremely limited participation with religious institutions that hold large inventory of gold, e) absence of appropriate vaulting and transport arrangements, f) the lack of appropriate tax provisions under GST to allow seamless transfer of gold collected under GMS, g) an inadequate amount of CPTCs (just 48), and h) the inability of banks to utilize the gold deposited under the MLTGD.

5. Recommendations

Keeping in view various factors, the Committee recommends the following measures for consideration of the Government:

1. Ministry of Finance may review and revamp the GMS scheme, with time bound targets that may be set through a comprehensive gold policy.
2. Encourage more branches of banks to accept gold deposits under the GMS and also to extend the GML (of gold received under the GMS).
3. Banks to engage with the state endowment departments to encourage greater participation of the religious institutions in the GMS. The Committee suggests formulation of a standardized process guidelines along with an automatic approval route for endowment departments or representatives of religious institutions to start depositing gold under GMS
4. Permit deposits as low as 1 gram, and multiples thereof.
5. The transfer of gold collected under the GMS should be exempt from the purview of GST
6. Deposits mobilised under GMS may be considered for CRR
7. Number of CPTCs should be increased and they should be provided with certain tolerance limit for purity approval.
8. Consider jewellers meeting the prescribed norms as primary points of collection for GMS. This network through its association can work with banks to enhance reach of GMS.

Chapter 3: Section III

Indian Gold Coin

Place the Indian Gold Coin as the preferred form of gold investment in India for purchases during festivals, gifting on special occasions and replacement to the “Guinea” that is sold and is synonymous with a “shagun”

1. Introduction

The Indian Gold Coin (IGC) was launched along with the Gold Monetization Scheme (GMS) and Sovereign Gold Bonds Scheme on 5 November 2015. The IGC was India’s first national gold coin with the image of the Ashoka Chakra, the National Emblem, on one side and image of Mahatma Gandhi on the other side. These coins are manufactured in 24 carat gold of 999 fineness and are hallmarked as per the BIS Standards. Additionally, these coins have anti-counterfeit features and are distributed in tamper proof packaging. The Metals and Minerals Trading Corporation of India (MMTC) has been authorized to manufacture and market the IGC. At the time of the launch, these coins were issued in denominations of 5 gm and 10 gm and sold through designated MMTC outlets. A 20 gm coin is also available now.

The gold used to manufacture the IGC is mobilised domestically through the GMS. This has two benefits — first, it is expected to reduce the demand for gold imports while enhancing the success of the GMS and second, it supports to the “Make in India” initiative as these coins are indigenously minted.

2. Current Status:

As per the data available with the Committee, it is estimated that about 15,000 coins of 5 gm, 20,000 coins of 10 gm and 3,750 bullions of 20 gm weighing a total of 350 kg were made available for sale by MMTC. MMTC also tied up with seven banks (HDFC Bank, ICICI Bank, Indian Overseas Bank, Vijaya Bank, Federal Bank, Andhra Bank and Yes Bank) to expand the distribution and sales of IGC. Efforts are underway to further expand the distribution network for sale of IGC. Overall, IGC is now available across 436 outlets including banks, phulkari emporiums and MMTC centres. The total turnover of IGC sales achieved during 2016-17 was INR 1,291 million⁸¹.

IGC is sold at a premium to the prevailing gold price. For instance, the rate of IGC on 24 November 2017 was INR 33,156⁸². The price for a similar coin based on local market rates on the same day was INR 31,878⁸³.

This makes it more expensive by 4 percent and deters the price-conscious customer who is looking for value.

3. Buy-Back Scheme

MMTC offers a ‘buy back’ option for IGC through its own showrooms across India.

81 MMTC Annual Report 2016-17, Website and News Reports

82 <http://indiangoldcoin.com/en/price/>

83 Calculated based on prevailing price of INR 30,300 (Gold rate from Mehrasons Jewellers) + INR 650 (labour charges and hallmarking) + INR 928 (3% GST).

MMTC only repurchases IGC on the condition that the tamper proof packaging is intact and corresponds to the original sales invoice. IGC is repurchased at the prevailing gold base rate. This move is aimed at providing the customers easy liquidity. However, the designated banks are not authorised to buy back IGC.

4. Committees' Approach to Issues

The Committee closely looked at constraints and challenges faced when attempting to make the IGC scheme a resounding success. Some of the issues that emerged included- a) IGC is sold at a premium to the prevailing gold price, making it more expensive by 4 percent; b) Only MMTC is authorized to buy back IGC under certain conditions, but the designated banks are not authorised to buy back IGC, therefore constraining easy access to liquidity; c) IGC is currently manufactured in 24 carat of 999 fineness, which makes it expensive and also leads to a loss to the customer at the time of resale, as the gold rated quoted in the domestic market is based on 995 purity; d) Limited supply of IGC and not enough competition in the manufacturing and marketing of IGC since it is currently only manufactured and marketed by MMTC; and e) the denominations of IGC are 5 grams, 10 grams and 20 grams, which may be too costly for a large percentage of the Indian population. Basis these issues and constraints the Committee deliberated and proposed the recommendations set out below.

5. Recommendations

As a unique and niche gold product promoted by the Government of India, it is necessary that IGC is priced appropriately, has a wider reach and is better promoted. To help IGC gain popularity in India and global markets, the Committee makes the following recommendations:

1. IGC is manufactured in 24 carat of 999 fineness and the Committee suggests that this be changed to 24 carat of 995 fineness. This would serve two purposes:
 - o Reduction in the sale price of IGC
 - o Reduction in the loss to the customer at the time of resale, as the gold rated quoted in the domestic market is based on 995 purity
2. There is a need to expand the reach of India Gold Coin and revisit the marketing and minting mechanism beyond MMTC.
3. The sale of IGC may be permitted through the proposed Bullion Exchanges and through local jewellers to enhance its availability.
4. The buy-back scheme offered by MMTC to purchase IGC does not extend to the designated banks. To enhance the liquidity of IGC, the Committee recommends that the designated banks may be authorised to buyback IGC, if sold by them. The terms for buyback adopted currently by MMTC should be accepted by the banks and all other sellers.
5. IGC is only available in denominations of 5 gm, 10 gm and 20 gm. In order to appeal to all target groups, IGC may be available in denominations as low as 1 gm to as high as 100 gm. IGC may be made available in the following denominations: 1 gm, 2 gm, 5gm, 10 gm, 20 gm, 50 gm and 100 gm.

Chapter 3: Section IV

The Sovereign Gold Bond Scheme

Vision:

To promote digital gold as an alternative to purchasing physical gold

1. Introduction

In the annual Union Budget of 2015, the Honourable Finance Minister announced the Sovereign Gold Bond Scheme (SGBS) to enable the purchase of gold in an electronic format. Subsequently, SGBS was notified by the Government on 05 November 2015 after due approval of the Union Cabinet. The price of the SGBS is linked to the price of gold, supplemented with an interest of 2.5 percent per annum. While the Government of India (GOI) has issued the SGBS as an option to purchase “Paper Gold”, it is imperative to point out that these bonds are not ‘backed’ by physical gold and this exposes the GOI to the risk of price fluctuations.

2. Key Features of the SGBS

The SGBS is open to a person resident in India, defined under Foreign Exchange Management Act (FEMA), 1999. Scheduled commercial banks, post offices, Stock Holding Corporation of India Limited (SHCIL) and designated stock exchanges act as receiving offices to source the applications and perform servicing activities to the investors. Price of the Bonds shall be fixed in Indian Rupees on the basis of simple average for the last three business days of the week preceding the subscription period. The issue price of the bond will be INR 50 per gram less than the nominal value to those investors applying online and the payment against the application is paid through the digital mode. The investment is for a period of 8 years from the date of allotment with an option of premature withdrawal from the fifth year and onward. The SGBS has also been made eligible to be traded on exchanges and to be used as a collateral for loans. Additionally, the Capital Gains Tax arising on redemption of SGBS to an individual has been exempted. The indexation benefits will be provided if the bonds are sold before redemption.

The SGBS is restricted for sale only to resident Indian entities including individuals, HUFs, trusts, universities, charitable Institutions and minors (applying through their guardian), and offer an interest rate of 2.50 percent per annum payable semi-annually. Interest is credited semi-annually to the bank account of the investor. The minimum application criteria is set at one gram of gold and the maximum application criteria was earlier set for 500 grams per person per fiscal year (April-March) and later increased to four kilograms⁸⁴.

The tenor of the SGBS is for a period of eight years with an exit option permitted from the fifth year of the date of issue on interest payment dates.

The SGBS is repayable at the expiration of eight years. Premature redemption of the bonds is allowed from the fifth year of the date of issue on interest payment dates. The SGBS may only be redeemed for cash (and not in the form of physical gold) at the end of the investment tenure. The amount due for redemption is calculated using the prevailing gold price (basis of simple average for the last three business days of the week preceding

84 Government of India press release: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=169103>

the subscription period), thereby giving the investor the value of the SGBS plus capital appreciation/depreciation from increase/decrease in the gold price from the date of purchase. In the case of premature redemption (after completion of five years only) investors may approach the concerned bank/post office/agent 30 days before the coupon (interest) payment date, which happens twice a year only.

The SGBS is available in two formats:

1. As a physical certificate
2. In demat format

It may be prudent to point out that the SGBS that is obtained in the form of a physical certificate cannot be further endorsed to any other person and must remain in the ownership of the purchaser till the time of redemption. However, the SGBS that is obtained in the demat format can be traded on the stock exchanges (the BSE and the National Stock Exchange), further enhancing its liquidity. Banks provide loans against both the types of SGBS and interest on the SGBS is taxed as per the provisions of the Income-tax Act, 1961. The SGBS holder is exempt from Capital Gains Tax upon completion of the entire tenure of eight years. If the SGBS is traded, (change of ownership), then the Capital Gains Tax shall be computed in the same manner as for physical gold along with indexation benefits, if applicable.

3. Status of Mobilisation

The issuance of the SGBS is currently made in tranches, of which the first one was made on 05 November 2015⁸⁵. The target mobilisation of the SGBS was set at INR 15,000 crore in 2015-16 and at INR 10,000 crore in 2016-17. The total SGBS subscribed from inception till July 26, 2017 has been INR 4,769 crore⁸⁶.

4. Concerns

1. The response of the scheme has been fairly inadequate despite scheme being in operations for many years.
2. The price of SGBS is at a high premium vis-à-vis the market price of the gold which may be unattractive of some buyers.

5. Committees' Approach

The Committee deliberated on the concerns relating to the SGBS which included- a) the fixed price for the entire period of the tranche which based on market conditions could lead to an unacceptable premium of 4-5% over the market rates making it non-competitive; b) limited availability restricted to the launch of tranches; and c) the price risk of the SGBS being borne entirely by the Government.

6. Recommendations

After evaluating the SGBS in depth, the Committee feels that the scheme may be reviewed by the Government of India. The recommendations are:

1. Efforts need to be made to revamp the scheme to make it more attractive to the investors.
2. Consider the possibility of backing SGBS with physical gold or by hedging the price risk.

85 RBI/2015-16/218 IDMD.CDD.No.939/14.04.050/2015-16

86 Government of India press release: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=169103>

Chapter 3: Section V

New Financial Product: The Gold Savings Account

Vision:

To provide the citizens with the opportunity to save in gold without hassles and no losses at the time of encashment.

1. Introduction

Gold is purchased in India as a savings instrument that may be encashed instantly or exchanged for jewellery as and when required. It is further noted that these customers purchase gold coins or jewellery after paying labour charges, taxes etc., all of which are forsaken at the time of encashment or exchange. Moreover, while the people living in urban areas may have the option of other financial tools to choose from, the citizens living in the rural areas often shy away from complex financial products and therefore choose to invest in gold. It is essential to recognise that the citizens living in the rural areas that choose to invest their savings in gold do so as it permits them an opportunity to encash the gold/jewellery immediately if the need be. It is for these very people that the new revamped Gold Savings Account (GSA) is proposed, as it would provide the citizens with the opportunity to save in gold with no losses due to labour charges and taxes at the time of encashment.

The launch of the revamped GSA is eased due to the huge success of the Pradhan Mantri Jan Dhan Yojna (PMJDY), which was dubbed as the world's biggest financial inclusion drive. It is pertinent to point out that the beneficiaries were primarily in rural India.

A GSA may be opened by banks for their customers, will go beyond the scope of GMS deposit, and allow investors and individuals to deposit INR to accumulate their savings in gold. The GSA shall offer the opportunity to build up an investment in gold over a period of time by virtually saving in gold terms rather than INR terms. In essence, the GSA is similar to any other savings interest-bearing deposit account held at a bank or another financial institution that provides an interest rate except that the deposit made in rupees will be translated in physical gold held by the bank or the financial institution. When a customer deposits cash in his or her account, the bank will credit grams of gold. The price of gold will be based on the date on which the deposit is made.

The GSA can be a linked to a demat account which would enable the linkage of digital gold accounts across banks through the proposed Bullion exchange and its vaulting infrastructure. This is similar to the current linkage in stocks, where banks, demat accounts, stock exchanges and depositaries are linked in a transparent manner.

2. Operations of the GSA

The account holders of the GSA will provide a sum of money to be invested in gold as and when desired. They can choose to redeem the gold in INR or gold weight terms. The GSA account holder would purchase gold at the prevailing market rate. The minimum investment size for purchase would be 1 gram and multiples thereof. Every new investment (buy) would reflect as credit into the account and every withdrawal (sell) is a debit.

Like in a savings account, banks can issue a simple passbook to the investor showing the quantum of gold to his or her credit. The gold, when purchased, can be entered in the

passbook, as a record of balance held in the gold account of the account holder. It may be noted that if redemption in physical is not possible immediately, the GSA account holders may be given the equivalent amount in INR terms till such time that the banks develop the capability of being able to do so. (For the sake of ease of understanding, this paper shall refer to the redemption in the weight of gold or in INR terms, as per the choice of the account holder).

The GSA will have every quality of holding physical gold except that it is in paper form but can be converted into physical gold at a short notice as and when desired by the account holder. A depositor/investor holding the account can operate it similar to the savings account and can buy gold at the displayed price, and get the account credited with the equivalent of physical gold in grammage (of certified quality). The single quote will be displayed every day by the bank that shall indicate the price of gold for sale or purchase by the bank. Thus, the GSA will have only debit and credit entries in terms of grammage of gold, with an indication of the unit price at which the gold is bought and sold back by the depositor.

2.1 GSA Interest Payment

The bank shall pay interest on the gold purchased by the borrower at the same rate as paid to the deposits accepted under the Gold Monetisation Scheme (GMS), which shall be in sync with international gold lease rates. The interest shall be payable in the weight of gold itself (as calculated by the banks to the borrowers of Gold (Metal) Loan, (GML), based on the gold price of the last day of the month) and shall be debited to the account monthly.

2.2 GSA Redemption

The account holder shall have the option of redemption in either physical gold or in INR terms of the equivalent value of the gold being redeemed. As mentioned earlier, to begin with, banks may face some difficulty in providing physical gold in remote locations and thus may redeem the same in INR terms only. However, banks should try and build the required capability to make redemption possible in the form of physical gold itself. It may be important to point out that physical delivery may not be possible for weights less than 1 gram. In such cases, the banks may pay the equivalent amount of the gold in INR terms. Wherever physical gold is being delivered, it is imperative to point out that the appropriate import duty and taxes, as applicable, shall be charged to the account holder. In order to encourage people to make deposits in GSA, a view may be taken to exempt such deposits from capital gains tax especially where physical gold is being delivered.

2.3 Tenure of the GSA

Like in any savings account, there will be no minimum tenure and it will be left to the account holder to operate the GSA as they desire and to purchase or sell the gold acquired in the account on their own accord. It may be in form of savings account or recurring deposit account.

2.4 Transferring the GSA

The gold accumulated in the GSA would be permitted to be transferred to any other person or entity, through a letter to the bank requesting the transfer, provided the recipient also has a GSA. This would add to the features of the GSA and would make it a desirable financial instrument through which the citizens may invest their savings in gold.

3. Recommendations

The Committee recommends:

1. Introduction of a new financial product for banks viz. Gold Savings Account, that will accept INR and credit grams of gold, with passbook facility. Such accounts may also be in form of recurring deposit accounts.
2. The suggested operational details of GSA would be:
 - a. The price of gold will be the prevailing price as of the date the deposit is made (inclusive of import duty and GST).
 - b. The redemption of the account can be in INR or gold weight and at applicable market price on redemption date. No capital gains tax may be levied where redemption is made in form of gold.
 - c. While there may be no restriction in terms of minimum deposit, some minimum threshold may be provided where redemption is in form of physical gold. The interest payable on GSA will be the same as the interest on gold deposits collected under Gold Monetisation Scheme (GMS), 2015. The interest can be accumulated in terms of weight of gold.
3. In case redemption in physical gold not possible, GSA account holder may be given equivalent amount in rupee terms but in due course, banks may develop capability of being able to provide physical gold if demanded.

Chapter 4: Tax Reforms

In case of gold industry in India, the various aspects of taxes include basic customs duty, the provisions under GST for the intermediate industry value chain and the tax treatment of financial instruments linked to gold. With a view to accelerating investments and boosting exports through progressive and optimal tax measures, the proposed policy changes that provide necessary impetus for growth of the industry are discussed in detail in this Chapter.

Chapter 4: Section I Tax and Duty Structure

Accelerating investments and enabling exports through progressive, efficient and optimal tax policy

1. Introduction

Any proposal for the reform of the tax system with respect to any one sector in the economy needs to be based on an assessment of the sector, a vision for the sector in the times to come and India's broader vision.

A vision for the gold sector can be summarised by considering the productivity that can be generated by increasing demand. An increase in demand shall create greater employment throughout the value-add chain within the gold industry. The gold jewellery and coin manufacturing making contributes to the maximum employment opportunities given the range of manufacturing, the Karigars, the wholesalers, commission agents and wide jewellery retailer network. Extending it further, both domestically mined doré and imported doré are refined in India, and this activity too contributes to value addition and employment generation, especially in the rural areas of the country. At present, India both encourages gold consumption (public sector entities sell gold) and discourages gold consumption (high import duties). We need to move towards a vision which integrates the gold sector with India's economy. The recommendations should include ways of encouraging recycling of gold held by various agents in the economy and encouraging a shift in consumer behaviour from physical gold (bars) to gold-based financial assets such as gold ETFs, gold-based paper instruments such as gold savings account.

In an attempt to understand the impact of taxation on gold, the following sections provides a summary of the structure of taxation this segment of the economy faces, brief description of the possible effects of such a tax regime and a set of policy changes are identified which can mitigate the problems and help transform the gold market of India.

2. Basic Customs Duty (BCD)

As of date, all imported gold in bullion form faces a Basic Customs Duty of 10 percent computed on a tariff value that changes every fortnight. The basic import duty on gold has increased steadily over the period from 2011 to 2013 as given below:

- INR 300/10 grams in 2011
- 2 percent in January 2012
- 4 percent in March 2012 (Union Budget 2012-13),
- 6 percent in January 2013
- 8 percent in June 2013
- 10 percent in August 2013
- Suspension of imports in August 2013

When imported in mine doré form to be refined in India, a BCD of 9.35 percent is applied on a value derived using the LBMA fix on Airway bill date. The import of gold into India is through nominated importers; RBI nominates banks, the Ministry of Commerce nominates select public sector trading houses and DGFT permits Premier/Star Trading Export Houses in the private sector to import gold without any ceiling. Import of gold jewellery faces a 15 percent customs duty; when imported at a concessional duty from countries with whom India has an FTA, a countervailing duty to the tune of 12.5 percent is applied prior to the advent of GST.

Gold is a high value item which has very low volume which makes it very easy to smuggle. The circulation of gold procured in this manner within the domestic economy would not be in the form of reported transactions, which in turn can undermine the reporting of purchases and sales of gold in the economy. A reduction in the customs duty in the past in India has been argued to support tax compliance coupled with a significant reduction in the quantum of gold smuggled into India. In this context, to create a tax compliant system within the sector, it is important to reduce the BCD on gold to as low as possible.

3. The Structure of Taxation for Gold

Prior to the GST regime, there were a variety of processes to enable the jeweller-exporter to import gold and other raw materials, and export the corresponding finished product without the payment of duty. However, with the introduction of GST, IGST is also applied on duty-free imports for export production. In principle, refund of input taxes can be claimed in the case of exports. However, the processing of refund cheques can be time-consuming, which has the effect of dampening the export effort.

Turning to domestic taxes, before the implementation of GST, the taxes on gold included 1 percent excise duty and state VAT of around 0-4 percent (though majority had between

1-1.5 percent). Service tax was not levied on job work activity relating to jewellery in the hands of the job-workers it was considered as a part of the manufacturing process. In addition, while there was an excise on gold jewellery as well, an exemption for unbranded jewellery was in place. Branding meant the brand name or trade name that was indelibly affixed or embossed on the jewellery itself. This effectively meant that the tax did not apply to most jewellery manufactured in India. Excise duty of 1 percent, which was imposed in 2016-17, was on the first sale of jewellery by domestic jewellers.

With the introduction of GST, the excise on jewellery and the VAT on gold and jewellery have been subsumed into GST with the rate of tax in the new regime being fixed at 3 percent. In addition to the structure of tax, it is important to point out that under the GST system, whenever any transaction implies a movement of goods from one state to another, it is expected that the tax would be paid upfront.

The Committee feels that in order to remove the price differential between the Indian exports and the international prices of jewellery, and to encourage creation of a strong brand, taxes need to be reduced on the gem and jewellery industry. This may be done by reducing the rate of GST from 3 percent to an appropriate level.

3.1 KYC Requirement

Turning to direct taxes, while there are no direct links to the gold sector, there are some indirect references. For all purchases of gold/gold jewellery above INR 2 lakh, the buyer was required to produce a PAN card. This regulation was introduced to track spending and map it back to incomes reported and thereby attempt to identify under-reporting of incomes. More recently, under the PMLA, sellers of gold/gold jewellery with turnover above INR 2 crore were required to document sales above INR 50,000 in value with more elaborate KYC documentation. The dis-similarity in identical intent treatment was brought out by jewellers and in response to the feedback provided, the Government has temporarily withdrawn the PMLA notification, with the Finance Minister suggesting that the notification would be reissued with more clarity being provided on what is expected of the various participants in this market. As of January 2018, the PMLA notification was still suspended.

3.2 Tax treatment of Financial Instruments Linked to Gold

The other aspect within the domain of income tax is the treatment of gold derivatives, gold ETF, gold savings account and gold bonds for purposes of taxation. For transactions in gold derivatives, a commodity transaction tax (CTT) of 0.01 percent is levied. The necessity of the gold derivative markets has been to provide an efficient risk management platform with effective convergence with the physical markets. With no CTT on the physical markets, this not only provides an arbitrage opportunity but also distorts the price discovery mechanism.

Further, turning to the treatment of sovereign gold bonds and gold savings account, in terms of capital gains, these assets are treated dissimilarly to other financial savings; while redemption by individuals is exempt from capital gains, for transfer prior to redemption, long-term capital gains tax provisions are applicable only if the asset is held for more than

three years, unlike investment in listed stocks where the gain is considered long term if the listed stock is held for over a year. The Sovereign Gold Bonds were introduced as a mechanism to discourage the purchase of gold and encourage in its place the purchase of gold bonds (or investment in gold derivatives) which provide all the benefits of gold if gold is being bought for investment purposes, by tracking the price of gold and at the same time, reducing the physical demand for gold thereby reducing the import of gold from India. The present tax treatment does not provide any tax incentive for investment in sovereign gold bonds as compared to physical gold.

Gold ETFs attract Long Term Capital Gains (LTCG) tax of 10 percent without indexation or 20 percent with indexation. Short Term Capital Gains (STCG) tax is also applicable as per income tax slab of the investor⁸⁷.

3.3 Impact of GST on Exporters

In the GST regime, for jewellers who work in both the domestic market and export, the credits available from input tax credit on exports can be utilised for payment of domestic taxes. However, if the exporter is engaged in solely exporting the product, then exports would entail a refund of 3 percent GST from the tax department, which involves various steps, including scrutinizing the documents submitted, and audit if the refund amount exceeds prescribed threshold and ascertaining that there is no unjust enrichment by the taxpayer. While these processes would be streamlined when compared to earlier regimes, since the earlier regime provided the option of procurement of inputs without payment of taxes/duties, the difficulties in obtaining a refund cheque were discounted. In the GST regime, since taxes are to be paid upfront, the result could take up to 90 days, only beyond which period, interest is payable by the tax department.

Another aspect of the import policy in gold relates to the tariff valuation for the purpose of BCD. The Revenue Department periodically fixes a tariff value for gold, which forms the basis for the taxation of gold. Further, 3 percent IGST is applied to this price as well.

As per Para 4.45 and 4.77 of FTP and HBoP 2015-2020 respectively, an exporter of 3 years standing having an annual average turnover of Rs. 5 crores during preceding 3 financial years, foreign buyer may supply in advance and free of charge, gold/silver/platinum etc. for manufacture and export. The Committee feels that, IGST on such supply by foreign buyer should be exempted, however, bank guarantee can be taken as being done in case of customs duty.

3.4 Impact of GST on the Karigar in the Jewellery Industry

Job workers in the gems and jewellery industry have historically been kept outside the tax and compliance net under the earlier indirect tax regime. The job work service has been considered as a process of manufacturing and hence was not eligible to service tax. Further, under the Excise Notification, it was the principal manufacturer and not the job worker who was entrusted with the burden of registering, maintaining accounts, paying levied duty and complying with other provisions under central excise. In other words, the job worker had always been kept away from the tax and compliance burden. Currently,

87 <https://www.kotaksecurities.com/ksweb/faqs/Equity/exchange-traded-fund-faqs>

the Karigars are exempt if the turnover is less than 20 lakhs.

The threshold for exemption from GST is very low. GST is a tax where the liability of tax is expected to be passed on to the buyer. In this sense, the seller is not expected to bear the cost. However, the cost of compliance will be borne by the seller. Here, the threshold of Rs 20 lakh would mean different incomes for different sectors. For instance, if one compares a sector where the value added is 30 percent of value of sales with a sector where value added is 10 percent of value of sales, then the former would have higher incomes and would be better placed to bear the compliance cost as compared to the latter. The value added in the case of gold for small manufacturers is low, said to be around 2-3%, which would mean that such manufacturers would face a disproportionate cost of compliance. This is an issue which concerns not just the gold jewellery sector, but many other sectors. It would therefore be useful to explore the possibility of defining the thresholds on the basis of value added where value added can be determined by using average ratio of value added to value of sales for the sector concerned. This issue is of particular importance for the gold sector since the composition scheme does not provide an effective alternative given the low rates of GST on gold and products of gold – the composition scheme would mean a liability higher than the GST liability would be.

It is therefore suggested that the job worker or the Karigar should be exempt from GST and the compliance burden as with earlier regime.

3.5 GST Impact on Repair/Alteration/Modification to Articles of Jewellery

The rate of GST for repair/ alteration/ modification services in the nature of job work is 18 percent. This rate may be high considering the fact that the repair may involve addition/ supply of gold apart from re-making in the entire process and such supply and service are otherwise taxed at 3 percent and 5 percent respectively. A repair job may be characterised as a composite supply with labour being treated as predominant supply. This could mean a substantially high burden on the customer if he or she has to pay GST at 18 percent on the entire consideration towards such repair.

It is therefore suggested that the GST rate for repair service of jewellery should be reduced from 18 percent to 3 percent.

4. Committees' Approach

The Committee closely looked at constraints and challenges faced and likely to be faced by the industry in the transition to GST. Broadly, the issues included- a) Processing of refund cheques for input taxes can be time-consuming, which has the effect of dampening the export effort; b) the excise on jewellery and the VAT on gold and jewellery have been subsumed into GST with the rate of tax in the new regime being fixed at 3 percent, and for a transaction comprising movement of goods from one state to another, the tax is required to be paid upfront; c) uncertainty regarding the KYC requirement for jewellers; d) inequality and possible inefficiencies in the treatment of gold derivatives, gold ETF, gold savings account and gold bonds for purposes of taxation; d) including job-workers and Karigars within the compliance and tax liability umbrella due to low thresholds for tax

liability; and e) a disproportionately high rate of GST for repair/ alteration/ modification services in the nature of job work at 18 percent rather than 3-5 percent under the earlier regime. Basis these concerns and issues, the Committee after examining the issues and discussing extensively, have made the recommendations set out in (4) below.

5. Recommendations

The recommendations of the Committee are as follows:

1. Reduction in the duty on gold imports of both forms of gold (bullion and mine dore)
2. Exemption of 3 percent IGST to be paid by exporter on line with custom duty with a provision of bank guarantee. IGST exemption to also extend to the supply of Gold by foreign buyer.
3. Reduce GST from 3 percent to appropriate levels. Job workers receiving gold from other states may be considered for exemption from obtaining GST registration.
4. The threshold for exemption under GST is INR 20 lakh. Revise the threshold on the basis of value added, where value added can be determined by using average ratio of value added to value of sales for the sector concerned.
5. Removal of CTT on gold derivatives and provision for capital gains tax exemption for gold related financial instruments.
6. For search and seizure proceedings, as per the CBDT instruction no. 1916 in circular dated 11 May 1994, allows for non-seizure of jewellery to the extent of 100 grams by men, 250 grams by unmarried women and 500 grams by married women to be extended to assessment proceedings and to be treated as explained income. The same tax principles may be extended for gold deposited under GMS.
7. The GST rate for repair service of jewellery should be reduced from 18 percent to 3 percent.

Chapter 5: Regulatory Infrastructure

The gold industry in India faces manifold challenges - multiple regulators, fragmented marketplace and lack of a consolidated industry representation in policy fora. The industry has to deal with different regulators working on different aspects of policy issues. As a consumption item, the gold industry has representation for its jewellery exports business, but overall the domestic industry does not have a unified group representing it. Other challenges include lack of adequate quality assurance, weak price transparency, fragmented liquidity and regulatory issues. This chapter addresses these issues in three different sections and recommends the creation of the Gold Board of India for overall regulation; the proposed Bullion Exchange of India, which is an efficient common regulated marketplace and finally the proposed Gold Domestic Council, an association of various stakeholders to develop this industry to world-class standards.

Chapter 5: Section I

The Proposed Gold Board of India

To formulate policies and create an ecosystem that supports and helps transform the Indian gold industry into a major global player while ensuring ease of doing business for the domestic industry.

1. Introduction

The Current Legal Framework Governing the Gold Sector

Gold as a subject, is governed under the Industries (Development and Regulation) Act, 1951, first schedule, heading metallurgical industry and sub-heading non-ferrous category. The Central Government has powers to manage or control the policies governing gold. Second, under the BIS Act, 2016, Chapter 1, defines precious metals to cover gold and gold articles. Third, under the Regulation of Minerals, entry 54 of union list - I & Entry 23 of state list - II of seventh schedule of the constitution of India empowers the Union & State Governments respectively for management of minerals. Grant of mineral concession for major minerals are governed by Rules and Regulations formulated by Central Government and are therefore same throughout the country. This shows that Central Government has powers to legislate on gold.

However, the Committee has taken cognizance of the large number of Government agencies that play a role in the formation of gold policies of the country. They are listed below:

Table (5.1.1): Regulators and their scope

Regulator	Scope of Regulation
Reserve Bank of India	Regulates financial institutions, imports and distribution of gold (GMS), holds India's gold reserves
Ministry of Finance	
Department of Economic Affairs	Macro-economic policies for Gold
Department of Financial Services	Regulates financial institutions
Department of Revenue Central Board of Direct Taxes Central Board of Excise and Customs	Direct and indirect Taxation impacting gold:
Department of Expenditure	Cost of procurement
Securities and Exchange Board of India	Financial products of gold such as exchange traded funds (ETFs) and Gold futures.
Insurance and Regulatory Development Authority of India	Promoting and regulating insurance and re-insurance – critical for transport of gold.
Ministry of Commerce and Industry	
Department of Commerce	Formulate and implement trade policies on gold. Promote exports of gold.
Department of Industrial Policy and Promotion (DIPP)	Overall industrial development policy including gold. FDI in gold.
Directorate General of Foreign Trade	Export/Import procedures relating to trade in gold and gold doré
Ministry of Consumer Affairs and Public Distribution (Bureau of Indian Standards)	Standardisation, marking and quality certification of gold (hallmarking)
Ministry of Skill Development and Entrepreneurship	Designing and implementing vocational and technical training framework and skill upgradation
Ministry of Labour Directorate General of Employment & Training	Industrial and vocational training – responsible for training of craftsmen
Ministry of Mines	Survey and exploration of gold
Ministry of Environment, Forests and Climate Change	
Ministry of MSME	Development and promotion of MSME in gold jewellery including facilitate flow of credit and support for modernization
National Accreditation Board for Testing and Calibration Laboratories	Accreditation of refineries

Issues and Challenges Faced by the Sector

The gold industry has multiple regulators and ministries working in silos regulating a single product that result in policies that hinder the growth of the industry. There are multiple problems associated with the presence of multiple regulators and too many regulations. The Gold sector is not being able to grow at its full potential due to presence of multiple regulations. An impact of this multiple regulators working in silos was evident in the suspension of gold imports in May 2013, which restricted banks to lend gold to the industry. Exporters were unable to obtain gold to meet their export obligations, resulting in the cancellation of orders by the exporter. On the domestic front, this MSME dominated industry faced challenges of job losses, as basic raw material, gold, was unavailable.

To eliminate such problems there is need to foster an ecosystem that provides a single-window, one-stop interface for the industry that will encourage standardisation, transparency and accountability, which will generate focused efforts that are comprehensive and inclusive.

The Committee is of the view that there is a need and requirement of a unified institution which can take care of all the regulations. The Committee therefore recommends setting up of the “Gold Board of India” (GBI) under the Ministry of Finance. Gold as a foreign exchange asset would continue to be professionally managed by RBI. The GBI could setup an integrated “Make in India in Gold” portal that provides all information relating to gold industry, Government policies and programs on gold.

The proposed single regulatory entity under a single ministry would oversee all regulations of gold. This would be central to a new regulatory regime that would subsume all existing and future regulations on gold. The proposed single regulator may have representation from all the existing regulators of gold and also from the industry. Here it may be mentioned that gold as foreign exchange asset of the sovereign should continue to be professionally managed by RBI only and the infrastructure being created for the streamlining of gold market should be available to RBI in line with its policy objectives. The GBI should be a professional body of experts, with members also from the extant authorities and regulators.

2. Proposed Structure of the Gold Board of India

The Committee proposes the formation of the GBI, which would have representation from all the nodal agencies, on the lines of the ‘Tea Board’ or the ‘Coffee Board’. The GBI would have representation from all Government agencies who are stakeholders. The Committee suggests that the GBI function initially as an advisory body under the Ministry of Finance and subsequently be made a statutory body. The Chairman and other functionaries should be appointed by the Government of India. The powers of the GBI and its mandate may be clearly articulated and a decision made should be binding on the other departments of the Government of India. The members of the GBI may include representatives at an appropriate level from:

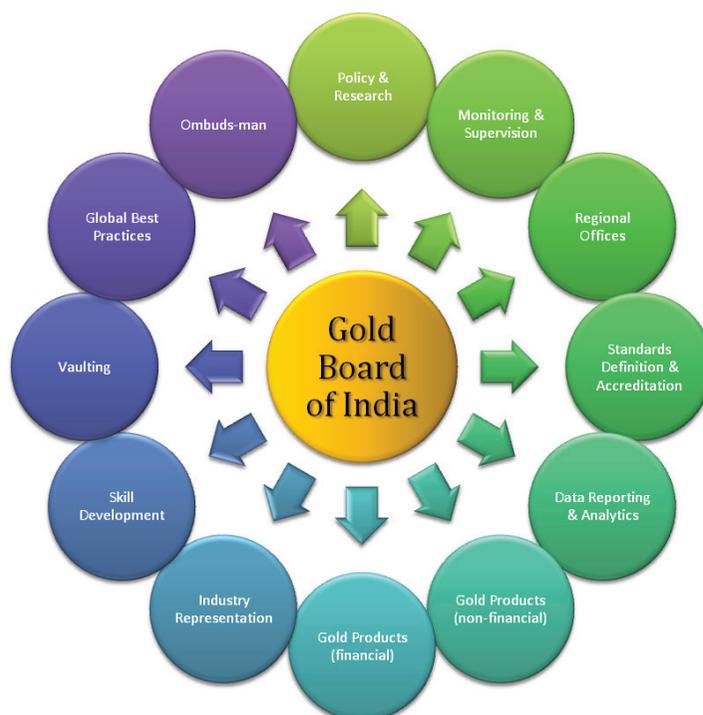
- Department of Economic Affairs, Ministry of Finance

- Department of Financial Services, Ministry of Finance
- Department of Revenue, Ministry of Finance
- Department of Expenditure, Ministry of Finance
- EAC-PM
- NITI Aayog
- Reserve Bank of India
- Securities and Exchange Board of India
- Insurance and Regulatory Development Authority of India
- Ministry of Commerce and Industry
- Ministry of Consumer Affairs and Public Distribution
- Ministry of Skill Development and Entrepreneurship
- Ministry of Labour
- Directorate General of Employment and Training
- Ministry of Mines
- Ministry of MSME
- National Accreditation Board for Testing and Calibration Laboratories
- Pension Fund Regulatory and Development Authority of India (PFRDA)
- Regulators of Proposed Bullion Exchanges
- Warehousing Development and Regulatory Authority (WDRA)

The aim is to have all stakeholders aggregated under one roof, so that decisions regarding gold do not negatively impact any stakeholder, industry or the Government.

The functional structure of the board may be aligned to the key activities as given in the below figure (5.1.1):

Figure (5.1.1): functional Structure of the Proposed Gold Board of India



To design the policies, it is crucial that the GBI is led by a team of members who have reasonable experience in the industry. The GBI members should aspire to become experts on gold from both the domestic and international perspectives.

3. Objectives of the proposed GBI

The Committee is of the opinion that there is a need to have a coordinated approach to oversee regulations, with all existing institutions and regulators joining hands to form a single agency for all the stakeholders in the industry. The aim is to achieve ease of doing business by creating a bridge between all authorities for policy decisions, implementation of the existing policies, required intervention and overall regulatory function. Overall, it would bring about an integrated and focussed approach on the formulation of gold policy and industry matters by:

- Improving cohesion between different bodies
- Setting a uniform and synchronised policy on gold
- Enabling cross-regulatory dialogue and knowledge sharing on gold
- Developing specialised expertise on gold with a holistic understanding across facets
- Developing the market for current financial products linked to gold
- Developing a deep understanding of all gold related financial products available internationally and implementing it for the development of the industry

- Enhancing quality and standard of all gold products to acceptable global best practices
- Introducing new technology to enhance value addition in the gold industry
- Introducing new products to augment the options for digital gold instruments in the financial sector
- Enhancing effective recycling and mobilisation of existing gold resources
- Developing manufacturing excellence and infrastructure development
- Driving consultation with stakeholders across the gold value chain (miners, refiners, trader, banks, NBFCs, etc.)

The core purpose of the GBI on gold should be to unlock the potential of the industry to increase its contribution towards the growth of the nation's economy. With representation from all ministries and institutions, the policies taken by the GBI should be considered to be adequately represented. This would minimise conflict of interests across policy design objectives and commercial activities for market development.

Potential areas of focus by the board could include:

- Develop and launch financial products of gold whether through banks or markets and ensure gold is productively used.
- Make gold price and gold quality (caratage) transparent to the consumer through infrastructure, e.g., gold exchange and hallmarking, to avoid malpractices.
- Improve information and data availability on the industry and expand the scope to use big data.
- Develop a rationalised tax structure to reduce smuggling and help migrate the unorganised sector into the organised sector.
- Promote domestic mining and refining of gold.
- Devise methods to promote digital payments for the purchase of gold.
- Improve bullion risk management in Indian banks.
- Develop India Good Delivery Standard.
- Set up an integrated 'Make in India in Gold' portal that provides all information relating to the gold industry, government policies and programs on gold.

4. Recommendations

To take a holistic view of gold in India, the Committee recommends:

1. Setting up of a new body 'The Gold Board of India' under the Ministry of Finance. Initially, it can be an advisory body and in due course efforts may be made to convert into a statutory body.
2. 'The Gold Board of India' would be positioned as a single window one stop interface - assigned the responsibility to formulate policies. Gold as a foreign

exchange asset would continue to be professionally managed by RBI.

3. The operational aspects of the proposed Gold Board of India may be envisaged as follows-
 - The members of the GBI will include representation from all concerned Ministries, Regulators and Warehousing authorities associated with gold and the gold industry in any form. The GBI Chair and Co-Chair appointment may preferably be for a fixed tenure, such as 5 years, as the gold industry is highly technical, requiring domain expertise and knowledge.
 - The GBI would study the policy developments globally, across countries to keep up-to-date with the developments in the global industry. It would work to provide a better and efficient ecosystem, whereby foreign investments may flow into the country, which can have a positive spill over to domestic enterprises.
 - The GBI could set up an integrated 'Make in India in Gold' portal that provides all information relating to the gold industry, government policies and programs on gold.
4. In order to boost exports and value addition of gold jewellery, the GBI should closely work with the Ministry of Commerce to develop Free Trade Agreements (FTAs). The GBI would work on the details of the feasibility of the FTAs.
5. To uplift the domestic refining business, opportunities to source gold doré globally should be explored by exploring the possibility of FTAs and bilateral trade agreements.
6. Set India Good Delivery Standard.

Chapter 5: Section II

Proposed Bullion Exchange of India

To provide an efficient and trusted ecosystem for trading gold and ensure the success of Financialisation of gold with an aim to improve market transparency, protect the interests of market participants and make India the price setter for gold.

1. Introduction

Despite its significant size and important global position, the Indian gold market is unable to realise its potential due to multiple challenges. These challenges include lack of quality assurance, weak price transparency and fragmented liquidity and regulatory issues. There is a pressing need to reform the gold trading market in India.

India's gold market is marked by multiple regulations. There are numerous regulators who regulate the different aspects of the market. The market is also scattered and there is no central market for trade. The following facts bear this out.

Import of gold deposits currently happens through multiple channels and the delivery is taken by multiple vaults which are spread all over India. It is subsequently transferred to the end user through these vaults. There is no centralised repository or vault collating all import details and taking physical delivery nor any regulatory requirement for it.

The Committee was informed that India currently has few commodity exchanges. They operate as futures exchanges which are primarily used to hedge against gold price risk and take proprietary positions on gold price movement. A spot exchange, on the other hand, focuses on price discovery and hence, provides the entire ecosystem around physical deliveries. Moreover, the futures exchange do not address the issues of physical delivery, quality assurance, price discovery, transparency and liquidity. Hence there is a need of a 'spot exchange'.

While the Committee interacted with SEBI, they were of the opinion that for the electronic spot exchange to be operational, the country needs to first develop and regulate the key infrastructure vis-à-vis the gold ecosystem such as refining facilities, assaying/testing facilities, gold vaulting facilities, logistic arrangements to achieve T+1 delivery across major locations in India, quality assurance of gold and standardization, hallmarking and an India standard for delivery as the same are presently either non-existent or inadequate. These key infrastructure are vital for the development of the gold ecosystem which are essential to help in effective functioning of the spot exchange on gold include:

1. Standardization of quality and quantity: To enable electronic trading of any commodity, it is essential to have standardization or develop a framework for India delivery standards.
2. Exchange may be required to launch standardized contracts with various combinations of following parameters:
 - a. Chemical composition

- b. Quantity
 - c. Shape/size
 - d. Location
3. In order to make the spot exchange useful for participants throughout the country and given the fact that contracts have to be settled by physical delivery on gross basis, there may be requirement of multiple location-based contracts for delivery in various cities. For example, there could be multiple contracts for delivery in Ahmedabad, Delhi, Mumbai, Surat, Kolkata, Chennai, and Kochi against separate contracts for 1 gram, 10 grams, 100 grams, 1 kg etc.
4. The participants such as Banks, Bullion dealers, Miners, Refiners, Importers/Exporters, Jewellers etc., would be required to encourage to participate in the spot market. Any legal impediments prohibiting their participation ought to be removed.
5. Other aspects :
 - a. Settlement has to be by physical delivery within “X” number of days of trade execution. Netting off of the trades should not be a feature of the gold spot contracts.
 - b. Exchange would be required to empanel a number of clearing banks and members on its platform.
 - c. For guaranteeing clearing and settlement, appropriate risk management would be required.
 - d. Promoters of the exchange should be ideally neutral players to ensure transparency and integrity.
 - e. Corporate governance is of paramount importance.
 - f. The spot exchange should ensure that it attracts all the participants of gold eco-system to its platform and does not merely become a distribution channel of imported gold alone.
6. The reach of the proposed platform should allow participation by large number of players across segments such as Banks, Bullion dealers, Miners, Refiners, Importers/Exporters, Jewellers (big or small), retail individuals, corporates, and Institutional investors such as Mutual Funds.

2. Global Experience⁸⁸- Strategic Options and Good Practices

Turkey, China and Dubai have had historically been big gold consumer markets with a major share in global gold demand. The gold exchanges and related infrastructure in these countries seem to have significantly contributed to the development of an efficient market for gold by way of:

- Efficient price discovery by channelling demand-supply information into a central mechanism. Without the exchange, the price-related information was fragmented across different channels with significant arbitrage opportunities. The exchanges in these countries have by and large synchronised the local prices with the international benchmark prices.
- Assurance in the quality of gold for individual and institutional buyers through standardisation of quality with the help of support infrastructure such as LBMA-accredited refineries, vaulting, storage and financing facilities.

88 Indian Institute of Management, Ahmedabad (February 2016) “Viability of a Gold Exchange in India”, Prof. Joshy Jacob and Prof Jayanth R Varma

- Active retail participation and use of gold bars and coins for investment instead of jewellery. Substitution of investment physical gold with gold-linked financial products.
- Greater integration with other segments of financial markets through gold leasing and lending.
- Acting as a channel for gold recycling by working through accredited refineries. The recycled gold finds its way into the market through the gold exchange.

3. Proposed Gold Market Ecosystem: Bullion Exchange (trade) and Centralised Gold Vault (depository)

Gold is a major investment asset category which should be available in a common regulated marketplace. A Bullion Exchange is required to create traceability across the value chain with a non-intrusive model, from importing to sale of gold to stock on hold with the jewellery manufacturer, jewellery retailer and retailer of bars and coins. All this information should be available easily to the entire market.

As with any traded asset, in trading gold, the various aspects of demand and supply are:

- Import of gold to meet the demand
- The domestic market for purchase and selling of gold (whether imported or monetised). The Bullion Exchange is expected to enhance the gold market's efficiency by way of efficient price discovery, quality assurance, active retail participation, use of gold bars and gold coins and gold-linked financial products instead of jewellery for investment purpose. A large buyer-seller platform will also help cut imports, as availability issues will be addressed more efficiently.
- Similar to equities, real-time buying and selling of gold will be possible. The standard regulatory requirement for participants in terms of KYC requirements would get increased transparency in these markets. The participants at the Exchange would be bullion traders, importers, banks, jewellers — both small and big — and retail investors. The scope of the Exchange can be both domestic and international. A centralised Bullion Exchange and a centralised vault for imports when established in India would have the following advantages:
 - India would become the global price setter for gold, which would lead to physical gold trading in India to be regulated
 - Reduction in gold imports, due to remonetisation, and hence reduction in the current account deficit
 - Reduction in price disparities among different regional markets in India, and different classes of market participants by bringing price transparency that could only come through a nationwide electronic exchange
 - Resellers are a significant source of gold for jewellers and refiners; however, currently there single place for availability of information associated with reselling of gold into the market
 - Introduction of transparency in pricing and standardisation
 - Inter-bank lending of gold
 - Providing a marketplace 'Gold Lending Market' for the market participants to procure Gold (Metal) Loan, similar to the collateral lending market in securities

3.1 Proposed Bullion Exchange Framework

The Government of India may consider setting up the Bullion Exchange/s of India, recognizing the need for a common regulated marketplace, which would offer a unified

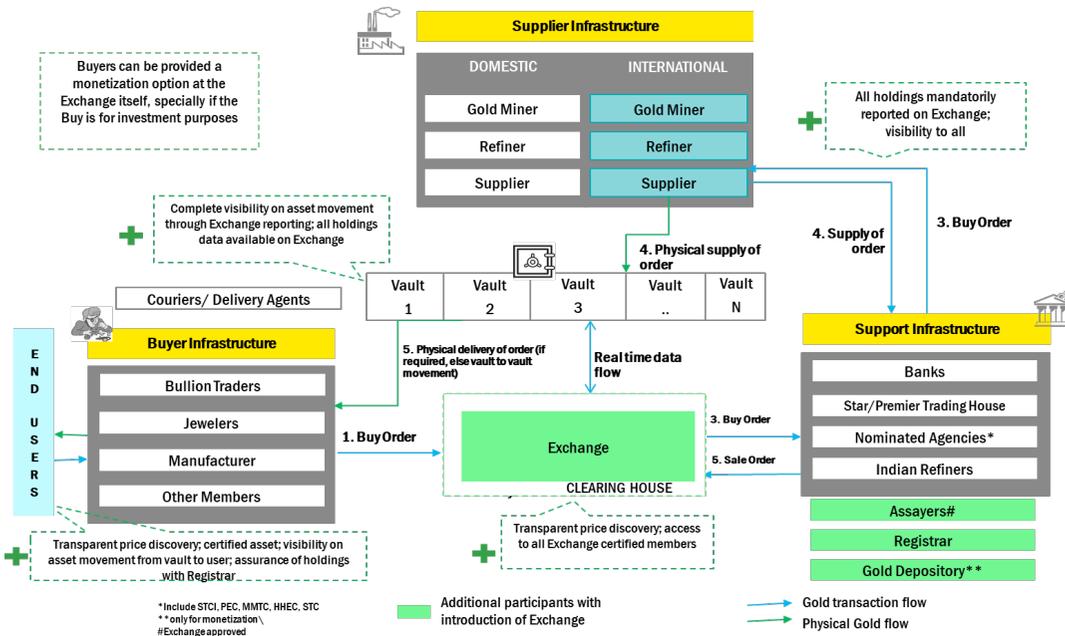
more efficient buyer-seller platform, with efficiencies through better linkages, price discovery, quality assurance and traceability of transactions, under the aegis of the Ministry of Finance.

The Committee proposes setting up of Bullion Exchanges that would provide an efficient and trusted ecosystem for trading gold and ensure the success of financialisation of gold with an aim to improve market transparency, protect the interests of market participants and facilitate India to emerge as a price setter for gold.

The Committee further proposes the following framework for the proposed Bullion Exchange. The flow chart below depicts the flow of transactions between the various market participants.

Each market participant would have a unique role to play and will be assigned appropriate responsibilities for efficient operation of the setup⁸⁹.

Figure (5.2.1): Proposed Bullion Exchange Framework



In the proposed system:

- Buyers can be provided with a monetisation option at the Exchange itself, especially if the buy is for investment purposes.
- All holdings would be mandatorily reported on the exchange, providing visibility to all.
- There would be complete visibility on asset movement through exchange reporting; all holdings data will be available on the exchange.
- There will be transparent price discovery, certified assets, visibility on asset movement from the vault to user and assurance of holdings with the registrar.
- Transparent price discovery; access to all Exchange certified members.

3.2 Benefits of Bullion Exchange

The benefits of the Bullions exchange would cover:

1. Setting of an 'India Gold Price'. The price of executed spot trades during an agreed period (e.g., a five-minute window before the close) can be used to automatically generate a settlement price that can be used as a reference price. Most exchanges use a 'volume weighted average price' during the window with a fall-back mechanisms in case of insufficient liquidity and it should be implemented in a manner so as to be compliant with IOSCO Principles for benchmarks and best practices defined by international benchmark regulations.
2. Provide an impetus for Gold Monetisation Scheme: While banks' widespread network and trust factor are essential to facilitate retail investors to bring their gold to formal financial channels, the Bullion Exchange can be a key enabler for the success of these efforts. The exchange can provide a strong impetus to gold monetisation schemes by facilitating price transparency at the time of both sale and purchase of gold. In addition, the Exchange can enable banks to design and offer innovative gold-linked products through the ecosystem provided by the Exchange.
3. Platform for gold lending and the trading of gold, similar to Gold (Metal) Loans. This is an alternative to the current OTC market on Gold (Metal) Loan.
4. Connect the banks and the various digital gold providers, including the sovereign gold bonds, revamped gold savings account etc.
5. The proposed exchange for spot gold markets would create a link between multiple participants of this industry covering but not restricted to:
 - Bullion traders
 - Banks and nominating agencies
 - Large jewellers/manufacturers
 - Small jewellers/manufacturers
 - Investors
 - Vaulting and logistics agencies
 - Assayers
 - Insurance companies
 - Depositories
 - Refiners
 - Registrar

This may lead to an estimated job creation to the order of 2.5 to 3 lakh jobs directly and another 1 lakh plus jobs indirectly in five years of operations. This takes into account the existing members, the new members who will be a part of the exchange and the additional recruitment to be done by them for the 'gold' business. The exchange will target around 10,000 bullion traders to become exchange members. Every exchange member needs to have a minimum requirement of being a compliance officer, financial professional, risk management officer, dealer, operational officer or manager to operate on the exchange. Moreover, indirect and ancillary jobs will be created by different supporting organisations such as vaults, assayers, insurance companies, depositories, refiners and registrar. In addition, there are the externalities with the development of hospitality, retail and transport and the overall development of the towns where these institutions will be set up.

3.3 Regulator and Regulatory Approvals

Setting up of new institutions would have its own requirement of requisite regulatory approvals. In this report, the Committee is proposing the setting up of the Gold Board of India, which would facilitate the necessary regulatory approvals. The Committee

recommends that the Bullion Exchanges be set up under the Ministry of Finance. However, this does not preclude meeting necessary conditions prescribed by various regulators.

The Committee further proposes the following guidelines:

The Ministry of Finance would provide the necessary regulatory notifications in the following perspective:

- i. To ensure all market intermediaries — including banks, CPTCs, and investors — are linked together to provide integration for successful implementation of the GMS.
- ii. To promote the sale of physical gold through the exchange — till jewellers /end users can continue to purchase directly from Jewellers or through the exchange.
- iii. To enable Gold (Metal) Loan through the exchange.
- iv. To mandate availability and trade of all financial instruments with gold underlying to be listed on the exchange.

3.4 Proposed Bullion Exchange at GIFT- IFSC

The Government of India could consider setting up a Bullion Exchange initially in GIFT-IFSC to be an additional option in the choice of venue for trade for the global market participants and to be the primary intermediary for all gold imports and exports. Trading on this spot exchange is akin to trading on any international spot exchange such as London Metal Exchange or Shanghai Gold Exchange.

International financial services centres (IFSCs) have two big advantages:

- A regulatory regime that provides global credibility
- Sufficient exemptions from capital controls to make the global contract feasible

The greatest concern for India today is the extent of import of gold in the country. As given in the earlier sections, the import of gold is linked directly to the vaults that are currently dispersed and have their own lines of trade mechanism.

The Committee recommends the setting up of a Bullion Exchange in the GIFT-IFSC that can provide the following:

- Allow import of gold in India through GIFT City.
- Create a set of vaults in GIFT-IFSC for gold that adhere to standards set by the regulator.
- Vaults to work with the proposed Bullion Exchange being setup in India for distribution of the same in the local markets.
- Allow trading with global markets, which can create a vibrant marketplace that helps in price discovery, with potential for India to be the price setter in the gold commodity.

This setup would have multiple benefits:

- The Exchange at GIFT City would connect well with the distribution framework
- Dollar currency transactions: Global spot gold contracts denominated in US

dollars based on delivery outside the domestic tariff area can be aptly covered under the GIFT-IFSC scope of financial services.

- Tax benefit on import into GIFT-IFSC: GIFT-IFSC currently attracts 0 percent tax, the advantage of which can be passed over to the market participants when the purchase of bullion is for investment purpose and the trade is back with the international markets (i.e., import and export of gold in bullion form).
- Tax collection benefit for domestic transfer: When 'gold' is imported from GIFT-IFSC to the domestic market, given the centralisation of vaults, this would ease the process of collection of import duty and other taxes from a single point.
- Exchange interface into domestic market: The Bullion Exchange in India can have several empanelled vault providers within Gift City to provide adequate storage facilities.
- Creation of a regulatory framework for managing warehouse storage and settlement of gold to ensure standardisation of processes

The Bullion Exchange can provide the solution for price discovery, risk management and quality standardisation. To support the 'import of gold', ensuring that all 'vaults' are set up in GIFT-IFSC can lead to benefits of using these for investment purposes.

These setups for import of gold in IFSC would lead to a competitive advantage for India on the global front. They can track all foreign exchange transactions related to gold imports, positively impacting the current account deficit. The connection of these vaults with the Bullion Exchange would enhance gold monetisation efforts and bring better transparency in the marketplace. The Bullion Exchanges set up in India would reduce gold imports in India by enabling recirculation of gold held with various market participants and provide uniform pricing and an open, ready delivery platform for all participants for trading physical gold. It can help the Government to improve the traceability of gold transactions, lead to effective tax/duty collections for imports and exports and enable India to emerge as a price setter for gold globally over a period of time.

3.5 Proposed Bullion Exchange in GIFT-City Domestic Zone

The Government may consider setting up of bullion exchanges in the domestic markets.

A Bullion Exchange is required to cater to the domestic market participants. The market should be accessible to the broadest range of participants, i.e., Indian residents, corporates, jewellers, manufactures, assayers, refiners, bullion dealers etc. Well-defined and consistently applied standards need to be set under the guidance of the Ministry of Finance to govern the market. Exchanges are regulated entities and hence need to have appropriate risk management systems in place.

The Bullion Exchange would provide a robust ecosystem around trading and delivery. Specifically, the exchange would provide a central venue for trading, a well-connected network of delivery locations where each location would be serviced by one or more vault operators, and a central counterparty to clear and settle trades. An option is to set up this exchange at GIFT-City domestic zone, which has stamp duty exemption.

4. Legal Framework

It may be noted that there is no specific central law in the country for setting- up of or regulation of commodity spot exchanges in India and consequently, there is no primary

regulator for commodity spot exchanges in India. Considering the fact that gold spot markets are fragmented and opaque like any other goods which has its own challenges, it needs to be deliberated if a single central agency will be well empowered and equipped to regulate gold on pan-India basis. Any proposal to assign regulation of the gold spot exchange to any regulatory body would be like overseeing into the regulatory domain of various regulators/ministries, besides the State Governments, which needs to be addressed.

It may be further noted that SEBI is a securities markets regulator which regulates financial transactions (including trading in contracts/derivatives contracts on commodities) and accordingly regulates platform of exchanges where price discovery of various securities (including commodity derivatives) takes place. Thus spot markets do not fall within the regulatory ambit of SEBI.

5. Recommendations:

1. The Government of India may consider setting up a Bullion Exchange/s, recognizing the need for a common regulated marketplace, which would offer a unified more efficient buyer-seller platform, with efficiencies through better linkages, price discovery, quality assurance and traceability of transactions, under the aegis of the Ministry of Finance.
2. The Ministry of Finance would provide the necessary regulatory notifications in the following perspective:
 - To ensure all market intermediaries — including banks, CPTCs, and investors — are linked together to provide integration for successful implementation of the GMS.
 - To promote the sale of physical gold through the exchange — till jewelers / end users can continue to purchase directly from Jewellers or through the exchange.
 - To enable Gold (Metal) Loan through the exchange.
 - To mandate availability and trade of all financial instruments with gold underlying to be listed on the exchange.
3. The Government of India could consider initially setting up a Bullion Exchange in GIFT-IFSC to be an additional option in the choice of venue for trade for the global market participants and to be the primary intermediary for all gold imports and exports. In due course more exchanges may be set up in the domestic markets.
4. WDRA may consider notifying bullion as a commodity for the purposes of warehousing in vaults.

The Committee has taken note that an Expert Committee on Integration of Commodity Spot and Derivatives Market committee has been set up by the Government of India. The expert committee inter-alia, is examining the regulatory and operational challenges involved in bringing about the integration of spot market with derivatives market and also looking into the possible framework for setting up of spot exchanges for commodities.

Chapter 5: Section III

Proposed Gold Domestic Council

Vision:

To help develop and uplift this MSME dominated industry to world-class standards and fulfil India's legacy of being the "Jeweller to the World".

1. Introduction

The market players in the gold industry constitute primarily of jewellers and the related participants in the value chain such as the Karigars, commission agents, wholesalers and retailers and a whole lot of other personnel associated with marketing, sales teams, transporters etc. As per the estimate of World Gold Council (2016), there are about 385,000 to 410,000 jewellers at present and they provide employment to about 6.1 million people. Additionally, the industry indirectly supports thousands of manufactures, Karigars and ancillary industry engaged in hallmarking, mining, refining and training and skilling.

2. Issues and Challenges

The size of the industry is large, yet that there is no large single industry association that truly represents the interests of this industry. Nor is there any single agency through which representations could be made to the Government. As such, this industry needs to be represented properly for holistic development of the sector.

Moreover, the gold industry, primarily as a part of the Gems and Jewellery Industry, is represented through industry associations with major focus on exports and export promotion. The domestic gold industry has no single industry association or agency that represents its interests and concerns.

It is therefore important to have a strong representation of the domestic industry participants that could serve as the voice of the Industry. The Committee is therefore of the opinion that an association of all the domestic gold industry players be formed through a proposed Gold Domestic Council, under the aegis of the Ministry of Commerce. It will be the principal forum that can be used by the Government for considering all policy matters for the gold industry. It will be seen as the voice for its members on issues related to the gold industry. The Gold Domestic Council would also have a representation on the GBI. It will be seen as the voice for its members on issues related to the gold industry.

3. Objectives of the Gold Domestic Council

The proposed Gold Domestic Council would be dedicated to meet the objective ' To help develop and uplift this MSME dominated industry to world-class standards and fulfil India's legacy of being the "Jeweller to the World"'.

The mandate of the proposed Gold Domestic Council could be to:

- Work together with the Government, through the proposed GBI, for the formation of policies that support the industry and ensure that policies on gold and gems & jewellery (import, trading and other commercial activities) are aligned to the nation's pursuant economic objectives.
- Promote world class-standards and efficiency in the gold ecosystem in the country with a primary focus on the upliftment of the workers and their work environment.
- Support the domestic gold industry growth towards creating a strong organized gold market in India.
- Enhance the communication to all members using the widespread industry networks, memberships and collaborations at a global level and exchange programs with global industry experts. Use of technology can be made to further strengthen the linkages across the industry to ensure global competitiveness.
- Promote skill development and training for all those seeking to learn about the gold industry, which could cover all aspects from mining, refining, trading to artisans. It is proposed to have a wing that would be a recognised source of knowledge for the gold industry space.
- Become the repository for all the data and information on the gold industry. The extent of data that needs to be captured has to be well defined and would be the final authority on the same. It can further work to provide quick dashboards and real-time dissemination of information.

4. Recommendations Related to Gold Domestic Council

- I. The Gold Domestic Council would be an important body with the primary task of representing the entire Indian domestic gold industry.
 1. A Gold Domestic Council should be set up, under the aegis of Ministry of Commerce. The Gold Domestic Council will be seen as the voice for all its members and stakeholders on issues related to the gold industry.
 2. Linked to this, there may also be State Gold Forum/s constituted, to provide a platform for stakeholder dialogue, information exchange and networking.
- II. The composition of the Gold Domestic Council may include stakeholders of the gold ecosystem and also representation of the Gold Board Of India.
 1. The operational aspects of the Gold Domestic Council are envisaged as follows: The Chair of the Gold Domestic Council may be nominated by the Ministry of Commerce, initially and the hand-holding process should continue for a period of at least three years, after which elections may be held and the members may elect a Chairman of their own accord.

2. The Chair and Co-Chair of the Gold Domestic Council should also be represented on the GBI, so that the concerns of the Council feed into policy dialogue and the concerns of stakeholders are addressed.
3. The gold industry has various market players who have an active role in the entire value chain. A representation from all the market players would ensure completeness of the Gold Domestic Council and this should not be confined to a single stakeholder / trade association. These market participants would cover:
 - i. Retailer
 - ii. Manufacturer/Wholesaler
 - iii. Assaying and hallmarking
 - iv. Training and skilling
 - v. Specialist in financial products based on gold
 - vi. Mining
 - vii. Refining
4. The proposed Gold Domestic Council would assist, advise and guide all members and the smaller members in particular on all their concerns, difficulties and problems of growth, development and working. It will also provide skill development to the member community by pooling together talents and resources available with members and organise exchange of expertise and experiences of members.

The Committee noted that the formation of a domestic council for gems and jewellery sector is already under consideration of Department of Commerce.

Chapter 6: Skill Development and Technology Upgradation

To have a vibrant gold industry, various policy and institutional requirements are of utmost importance. It is well recognized that the need for skill development across the entire industry value chain is also a necessary prerequisite. The gold industry is highly labour intensive and as we target increased exports and to cater to global market demand, the requirement for skilled workforce aligned to new technology will increase. The various facets of skill development with appropriate technology absorption is discussed in detail in this Chapter.

Chapter 6: Section I Employability: Skill Development and Technology Upgradation

To produce a highly technical, world-class workforce by providing support for skill development and upgrading technologies to further enhance the recognition of the Indian worker throughout the world.

1. Introduction

Sixty-five percent of the total population in India is under 35 years of age. A significant contribution to the Indian economy is from the gold ecosystem. This industry primarily consists of MSMEs (90–95 percent)⁹⁰ and employs about 6.1 million directly or indirectly⁹¹ across the entire value chain. By 2022, this sector is estimated to employ about 9.4 million, which projects an incremental human resource requirement of 3.3 million². Hence, skill development will play an important part in transforming India's gold markets in particular and the Indian economy in general. From the perspective of employment generation over the industry, value chain skill development needs to focus on four major sub-divisions:

1. Mining/Refining
2. Manufacturing
3. Standardisation (assaying/hallmarking)
4. Sales

This industry is highly labour-intensive and is one of the fastest growing sectors while

90 World Gold Council - India Gold Industry: Evolution and Innovation

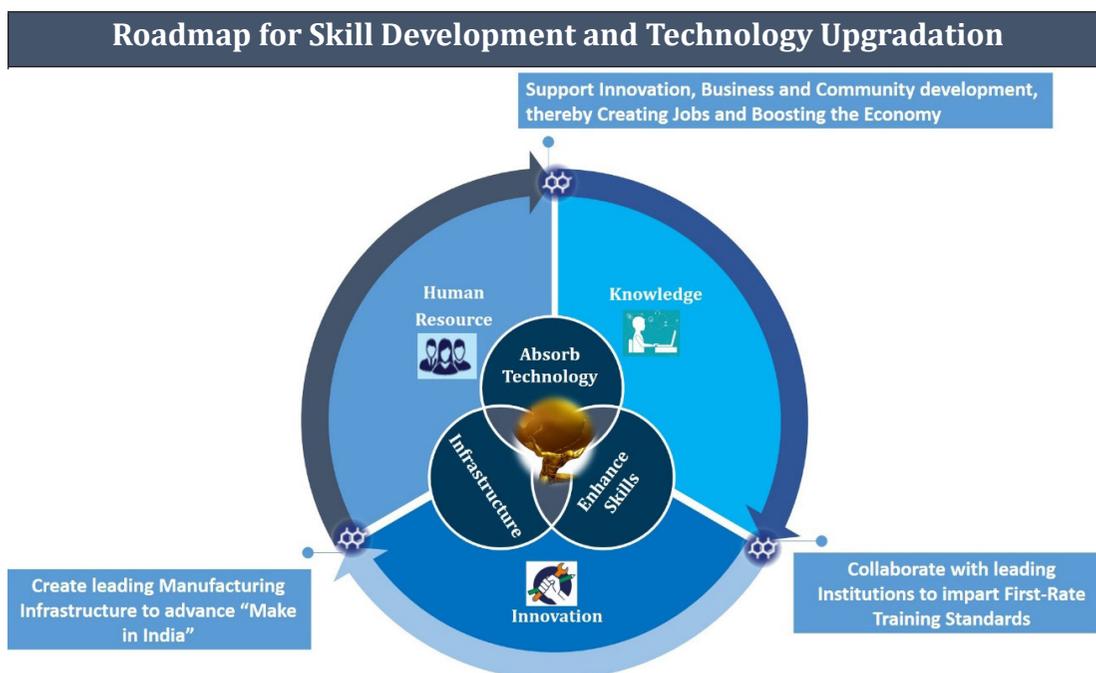
91 Ministry of Skill Development and Entrepreneurship Annual Report 2016-17.

having much export potential. Currently, most of industry skills and training have been on the job and little is available in terms of formal training. Most of the learning is through mentoring, which is the age-old method of teaching. However, there has been an overall feel of discomfort amongst the industry players on the shortage of skilled manpower, which is likely to grow and could seriously dent product quality, traditional crafts and the export potential.

The demand for skilled workforce remains steady, but the sector lacks aspirational values, i.e., is less attractive to the youth. The primary reason for this may be the working conditions, wages or remunerations.

In addition to the above, there are skills required for the segment of the international jewellery market, which India does not cater to in a major way like the machine made jewellery market. It is critical for the nation to focus on developing this segment to cater to the global market demand in order to make India the global hub of jewellery.

Figure (6.1.1): Roadmap for Skill Development and Technology Upgradation



In summary, special attention needs to be given to uplifting the capability of the manufacturers to make lightweight machine-made jewellery, which is preferred by the international customer, along with the augmentation of skill development that is required to cater to the growing demand of gold jewellery in the domestic market and for Indians overseas.

2. Skill Requirements by 2022

The quantitative as well as qualitative skill gaps can further widen going forward if

there are no or limited efforts towards addressing the key supply-related issues. As per the projections of the National Skill Development Cooperation, the industry needs an additional human resource requirement of 3.3 million, which signifies the potential of this sector in job creation. (Table (5.1.1))

Table (6.1.1): Estimated Human Resource Requirement across All Sectors⁹²

S.No	Sector	Projected Employment		Incremental Human Resource Requirement
		2017	2022	[2017-2022]
1	Agriculture	229	215.5	-13.5
2	Building Construction & Real Estate	60.4	91	30.6
3	Retail	45.3	56	10.7
4	Logistics, Transportation & Warehousing	23	31.2	8.2
5	Textile & Clothing	18.3	25	6.7
6	Education & Skill Development	14.8	18.1	3.3
7	Handloom & Handicraft	14.1	18.8	4.7
8	Auto & Auto Components	12.8	15	2.2
9	Construction Material & Building Hardware	9.7	12.4	2.7
10	Private Security Services	8.9	12	3.1
11	Food Processing	8.8	11.6	2.8
12	Tourism, Hospitality & Travel	9.7	14.6	4.9
13	Domestic Help	7.8	11.1	3.3
14	Gems & Jewellery	6.1	9.4	3.3
15	Electronics & IT Hardware	6.2	9.6	3.4
16	Beauty and Wellness	7.4	15.6	8.2
17	Furniture & Furnishing	6.5	12.2	5.7
18	Healthcare	4.6	7.4	2.8
19	Leather & Leather Goods	4.4	7.1	2.7
20	IT & ITeS	3.8	5.3	1.5
21	Banking, Financial Services & Insurance	3.2	4.4	1.2
22	Telecommunication	2.9	5.7	2.8
23	Pharmaceuticals	2.6	4	1.4
24	Media and Entertainment	0.7	1.3	0.6
	Total	510.8	614.2	103.4

From the above table (6.1.1), it is clear that the jewellery sector will play a vital role in employment and job creation.

3. Current Status

The skill development ecosystem in India is complex, large and diverse, providing varied levels of skills across an extremely heterogeneous population. Skills in India are acquired through both formal and informal channels. Formal vocational training is imparted in both the public and private sectors. Some of the major channels of formal vocation training include the government-run Industrial Training Institutes (ITIs), privately operated Industrial Training Centres (ITCs), vocational schools, specialised institutes for technical training and apprenticeship training by the industry. Private sector participation in the gold sector has been on a rise lately, but it continues to be dominated by the public sector.

92 Ministry of Skill Development and Entrepreneurship Annual Report 2016-17.

Informal training, on the other hand, refers to experiential skills acquired on the job, which is the primary source of training for the gold industry.

Skill development will play a crucial role in transforming India's gold markets. Under the new policy regime, India's skill development focus must be aligned with the policies around ease of domestic trade and boosting exports. Thus, it is important to create skilling programmes for handcrafted jewellery preferred by Indians, and also for the machine-made jewellery favoured by foreigners.

The case is similar with other facets of the industry ecosystem. Currently, India mines less than 2 tons of gold. It is estimated that India has a mining potential of 650 tons⁹³. The recent amendments to the MMDR and the NMEP, approved in June 2016, are designed to similarly stimulate mining exploration. Although this bodes well for the sector, it is predicted that there will be shortage of skilled labour, thereby making gold mining a priority sector impractical.

Similarly, in the refining space, it is estimated that India's unorganised and informal sector accounts for a sizable volume of refining capacity in the range of 1,600–1,700 tons⁹⁴, which is in dire need of modernisation and skilled manpower. Furthermore, the new BIS Act of 2016 has made hallmarking of precious metals like gold compulsory. A cursory look of the current number of assaying and hallmarking centres (516⁹⁵ across India) catering to more than 400,000⁹⁶ participants clearly underlines the demand-supply mismatch. This highlights the need to include skill development not only in the manufacturing and crafting of jewellery, but also in the fields of assaying and refining.

3.1 Training Centres in India

There are more than 140 known training institutes in India. There are also 3 Indian Institute of Gems and Jewellery (IIGJs), funded by the Ministry of Commerce, that are catering to the gems and jewellery industry for skilling. The Gem & Jewellery Skill Council of India (GJSCI), with the support of training centres, industry and other stakeholders, has been able to train more than 1,25,000 artisans, including fresh training of new workforce and skill upgradation of experienced artisans through 'Recognition of Prior Learning' (RPL). So far, GJSCI has trained and certified 1,033 trainers and 877 assessors. It intends to train and certify 1,440 trainers and 1,440 assessors in the next 10 years. However, feedback from the industry suggests that National Occupational Standards (NOSSs), which specify the standard of performance, knowledge and understanding, are not up to the mark. Most of these courses are less than six months in tenure, which is considered the bare minimum.

3.2 Manufacturing Centres

Even though India is one of the foremost jewellery fabricators in the world, its manufacturing facilities are largely unorganised. Barely 5–10 percent⁹⁷ of units operate

93 Metals Focus - Indian Gold Mining Report Jan 2015

94 World Gold Council - India Gold Industry: Evolution and Innovation

95 BIS - http://www.bis.org.in/cert/list_of_hc.htm

96 World Gold Council - India Gold Industry: Evolution and Innovation

97 World Gold Council - India Gold Industry: Evolution and Innovation

as organized, large-scale facilities. This is reflected in the fact that between 60-65 percent of jewellery manufactured in India is handmade⁹⁸. One of the key reasons that jewellery manufacturing remains largely unorganised is the high operational and capital requirements, which are unaffordable for small workshops which are looking to upgrade their facilities. There are huge clusters of such workshops, with a sizeable number of workers, involved in fabricating jewellery. They have expert craftsmanship, who still continue working in a confined and unhealthy working environment.

Adding to this problem is the fact that the current workforce is working on old technology, tools and processes. This results in low productivity. There needs to be an improvement in this area by upgrading the technology of machines, tools and processes, which would result in higher productivity and output.

In order to overcome the above challenges, the goal should be to upgrade MSME manufacturing units across the country by putting in place a sector-specific cluster development policy that provides sufficient incentives for the MSME units to upgrade and shift to a more conducive work environment and also makes available the best global technology through the common manufacturing facility centres, as has been done in the leather and textile manufacturing sector. Moving manufacturing units to clusters would also help in increasing the hygiene and work conditions of the workers. This would play a large role in improving the quality of life for the workers/artisans and is something that needs to be recognised. In this context, there is also a case for a special scheme for welfare of labour engaged in the sector.

3.3 Technology Absorption

Utilisation of state-of-the-art and efficient machinery and software has led to the gradual replacement of traditional/manual methods of mining, refining, assaying and manufacturing of jewellery globally. However, India has not kept pace with the rest of the world when it comes to absorption of technology mainly because of the fragmented size of the industry and the lack of incentives provided for them to do so otherwise.

Technology is redefining every aspect of the jewellery manufacturing ecosystem right from designing to manufacturing operations in the rest of the world. Some of the techniques span right from the design stage driven by *CAD* software till the final stage with *CAM* hardware, 3-D printing and laser-cutting techniques.

Modernisation is an essentiality of the present era and with countries across the globe adopting modern practices, India needs to rise to the challenge if they have to compete globally. In summary, innovation is critical for success in both the export the domestic segments.

Mining in gold requires large investments and state-of-the-art technology. It requires sophisticated extraction technology for underground mines, technology and machinery for breaking in-situ materials and hauling the broken materials out of the mine, while ensuring the health and safety of miners and the economic viability of the operation. The future now lies in deployment of latest technologies as well as interpretation of geological

98 World Gold Council – India Gold Industry: Evolution and Innovation

data to the sector's best advantage for opening up of new mines. Similarly, in the refining space, the majority of India's refiners are not LBMA approved, and the average small MSME unit in India still relies on crude tools for extraction of gold.

Lastly, sampling and assaying are still carried out by physically scraping off tiny amounts of metal from the jewellery and then testing it using one of the traditional referee methods such as cupellation for gold. However, world over, non-destructive and advanced techniques such as X-ray fluorescence, (XRF) and inductive coupled plasma (ICP) testing are being used to determine plating thickness. These techniques rarely allow for the destruction of the jewellery.

Proactive players in the industry are always on the lookout for better technology for their units. However, such technology absorption is relatively low in this industry, because of unaffordability, lack of awareness, small size of businesses, unorganised nature of the majority of the players and ultimately lack of policy initiatives and benefits from the Government.

4. Issues and Challenges: Bridging the Skill Deficit

The Committee took note of the gaps and skillsets. It identified the following action areas for raising the skill deficit. In the process of skilling and technology upgradation, the core competence of the industry such as unrivalled traditional crafts, non-polluting nature, design-creativity based value additions and tremendous employment and entrepreneurship potential are preserved. Since the industry is fragmented, small units dominate manufacturing space with few specialized work force. Most of their skill have passed through generations and top priority should be accorded to ensure that these skills of millions of artists and artisans around the country are not only preserved and encouraged but also enhanced to stay relevant in the modern world and able to compete globally.

The Committee recommendations therefore focus on the following proposals:

1. Education and Skill Development — Establishment of training institutes
2. Upgrading technology
3. Transforming Manufacturing and Rural Development: Setting up Cluster Development (CD), Jewellery Parks (JP) and Common Facility Centres (CFC)
4. Harnessing the Role of the Private Sector

With these measure the Committee feels India may be able to offer skilled workforce to cater to the domestic as well as the export markets.

5. Recommendations

In order to compete and engage best practices in this industry, the Committee proposes the following recommendations:

1. Education and Skill Development — Uplifting Industry Standards and Boosting Exports:

- Integrate institutes of repute such as NID and NIFT to provide courses on innovation, creativity and new ways of marketing.
- Create a training program for assaying, hallmarking, mining and refining jewellery and thereby encourage skill in this arena.
- Identify and tie up with leading international jewellery designing and training centres for improving the manufacturing skills as per international standards. Enhance existing accredited certification courses, with industry apprenticeship model
- All the jewellery training institutes should be affiliated with the appropriate and competent sector skill council. They will follow a standardised curriculum validated by the industry and approved by the National Skill Development Corporation (NSDC) under the Ministry of Skill Development and Entrepreneurship (MSDE)
- A survey may be conducted to identify skill gap, cluster mapping and employability to determine the need of the skilled workers geographically / pan India.
- Provide incentives to training centres taking up manufacturing job roles by giving them some subsidy to ease their financial burden.

2. Upgrading technology

- Promote and set up dual purpose 'Common Facilitation Centres (CFCs) in all clusters to train the workers, upgrade their skills and also act as a provider for various services should. CFCs be permitted to offer their services on a commercial basis to industry members.
- Improve the quality and consistency of aqua regia based refining in India. Upgrading existing process technology to assure consistency in output will not only enhance employment but also enable more refineries to apply for 'India Good Delivery Standard' accreditation. A similar exercise needs to be done to address environment and pollution control practices, an area conveniently overlooked by traditional refining units spread across India in the cottage/ small-scale sector.
- Set up world-class master alloy and solder manufacturing units. Master alloys and solders are two key requisites for manufacture of jewellery of any standard but neither is manufactured in India to any acceptable standard. Quality-conscious jewellers rely on import, but usage is not widespread. These units will not only enhance employment but also significantly improve quality of Indian jewellery

- Continually review and amend all NOS in line with the global standards.

3. Transforming Manufacturing and Rural Development: Setting up Cluster Development (CD), Jewellery Parks (JP) and Common Facility Centres (CFC)

- Encourage MSMEs to shift to clusters by offering initiatives such as:
 - A grant of up to 50 percent of the cost of machinery acquired by the MSME unit
 - A special scheme for welfare of labour engaged in the sector may be considered.
 - The CFCs would cover refining, common manufacturing facilities with provisions of the high end machines, assaying and hallmarking facilities.
 - Creation of JP by CD should be supported by CFC with a focus on the revival of existing manufacturing centres. These can be set up by incorporating mining, refineries and hallmarking centres along with manufacturing

4. Harnessing the Role of the Private Sector

- Adopt the public-private partnership model for skilling/training programmes.
- Develop a model code of ethics for members of industry bodies to adhere to, with a view to improve the working standards for the workforce.
- Set up digital libraries/museums for technology as well as designs. Similarly, trade shows and exhibitions should be promoted, with cluster focus
- The proposed Gold Domestic Council may take a lead in this regard.

Chapter 7: Summary Recommendations of the Committee

This concluding Chapter provides the summary recommendations made by the Committee, as related to the five focus areas, detailed in the preceding chapters viz. Make in India in Gold; Financialization of Gold; Tax and Duty Structure; Regulatory Infrastructure and Skill Development & Technology Upgradation. These recommendations contribute to fulfilling the transformational vision for India's gold market seeking to double its contribution in GDP and more than double the exports of gold by 2022; enhance employment opportunities, increase FDI inflow and increase the gold market size, without negatively impacting upon India's Current Account Deficit.

Chapter 7 Summary Recommendations of the Committee

Gold Mining

1. Make gold mining viable and attractive to investors by promoting ease of doing business with single window clearances.
2. Government may consider making available the risk capital for the long term capital intensive mining projects to attract investments.
3. The mining policy should consider availability of suitable exit option. Aspects related to brownfield exploration may also be considered.
4. Improve the quality and availability of digital data, covering geological database (which includes quality and scale of maps and ease of access to information).
5. A comprehensive taxation policy should be formulated to align India's taxation framework with the strategic needs of the gold mining sector.

Gold Refining

6. The duty on doré may be reduced in line with import duty on gold, while increasing margins, so as to promote domestic refining.
7. Adopt responsible sourcing guideline for refineries and develop an 'India Good Delivery Standard' or adapt to LBMA. The proposed Gold Board of India

should be able to provide the framework for good delivery norms for Indian refiners.

8. Refining for exports should be encouraged and restrictions on gold medallions, coins and jewellery above 22 carat purity from domestic tariff areas (DTA) and export-oriented units (EOUs) should be addressed.
9. Policies around mining certificate for doré imports should be reviewed, to ensure Indian refiners are competitive and can gain by utilising the idle capacity and large investments in the refinery.
10. Due to the government's policy of not allowing free exports of gold bullion, Indian refineries are only encouraged to meet domestic demand and do not cater to international gold centres. Given India's importance in global gold trade, enabling measures are needed to help promote India as a refining hub.

Gold Exports

11. Enabling policy measures to boost exports and increase value addition. This would also cover the inclusion of Goldin Tier I of 'Make in India' industries. Widen the scope of exports from high sales, low value addition set up of B2B to low sales, high value addition set up of B2C, as related both to the handmade and machine made jewellery market segments.
12. Ensure greater participation by the banks, with efficient supply requirement with reference to the price and quantity made available to the industry.
13. All precious metal jewellery (both plain and studded) should be clubbed with the MEIS, thereby extending the benefits to the gold industry. The exporters of precious metal jewellery need to be incentivised through the inclusion of gems and jewellery products under Merchandise Exports from India Scheme (MEIS). To begin with, all jewellery products (both plain and studded) may be included for MEIS benefits at the rate of 2 percent, subject to achieving value addition as per the following details:
 - Precious metal plain jewellery – Achievement of minimum 8 percent of value addition.
 - Precious metal studded jewellery – Achievement of minimum 15 percent value addition.
14. Simplify the duty drawback mechanism and allowance of full duty drawback on gold used for the purpose of jewellery export.
15. The duty drawback rates for gold may be announced and disbursed on a daily basis. Both the foreign exchange rate for import and export as well as tariff value for calculating the price of gold and silver is declared by the Government every fortnight. By calculating the duty paid on gold and silver on a particular day, an exporter/importer can declare the duty amount to be claimed at the

time of export on the invoice itself and have the same appraised by customs. Hence, price fluctuation of gold and silver can be addressed without causing any revenue loss to the government.

16. The replenishment scheme should be allowed for the consignment export of gold jewellery, which shall be claimed by the exporter post receiving of remittance from its overseas buyers.
17. A study may be conducted to explore the possibility of creating a gold corridor between India and GCC countries.
18. Prepare a fair, transparent and robust policy so that the courier agencies enable the distribution of jewellery in both the domestic and the global markets.
19. Allow for the value addition levels to be set such that they cater to both hand-made and machine made jewellery to be considered for exports.
20. Increase in the value of gems and jewellery products in case of holding/participating in overseas exhibitions from US \$ 5 million to US \$ 15 million and in export promotion tours from US \$ 1 million to US \$ 5 million.
21. Encourage branding and international promotion of handmade jewellery exports.
22. Improve jewellery designs by matching the designs with international market requirements, by associating expertise of NID and NIFT.

Hallmarking

23. The regulations regarding Jewellery Certificate need to be relooked, keeping in view the need for ease of doing business. It can be considered as a simple registration process to be done online.
24. BIS technical committee may consider the need for inclusion of any other grade in the Indian Standard.
25. The hallmarking stamp should only have the purity of the item, the mark of the Hallmarking Centre and the mark of the Sponsor (entity).
26. Department of Consumer Affairs may re-examine the desirability of the provision of making jewellers responsible for under-caratage on the lines of practice followed in UK, set appropriate responsibilities with AHC's and take appropriate action, while keeping in mind the interests of the consumers.
27. Search and seizures must be permitted only with the prior approval of a senior official.
28. Hallmarking of gold coins of 24 carat, (or any other purity), should be conducted by Hallmarking Centres, along with refineries.

29. Hallmarking is essential for consumer protection. However before making hallmarking mandatory, the number of AHCs has to be increased and necessary infrastructure (testing machines and skilled manpower) has to be put in place.
30. BIS should formulate a plan with milestones for infrastructure development, before recommending hallmarking to be mandatory in India.
31. Hallmarking should be made mandatory in a phased manner, giving enough time for necessary infrastructure development and to the jewellers to clear the existing stock.
32. Regulatory framework and rules may be developed for the effective working and quality control of the hallmarking centres, with necessary checks and balances, in line with internationally accepted practices .
33. BIS should plan and carryout awareness programmes for hallmarking, preferably in each district across the country.
34. BIS should conduct a fresh survey of samples of gold jewellery as the last such survey was done way back in 2006. Subsequently, such surveys should be done periodically.

Digital Payments

35. Create an SOP through which credit card payments would be guaranteed to the merchant establishment especially in the context of use of credit cards issued in other countries. The principles may apply to all sectors rather than just gold and jewellery sector.
36. Create efficient, time bound and cost effective dispute resolution mechanisms for high value credit card transactions in all banks.
37. Improve the availability of EDC terminals for accepting credit cards.
38. Regulatory:
 - Provide more flexibility in purchase of jewellery by credit cards which are KYC compliant.
 - Permit EMIs for the purchase of jewellery via credit cards.
 - Boost the use of digital payments: Lower the transaction cost for accepting the charge.

The Gold Monetisation Scheme: The Gold (Metal) Loan

39. GML may be considered for sanction in terms of weight of gold.
40. Increase the tenor of the GML to match that of the gold deposit accepted under GMS or from the international supplier, with an annual renewal process that

is done on paper and without importing physical gold, like that of WCL in INR terms without requiring further import of gold.

41. For the purposes of renewal of loan, banks should be allowed to source gold from domestic sources.
42. Keep the interest rate charged of the GML charged in sync with the international gold leasing rates.
43. Banks should await the opinion of the ICAI as to the accounting treatment of the GML on the balance sheet and the financial documents at the time of delivery of gold and all the banks should, thereafter, adopt the same accounting method. The banks may continue with the current accounting methodology till such time.
44. The industry has put forth many recommendations regarding GML. These include removal of the requirement of forward cover, permitting calculation of MPBF in 2 trade cycles, prohibiting banks to solely issue GML against SBLC only. The Committee recommends that a thorough review of GML scheme may be undertaken by Ministry of Finance, in consultation with RBI, banks and industry representatives and may suggest suitable changes in the interests of all stakeholders.

Gold Monetisation Scheme: Gold Deposits

45. Ministry of Finance may review and revamp the GMS scheme, with time bound targets that may be set through a comprehensive gold policy.
46. Encourage more branches of banks to accept gold deposits under the GMS and also to extend the GML (of gold received under the GMS).
47. Banks to engage with the state endowment departments to encourage greater participation of the religious institutions in the GMS. The Committee suggests formulation of a standardized process guidelines along with an automatic approval route for endowment departments or representatives of religious institutions to start depositing gold under GMS.
48. Permit deposits as low as 1 gram, and multiples thereof.
49. The transfer of gold collected under the GMS should be exempt from the purview of GST.
50. Deposits mobilized under GMS may be considered for CRR.
51. Number of CPTCs should be increased and they should be provided with certain tolerance limit for purity approval.
52. Consider jewellers meeting the prescribed norms as primary points of collection for GMS. This network through its association can work with banks to enhance the reach of GMS.

Indian Gold Coin

53. IGC is manufactured in 24 carat of 999 fineness and the Committee suggests that this be changed to 24 carat of 995 fineness. This would serve two purposes:
 - Reduction in the sale price of IGC.
 - Reduction in the loss to the customer at the time of resale, as the gold rated quoted in the domestic market is based on 995 purity.
54. There is a need to expand the reach of India Gold Coin and revisit the marketing and minting mechanism beyond MMTC.
55. The sale of IGC may be permitted through the proposed Bullion Exchange and through local jewellers, to enhance its availability.
56. The buy-back scheme offered by MMTC to purchase IGC does not extend to the designated banks. To enhance the liquidity of IGC, it is recommended that the designated banks may be authorised to buyback IGC, if sold by them. The terms for buyback adopted currently by MMTC should be accepted by the banks and all other sellers.
57. IGC is only available in denominations of 5 gm, 10 gm and 20 gm. In order to appeal to all target groups, IGC may be available in denominations as low as 1 gm to as high as 100 gm. IGC may be made available in the following denominations: 1 gm, 2 gm, 5 gm, 10 gm, 20 gm, 50 gm and 100 gm.

The Sovereign Gold Bond Scheme (SGBS)

58. Efforts need to be made to revamp the scheme to make it more attractive to the investors.
59. Consider the possibility of backing SGBS with physical gold or by hedging the price risk.

The New Gold Savings Account

60. Introduction of a new financial product for banks viz. Gold Savings Account, that will accept INR and credit grams of gold, with passbook facility. Such accounts may also be in form of recurring deposit accounts.
61. The suggested operational details of GSA would be:
 - a. The price of gold will be the prevailing price as of the date the deposit is made (inclusive of import duty and GST).
 - b. The redemption of the account can be in INR or gold weight and at applicable market price on redemption date. No capital gains tax may be

levied where redemption is made in form of gold.

- c. While there may be no restriction in terms of minimum deposit, some minimum threshold may be provided where redemption is in form of physical gold. The interest payable on GSA will be the same as the interest on gold deposits collected under Gold Monetisation Scheme (GMS), 2015. The interest can be accumulated in terms of weight of gold.
62. In case redemption in physical gold is not possible, GSA account holder may be given equivalent amount in rupee terms but in due course, banks may develop capability of being able to provide physical gold if demanded.

Tax and Duty Structure

63. Reduction in the duty on gold imports of both forms of gold (bullion and mine doré).
64. Exemption of 3 percent IGST to be paid by the exporter in line with custom duty, with a provision of bank guarantee. IGST exemption to also extend to the supply of gold by foreign buyers.
65. Reduce GST from 3 percent to appropriate levels. Job workers receiving gold from other states may be considered for exemption from obtaining GST registration.
66. The threshold for exemption under GST is INR 20 lakh. Revise the threshold on the basis of value added, where value added can be determined by using the average ratio of value added to value of sales for the sector concerned.
67. Removal of CTT on gold derivatives and provision for capital gains tax exemption for gold related financial instruments.
68. For search and seizure proceedings, as per the CBDT instruction no. 1916 in circular dated 11 May 1994, which allows for non-seizure of jewellery to the extent of 100 grams by men, 250 grams by unmarried women and 500 grams by married women- to be extended to assessment proceedings and to be treated as explained income. The same tax principles may be extended for gold deposited under GMS.
69. The GST rate for repair service of jewellery should be reduced from 18 percent to 3 percent.

The Gold Board of India

70. It is proposed to set up a new body 'The Gold Board of India' under the Ministry of Finance. This would be positioned as a single window one stop interface - assigned the responsibility to formulate policies. Gold as a foreign exchange asset would continue to be professionally managed by RBI.

71. The operational aspects of the proposed Gold Board of India may be envisaged as follows-
- The members of the GBI will include representation from all concerned Ministries, Regulators and Warehousing authorities associated with gold and the gold industry in any form. The GBI Chair and Co-Chair appointment may preferably be for a fixed tenure, such as 5 years, as the gold industry is highly technical, requiring domain expertise and knowledge.
 - The GBI would study the policy developments globally, across countries to keep up-to-date with the developments in the global industry. It would work to provide a better and efficient ecosystem, whereby foreign investments may flow into the country, which can have a positive spill over to domestic enterprises.
 - The GBI could set up an integrated 'Make in India in Gold' portal that provides all information relating to the gold industry, government policies and programs on gold.
72. In order to boost exports and value addition of gold jewellery, the GBI should closely work with the Ministry of Commerce to develop Free Trade Agreements (FTAs). The GBI would work on the details of the feasibility of the FTAs.
73. To uplift the domestic refining business, opportunities to source gold doré globally should be explored by exploring the possibility of FTAs and bilateral trade agreements.
74. Set India Good Delivery Standard.

The Bullion Exchange of India

75. The Government of India may consider setting up a Bullion Exchange/s, recognizing the need for a common regulated marketplace, which would offer a unified more efficient buyer-seller platform, with efficiencies through better linkages, price discovery, quality assurance and traceability of transactions, under the aegis of the Ministry of Finance.
76. The Ministry of Finance would provide the necessary regulatory notifications in the following perspective:
- To ensure all market intermediaries — including banks, CPTCs, and investors — are linked together to provide integration for successful implementation of the GMS.
 - To promote the sale of physical gold through the exchange — till jewellers /end users can continue to purchase directly from Jewellers or through the exchange.

- To enable Gold (Metal) Loan through the exchange.
 - To mandate availability and trade of all financial instruments with gold underlying to be listed on the exchange.
77. The Government of India could consider initially setting up a Bullion Exchange in GIFT-IFSC to be an additional option in the choice of venue for trade for the global market participants and to be the primary intermediary for all gold imports and exports. In due course more exchanges may be set up in the domestic markets.
78. WDRA may consider notifying bullion as a commodity for the purposes of warehousing in vaults.

Gold Domestic Council

79. A Gold Domestic Council should be set up, under the aegis of Ministry of Commerce. The Domestic Council will be seen as the voice for all its members and stakeholders on issues related to the gold industry. The Composition of the Domestic Council may include stakeholders of the Gold Ecosystem and also representation of the Gold Board of India. Linked to this, there may also be State Gold Forum/s constituted, to provide a platform for stakeholder dialogue, information exchange and networking.
80. The operational aspects of the Domestic Council are envisaged as follows:
- Chair of the Domestic Council may be nominated by the Ministry of Commerce, initially and the hand-holding process should continue for a period of at least three years, after which elections may be held and the members may elect a Chairman of their own accord.
 - The Chair and Co-Chair of the Domestic Council should also be represented on the Gold Board of India, so that the concerns of the Council feed into policy dialogue and the concerns of stakeholders are addressed.
 - The Domestic Council would assist, advise and guide all members and the smaller members in particular on all their concerns, difficulties and problems of growth, development and working. It will also provide skill development to the member community, by pooling together talents and resources available with members and organise exchange of expertise and experiences of members.

Employability: Skill Development and Technology Upgradation

81. Education and Skill Development — Uplifting Industry Standards and Boosting Exports:
- Integrate institutes of repute such as NID and NIFT to provide courses on innovation, creativity and new ways of marketing.

- Create a training program for assaying, hallmarking, mining and refining jewellery and thereby encourage skills in this arena.
- Identify and tie up with leading international jewellery designing and training centres for improving manufacturing skills as per international standards. Enhance existing accredited certification courses, with industry apprenticeship models.
- All the jewellery training institutes should be affiliated with the appropriate and competent sector skill council. They will follow a standardised curriculum validated by the industry and approved by the National Skill Development Corporation (NSDC) under the Ministry of Skill Development and Entrepreneurship (MSDE).
- A survey may be conducted to identify skill gap, cluster mapping and employability to determine the need of the skilled workers geographically / pan-India.
- Provide incentives to training centres taking up manufacturing job roles by giving them some subsidy to ease their financial burden.

82. Upgrading technology

- Promote and set up dual purpose 'Common Facilitation Centres (CFCs) in all clusters to train the workers, upgrade their skills and also act as a provider for various services. CFCs to be permitted to offer their services on a commercial basis to industry members.
- Allocate a special fund under the Technological Upgradation Scheme for the MSME segment of the jewellery sector.
- Improve the quality and consistency of aqua regia based refining in India. Upgrading existing process technology to assure consistency in output will not only enhance employment, but also enable more refineries to apply for India Good Delivery accreditation. A similar exercise needs to be done to address environment and pollution control practices, an area overlooked by traditional refining units spread across India in the cottage/small-scale sector
- Set up world-class master alloy and solder manufacturing units. Master alloys and solders are two key requisites for manufacture of jewellery of any standard but neither is manufactured in India of any acceptable standard. Quality-conscious jewellers rely on import, but usage is not widespread. These units will not only enhance employment, but also significantly improve the quality of Indian jewellery.
- Continually review and amend all NOS to be in line with global standards.

83. Transforming Manufacturing and Rural Development: Setting up Cluster Development (CD), Jewellery Parks (JP) and Common Facility Centres (CFC).

- Encourage MSMEs to shift to clusters by offering initiatives such as:
 - A grant of up to 50 percent of the cost of machinery acquired by the MSME unit
 - A special scheme for welfare of labour engaged in the sector may be considered.
 - The CFCs would cover refining, common manufacturing facilities with provisions of the high end machines, assaying and hallmarking facilities.
 - Creation of JP by CD should be supported by CFC with a focus on the revival of existing manufacturing centres. These can be set up by incorporating mining, refineries and hallmarking centres along with manufacturing

84. Harnessing the Role of the Private Sector

- Adopt the public-private partnership model for skilling /training programmes.
- Develop a model code of ethics for members of industry bodies to adhere to, with a view to improve the working standards for the workforce.
- Set up digital libraries /museums for technology as well as designs. Similarly, trade shows and exhibitions should be promoted, with cluster focus.
- The proposed Gold Domestic Council may take a lead in this regard.

ANNEXURES

Order of Constitution of the Committee and Terms of Reference

F. No. O-15011/16/17-G&R
Government of India
NITI Aayog
(Governance & Research Vertical)

Sansad Marg, New Delhi
Dated : 25th August, 2017

Office Memorandum

Subject: Committee to Transform India's Gold Market

The Indian Gems and Jewellery industry has a major contribution to the country's GDP, employment and exports. In order to support this sector and to push manufacturing and exports as a part of the "Make in India" campaign, it has been decided to set up a Committee to transform India's Gold Market. The composition of the Committee and the Terms of Reference are as follows:-

Composition of the Committee:

Shri Ratan P. Watal, Principal Adviser, NITI Aayog - Chairman

Members:

1. Secretary, Department of Economic Affairs, Ministry of Finance (or his representative not below the rank of Joint Secretary to GoI)
2. Secretary, Department of Financial Services, Ministry of Finance (or his representative not below the rank of Joint Secretary to GoI)
3. Secretary, Department of Revenue, Ministry of Finance (or his representative not below the rank of Joint Secretary to GoI)
4. Secretary, Department of Expenditure, Ministry of Finance (or his representative not below the rank of Joint Secretary to GoI)
5. Secretary, Department of Commerce, Ministry of Commerce & Industry (or his representative not below the rank of Joint Secretary to GoI)
6. Secretary, Department of Industrial Policy and Promotion (or his representative not below the rank of Joint Secretary to GoI)
7. Secretary, Ministry of Micro, Small and Medium Enterprises (or his representative not below the rank of Joint Secretary to GoI)
8. Secretary, Department of Consumer Affairs (or his representative not below the rank of Joint Secretary to GoI)
9. Deputy Governor, Reserve Bank of India (or his representative not below the rank of ED in RBI)
10. Director, National Institute of Public Finance and Policy, New Delhi
11. Shri B N Satpathy, Senior Consultant, Ministry of Electronics and Information Technology, New Delhi
12. Shri Sunil Mehta, MD & CEO, Punjab National Bank, New Delhi
13. Prof. (Dr) Gourav Vallabh, Professor of Finance, XLRI, Jamshedpur

14. Prof Arvind Sahay, Head, The India Gold Policy Center at the Indian Institute of Management (IIM), Ahmedabad
15. Mr. P R Somasundaram, MD (India), World Gold Council, Mumbai
16. Mr. Praveen Pandya, Chairman, The Gems And Jewellery Export Promotion Council, Mumbai
17. Mr. Ajay Mehra, Co-Chair, FICCI Gems & Jewellery Committee, New Delhi
18. Mr. Sanjeev Aggarwal, India Bullion and Jewellers Association
19. Dr. Yogesh Suri, Adviser (Governance & Research), NITI Aayog – Member Convenor

Terms of Reference:

1. Study the global gold market and identify factors which will help India leverage the growing international market.
2. Identify Government policies which will help in optimum utilization of the gold reserves of the Reserve Bank of India.
3. Study the Gold Monetization Scheme and recommend policy measures required to reinvigorate the scheme.
4. To examine the Gold (Metal) Loan scheme and suggest changes, if any required.
5. Analyse the growth drivers of gold and gold related industries in order to comprehend the issues faced by them and identify indigenous methods of incentivizing this sector to fully report financial transactions including digital ones so to facilitate curtailment of black money quotient from this industry.
6. Explore the benefits of launching a “Bullion Exchange” to increase the usability of gold throughout the nation, thereby reducing imports of gold.
7. Examine the duty structure on the sector and suggest changes, if any, required.
8. Formulate a strategy for boosting exports from the sector including on e-platform.
9. Examine and recommend measures regarding Hallmarking.

The Chairman may co-opt any new member as may be deemed necessary. The First preliminary draft report of this committee will be submitted to Senior Management Committee of NITI Aayog within 6 months of the date of issue of this order.

The TA-DA of non-officials will be borne by NITI Aayog as per the extant rules of Government of India. The TA-DA of officials will be borne by the respective organizations. The Secretariat of this committee will be NITI Aayog. Shri B N Satpathy, Senior Consultant, MeitY shall be the co-convenor of the Committee and shall facilitate preparation of the Report of the Committee. Assistance of outside experts/ institutions may also be obtained as deemed necessary by the Committee.

This issues with the approval of the Vice Chairman, NITI Aayog.

-sd-
(Dr. Yogesh Suri)
Adviser
Tel. 23096610

To:

1. The Secretary, Department of Economic Affairs, Ministry of Finance, New Delhi.
2. The Secretary, Department of Financial Services, Ministry of Finance, New Delhi.
3. The Secretary, Department of Revenue, Ministry of Finance, New Delhi.
4. The Secretary, Department of Expenditure, Ministry of Finance, New Delhi.
5. The Secretary, Department of Commerce, New Delhi.
6. Secretary, Department of Industrial Policy and Promotion, New Delhi
7. Secretary, Ministry of Micro, Small and Medium Enterprises, New Delhi
8. Secretary Department of Consumer Affairs, New Delhi
9. Deputy Governor, Reserve Bank of India, Mumbai
10. Director, National Institute of Public Finance and Policy, New Delhi
11. Shri B N Satpathy, Senior Consultant, Ministry of Electronics and Information Technology, New Delhi
12. Shri Sunil Mehta, MD & CEO, Punjab National Bank, New Delhi
13. Prof. (Dr) Gourav Vallabh, Professor of Finance, XLRI, Jamshedpur
14. Prof Arvind Sahay, Head, The India Gold Policy Center at the Indian Institute of Management (IIM), Ahmedabad
15. Shri P R Somasundaram, MD (India), World Gold Council, Mumbai
16. Shri Praveen Pandya, Chairman, The Gems And Jewellery Export Promotion Council, Mumbai
17. Shri Ajay Mehra, Co-Chair, FICCI Gems & Jewellery Committee, New Delhi
18. Shri Sanjeev Aggarwal, India Bullion and Jewellers Association

Copy forwarded for information to:

1. PS to Vice Chairman, NITI Aayog
2. PPS to Members (BD/VKS/RC/VKP), NITI Aayog
3. Sr. PPS to CEO, NITI Aayog
4. PSO to Principal Adviser (SS), NITI Aayog
5. PS to Additional Secretary (KIH), NITI Aayog
6. PS to JS&FA, NITI Aayog

Composition of Sub-groups for the Committee to Transform India's Gold Market

S.No.	Theme	Chair/ Co-Chairs/ Members
1	Current Industry Profile, Market Segmentation & Estimating Trends for Gold Market in 2022 including Bullion Exchange	Shri P. R. Somasundaram, MD (India), World Gold Council, Mumbai Shri Ajay Mehra, Co-Chair, FICCI Gems & Jewellery Committee Prof Joshi Jacob, IIM Ahmedabad
2	Trade and Investment Issues – Incentive Structure & Ease of Doing Business	Shri Manoj Dwivedi - JS, Department of Commerce Shri Praveen S Pandya, Chairman, G&JEPCC Council Shri Mrugank M Paranjpe, MD&-CEO, MCX; Member, ASSOCHAM
3	Regulatory Framework for Gold	Ms. Nirupama Soundararajan, Senior Fellow, Pahle India Foundation Prof Gourav Vallabh, XLRI
4	Tax Issues	Dr. Kavita Rao, NIPFP Shri Rajesh Khosla, Chairman, MMTC PAMP India Ltd
5	Gold in the Financial System and Digital Payments	Shri Saurabh Garg, JS, Ministry of Finance Shri Sunil Mehta, MD & CEO, PNB
6	Bridging Skill Development and Employment Generation	Shri Binit Bhatt, CEO, Gem & Jewellery Skill Council of India Joint Secretary, Ministry of Skill Development & Entrepreneurship
7	Technology Upgradation	Smt Alka Nangia Arora, Joint Secretary, Ministry of Micro, Small & Medium Enterprises
<i>Source: NITI Aayog, RoD No: F. No. O-15011/16/17-G&R</i>		

Statement on Top 25 FDI Equity Inflow Cases

APRIL 2014 TO SEPTEMBER 2017 – Sector: ORNAMENT & GOLD

Sl. No	Name of Indian Company	Country	Name of Foreign Collaborator	RBI Regional Office	Item of Manufacture	Amount of FDI Inflows (in US\$ million)
1	KALYAN JEWELLERS INDIA PVT. LTD.	Mauritius	HIGHDELL INVESTMENTS LTD.	KOCHI	Manufacture of jewellery of gold, silver and other precious or base metal clad with precious metals	112.83
2	KALYAN JEWELLERS INDIA PVT LTD	Mauritius	HIGHDELL INVESTMENT LTD	REGION NOT INDICATED	MFG OF JEWELLERY	80.35
3	KALYAN JEWELLERS INDIA PVT. LTD.	Mauritius	HIGHDELL INVESTMENTS LTD.	KOCHI	Manufacture of jewellery of gold, silver and other precious or base metal, metal clad with precious metals	78.16
4	CARATLANE TRADING PVT LTD	Singapore	INTERNET FUND III PTE LTD	CHENNAI	Manufacture of jewellery of gold, silver and other precious or base metal	29.81
5	PC JEWELLER LIMITED	U.S.A	FIDELITY INVESTMENT TRUST: FIDELITY EMER	NEW DELHI	Manufacture of jewellery of gold, silver and other precious or base metal clad with precious metals	25.38

6	SENCO GOLD LIMITED	Mauritius	SAIF PARTNERS INDIA IV LTD	KOLKATA	Manufacture of jewellery of gold, silver and other precious or base metal clad with precious metals	12.81
7	VOYLLA FASHIONS PRIVATE LIMITED	Mauritius	PEEPUL CAPITAL FUND III LLC	BANGALORE	Manufacture of jewellery of gold, silver and other precious or base metal clad with precious metals	8.02
8	HF METAL ART PVT LTD	Switzerland	HF METAL ART PVT LTD	JAIPUR	MANUFACTURE OF GOLD AND SILVER ARTICLES INCLUDING PRESENTATION COINS OF GOLD AND SILVER OTHER THAN J	8.38
9	VOYLLA FASHIONS PRIVATE LIMITED	Mauritius	Peepul capital fund III LLC	BANGALORE	Manufacture of jewellery of gold, silver and other precious or base metal clad with precious metals	6.51
10	TARA JEWELS LTD	Switzerland	crystalon finanz ag	MUMBAI	Manufacture of imitation jewellery and related articles	5.94
11	BLUESTONE JEWELLERY AND LIFESTYLE PVT LT	Mauritius	IRON PILLAR FUND I LTD	BANGALORE	Manufacture of jewellery of gold, silver and other precious or base metal clad with precious metals	5.45

12	PC JEWELLER LIMITED	Canada	FIDELITY EMERGING MARKETS FUND	NEW DELHI	Manufacture of jewellery of gold, silver and other precious or base metal clad with precious metals	4.77
13	BLUESTONE JEWELLERY AND LIFESTYLE PVT LT	Mauritius	ACCEL GROWTH III HOLDINGS (MAURITIUS)	BANGALORE	Manufacture of jewellery of gold, silver and other precious or base metal clad with precious metals	4.89
14	WORLD GOLD COUNCIL (INDIA) PVT LTD	Singapore	WGC (FAR EAST) PTE. LTD., SINGAPORE	MUMBAI	MANUFACTURE OF GOLD JEWELLERY	5.07
15	BLUESTONE JEWELLERY AND LIFESTYLE PVT LT	Mauritius	KALAARI CAPITAL PARTNERS II, LLC	BANGALORE	Manufacture of jewellery of gold, silver and other precious or base metal clad with precious metals	3.29
16	PC JEWELLER LIMITED	U.S.A	FIDELITY ADVISOR SERIES VIII: FIDELITY A	NEW DELHI	Manufacture of jewellery of gold, silver and other precious or base metal clad with precious metals	3.12

17	PC JEWELLER LIMITED	U.S.A	FIDELITY INVESTMENT TRUST: FIDELITY INTE	NEW DELHI	Manufacture of jewellery of gold, silver and other precious or base metal clad with precious metals	3.12
18	P AND S JEWELLERY LTD	UAE	SANJAY G.SHARMA	MUMBAI	Manufacture of jewellery of gold, silver and other precious or base metal clad with precious metals	3.00
19	BLUESTONE JEWELLERY AND LIFESTYLE PVT LT	Mauritius	ACCEL INDIA III MAURITIUS LTD	BANGALORE	Manufacture of jewellery of gold, silver and other precious or base metal clad with precious metals	3.10
20	BLUESTONE JEWELLERY AND LIFESTYLE PVT LT	Singapore	RB INVESTMENTS PTE LTD	BANGALORE	Manufacture of jewellery of gold, silver and other precious or base metal clad with precious metals	3.00
21	ATLAS JEWELLERY INDIA LTD.	UAE	AL MAREIJA PRECIOUS METAL AND BULLIONS(F	NEW DELHI	MANUFACTURE OF JEWELLERY AND RELATED ARTICLES	2.83
22	ATLAS JEWELLERY INDIA LTD.	UAE	AL LAYYAH GENERAL TRADING (FZE)	NEW DELHI	MANUFACTURE OF JEWELLERY AND RELATED ARTICLES	2.77

23	P AND S JEWELLERY LTD	UAE	MANOJ SHAH	MUMBAI	Manufacture of jewellery of gold, silver and other precious or base metal clad with precious metals	2.54
24	ATLAS JEWELLERY INDIA LTD.	UAE	MANKOOL GENERAL TRADING (FZE)	NEW DELHI	MANUFACTURE OF JEWELLERY AND RELATED ARTICLES	2.75
25	Bluestone Jewellery And Lifestyle Privat	Mauritius	Iron Pillar Fund I Ltd, Mauritius	REGION NOT INDICATED	Manufacture of jewellery of gold, silver and other precious or base metal clad with precious metals or precious or semi-precious stones, or of combinations of precious metal and precious or semi-precious stones or of other materials	2.51
Grand Total						420.42

List of RBI Circulars

Date	Circular Number	Subject
19-Aug-1999	RBI Notification	
14-Sep-1999	RBI Notification	
5-Oct-1999	RBI Notification	
18-Feb-2005	RBI/2004-2005/366A.P.(DIR Series) Circular No.34	Import of Gold on Loan Basis – Tenor of Loan and Opening of Stand-By Letter of Credit
5-Sep-2005	RBI/2005-2006/155DBOD.No.IBD.BC.33 /23.67.001/2005-06	Gold (Metal) Loan
3-Apr-2007	RBI/2006-2007/302DBOD.No.IBD.BC.71/23.67.001/2006-2007	Gold (Metal) Loan – tenor of
13-May-2013	RBI/2012-2013/499A.P.(DIR Series) Circular No.103	Import of Gold by Nominated Banks/Agencies
4-Jun-2013	RBI/2012-2013/520A.P. (DIR Series) Circular No.107	Import of Gold by Nominated Banks /Agencies
1-Jul-2013	RBI/2013-2014/76DBOD.No.Dir.BC.14/13.03.00/2013-14	Master Circular- Loans and Advances – Statutory and Other Restrictions
1-Jul-2013	RBI/2013-2014/13Master Circular No.13/2013-14 (Updated upto June 18, 2014)	Master Circular on Import of Goods and Services
22-Jul-2013	RBI/2013-2014/148A.P. (DIR Series) Circular No.15	Import of Gold by Nominated Banks / Agencies/Entities
14-Aug-2013	RBI/2013-2014/187A.P. (DIR Series) Circular No.25	Import of Gold by Nominated Banks / Agencies/Entities
14-Aug-2013	RBI/2013-2014/187A.P. (DIR Series) Circular No.25	Import of Gold by Nominated Banks / Agencies/Entities

2-Apr-2014	RBI/2013-2014/551DBOD.No.IBD. BC.104/23.67.001/2013-14	Gold (Metal) Loans (GMLs)
28-Apr-2014	Notification No. 302/2014-RB	Foreign Exchange Management (Export of Goods & Services) (Amendment) Regulations, 2014
21-May-2014	RBI/2013-2014/597A.P. (DIR Series) Circular No.132	Export of Goods - Long Term Export Advances
28-Nov-2014	RBI/2014-2015/329A.P.(DIR Series) Circular No. 42	Import of Gold (under 20: 80 Scheme) by Nominated Banks / Agencies / Entities
18-Feb-2015	RBI/2014-2015/474A.P. (DIR Series) Circular No. 79	Guidelines on Import of Gold by Nominated Banks / Agencies
21-Jan-2016	RBI/2015-2016/300DBR.IBD. BC.74/23.67.001/2015-16	Amended circular on Gold Monetisation Scheme, 2015

SBLC Format

Lr. No. _____

Date:

To

GML issuing Bank & address,

Dear Sirs,

IRREVOCABLE STANDBY LETTER OF CREDIT / BANK GUARANTEE

We SBLC issuing Bank, & address _____ open in your favour our irrevocable standby letter of credit / guarantee (herein after called the "letter of Credit" for the account of M/s. Party Name & Address _____ Called the applicant") up to the sum of Rs. _____) against either:-

- a) Presentation of your drafts drawn at sight on ourselves accompanied by the following documents:-
1. Your certificate dated and signed by one of the officers of GML issuing Bank & address, _____ (hereinafter In called the bank) designated as an authorized signatory in the Authorised Signatures book of the bank stating that either.
 - (i) An Event of Default has occurred under the Gold Loan Agreement dated _____ between the Applicant and the bank and any amendments thereto or,
 - (ii) The Applicant has defaulted in the payment to the Bank of any amount owing to the Bank in connection with any trading, hedging or similar contract and that, in either such case, the Bank is thereby claiming the sum due.
 2. The Letter of Credit for endorsement hereon for amount drawn
 - (i) An event of default has occurred under the Gold Loan Agreement dated _____ between the Applicant and the Bank and any amendments thereto, or
 - (ii) The applicant has defaulted in the payment to the Bank in connection with any trading, hedging or similar contract, and that, in either such case, the Bank is thereby claiming the sum due.

The total sum available under this Standby letter of credit shall not exceed Rs. _____
Only)

Special Condition:

- (i) Both partial and multiple drawings are permitted

If a claim is made by presentation of your drafts, then drafts drawn under this standby letter of credit must be so marked and are to be presented at our counter viz. SBLC issuing Bank, & address _____ Claims under this standby letter of credit should be received by not later than 180 days from this date (i.e.____)

This stand by letter of credit is subject to the terms and condition of the UCPDC (2007 revision) ICC Publication No.600, Reference herein to said Gold Loan Agreement dated _____ or to any trading, hedging or similar contract between the Bank and the Applicant are for the purpose of identification only and shall not incorporate by reference the terms thereof.

We undertake to honour all claims made under and in compliance with the terms of the standby letter of credit upon presentation of the documents referred to herein which are presented for payment on or before the expiry date _____

Notwithstanding anything contained herein:

- (i) Our liability under this Stand by Letter of Credit/Guarantee shall not exceed Rs._____ Only)
- (ii) The standby Letter of Credit/Guarantee shall be valid up to _____and
- (iii) We are liable to pay the amount under this Standby Letter of Credit/Guarantee only and only if you serve upon us a written claim along with documents as stated herein above on or before _____

Signed and delivered at _____ on _____

Response from ICAI on Clarification sought in the Context of Gold Metal Borrowings by Gold Bullion Traders or Jewellery Makers/Traders Only

1. Methods of Documentation:

Banks follow two methods of documentation for delivery and receipt of physical gold as part of the GML.

1. Method I

At the time of delivery of gold by the bank, i.e., while granting and recording a GML contract, a tax invoice (sales) is issued with the sale value computed based on the prevailing gold rate of the delivery date. The GML contract is closed out by the import of gold by the bank on behalf of the borrower and a debit or credit note is for the difference between the sale value as per the earlier tax invoice and the current actual sale.

In this method, lending (GML) of gold is treated as 'sale' for Sales Tax or GST purposes when gold is physically lent by the banks to borrowers.

2. Method II

At the time of delivery of gold by the banks, only a delivery note is issued and a tax invoice is issued at the time of closure of the GML contract.

In this method, when gold is physically lent, it is not treated as 'sale' for Sales Tax or GST purposes. It is treated as sale only at the time of settlement of the GML when the bank imports gold on behalf of borrowers and sells it to the borrowers.

2. Accounting Practices Currently Followed

1. In the books of the borrowers (as mentioned in the submission given by FICCI Gems and Jewellery Committee)
 - In case of Method 1: Gold borrowing is treated as purchase of inventory and included in the valuation of inventory of the borrower.
 - In case of Method 2: Gold borrowing is only treated as memorandum stock and only disclosed in notes to account.
 - (It is not clear what accounting practice is followed for gold utilised by the borrower out of the total gold borrowed from the banks).
2. In the books of the banks (not mentioned in the submission given by FICCI Gems and Jewellery Committee, but our quick survey with a few banks reveals the following practices)

- Memorandum Contra entries are recorded for gold borrowed on consignment basis from international suppliers.
- Upon utilisation of physical gold, GML and GMB entries are recorded as advances and borrowing when the physical gold is lent to the borrower. These are recorded like a foreign currency with code XAU and revalued periodically with gains and losses in P&L.
- Interest receivable and payable accrual entries are recorded during the tenor of the transaction.
- For the purpose Sales Tax (now GST), the transaction is treated as sale either at the start of GML or at the maturity of the GML depending upon the practice (Method 1 & Method 2) followed by an individual bank.

3. Accounting Clarifications Sought

- 1) In the books of the borrower, which of the two methods mentioned in paragraph 7(a) is appropriate?
- 2) How should the banks treat the following?
 - a) GML given by the banks to the borrowers
 - b) Gold borrowed from international suppliers
 - c) Gold deposits received under GMS

4. Preliminary Views at Accounting Standards Board (ASB), ICAI

Based on an initial study of the transaction and considering the absence of specific accounting guidance, the following are the observations.

- a) Gold lending and borrowing transactions do not appear to be explicitly and clearly captured by the existing Ind AS and AS. There is also diversity in accounting practice internationally in this area.
- b) The accounting approach of recognising assets and liabilities for gold lending and borrowing by banks and borrowers appears to be appropriate. However, measurement related accounting policies, i.e.,
 - what would be INR amounts for measurement at the time of initial lending and borrowing and
 - ii) whether to revalue the loan and physical gold and how to revalue the loan, borrowing and gold inventory at each subsequent date,

require more research and deliberation by the ASB.

While entities can use judgment and apply appropriate accounting policies as discussed above, Changes in Accounting Estimates and Errors, in view of the significance of the matter, it was decided to constitute a study group to analyse the transactions comprehensively and recommend a suitable accounting approach. The Study Group shall keep in mind the overall objectives of IFRS convergence while making their recommendations.

Number of Approved Purities As Mentioned on BIS Website

<http://www.bis.org.in/cert/hallbiscert.htm> , as of 18 November 2017

BIS Logo



Purity in carat and Fineness (it can be any of the following)

22K916	Corresponding to 22 Carat
18K750	Corresponding to 18 Carat
14K585	Corresponding to 14 Carat

Assaying and Hallmarking Centre's Mark/Number

A&HMC Logo

The Logo of BIS recognized Assaying and Hallmarking Centre where the jewellery has been assayed and hallmarked

Jewellers Identification Mark/Number

Jewellers Mark

Hallmark on gold jewellery and artefact consisted of **five marks** before 1 January 2017

China's Position in Mining

Being the largest importer of gold in the world, and the world's largest consumer of gold, the Chinese gold mining sector is the world's largest national gold producer. According to the China Gold Association, China produced 463.7 tons of gold from mining operations during 2016, maintaining its pole position as the world's largest gold producer for the 10th consecutive year. China accounted for around 14 percent of total global production.⁹⁹ Most of this gold production comes from direct gold mining; however, about 10 percent–20 percent results as a by-product of other non-ferrous mining.

According to the China Gold Association, as of the end of 2016, China's proven in-ground gold reserves had reached 12,100 tons¹⁰⁰.

- In 30 years, China has gone from being a minor producer to the world's largest source of mined gold.
- Economic reforms were launched in 1978 when the annual gold production in China was less than 10 tons per annum.
- Production in China comes mainly from over 600 primary mines in what is a fragmented market.

99 <https://www.gold.org/about-gold/gold-supply/gold-mining/gold-mining-map>

100 <https://www.reuters.com/article/china-gold/china-proven-gold-reserves-at-12100-tonnes-at-end-2016-xinhua-idUSL4N1MD2NN>

LBMA Good Delivery Norms

The LBMA good delivery norms;

- (a) The applicant has been in existence for at least five years and has been involved in refining the metal for which it is applying for at least three years prior to the application;
- (b) The applicant has an established annual refined production (which need not be in the form of standard bars) of at least 10 tons in the case of gold and 50 tons in the case of silver;
- (c) The applicant has a tangible net worth equivalent to at least 15 million pounds sterling or such figure as the LBMA may from time to time determine;
- (d) the applicant's ownership, financial standing and reputation would allow it to satisfy the KYC (Know Your Customer) tests practised in the London bullion market; and
- (e) In the case of gold applications, the applicant must implement the LBMA Responsible Gold Guidance prior to accreditation

Responsibilities of Participants of the Bullion Exchange

Responsibilities of the Bullion Exchange

- Institutionalizing reforms in the spot trading markets
- Building regulatory and market institutions
- Strengthening investor protection mechanism
- Providing efficient legislative framework for spot trading

Responsibilities of Clearing House

Its role would be to bring efficiency to the transaction settlement process and mitigate the systemic risk emanating from settlement-related problems and counterparty risk. It is aimed to pave the way for broadening and deepening the financial markets in the country.

Responsibilities of Clearing Members

Their role primarily consists of providing a point of contact for clients seeking to buy or sell financial or non-financial products. A clearing member means a person having clearing and settlement rights in any recognised clearing corporation and shall include any person having clearing and settlement rights on exchanges.

Responsibilities of Vaulting and Logistic agencies

The role of agencies is to provide physical and market infrastructure to participants operating in the gold and precious metals sector.

Responsibilities of Clearing Banks

Every clearing member is required to maintain and operate clearing accounts with any of the empanelled clearing banks at the designated clearing bank branches. The clearing accounts are to be used exclusively for clearing and settlement operations.

Existing Eligibility Criteria for Becoming Member of Exchanges

The following are eligible to apply for membership subject to the regulatory norms and provisions of SEBI and as provided in the Rules, Regulations, Byelaws and Circulars of the Exchange:

Professional Clearing Member (PCM)

- Who can become a member of the Derivatives segment as a PCM?
Any individual/corporate can become a PCM subject to the net worth criteria as per the format prescribed by the LC Gupta Committee report.
- What is the difference between professional clearing member, trading cum clearing member (TCM) and self-clearing member (SCM)?
The only difference between PCM and TCM is that PCM does not have any trading rights; they only have the rights to clear the trades. With respect to SCM, PCM is allowed to clear the trades of any member of the derivatives segment, whereas SCM has trading rights and can only clear their own trades.
- What are the criteria and annual charges applicable for PCM of the Exchange?

*Net worth

INR 3 crore (as per the format prescribed by the LC Gupta Committee report)

*Minimum security deposit	INR 50 lakh — (The whole of INR 50 lakh can be given in the form of bank guarantee/FDR/cash. This amount is payable after SEBI registration is received and at the time of commencement of business in the derivatives segment.)
*SEBI annual charges	Demand draft of INR 50,000 drawn in favour of Securities & Exchange Board of India.

TCM/SCM

- Who can become a member of the Derivatives segment as a TCM/SCM?

Any member of the cash segment of the exchange is eligible to become a TCM or SCM of the derivatives segment.

- What are the criteria of becoming a TCM/SCM of the exchange?

*Net worth	INR 3 crore for TCM (as per the format prescribed by the LC Gupta Committee report) and INR 1 crore for SCM (as per the format prescribed by the LC Gupta Committee report)
*Minimum security deposit	INR 50 lakh — (the whole of INR 50 lakh can be given in the form of bank guarantee/FDR/cash. This amount is payable after SEBI registration is received and at the time of commencement of business in the derivatives segment.)
*SEBI annual charges	Demand draft of INR 50,000 drawn in favour of Securities & Exchange Board of India.

- What is the difference between an SCM and a TCM?
The only difference between an SCM and a TCM is that an SCM does not have the rights to clear the trades of other members; they can clear only their trades, whereas a TCM can clear the trades of any other member

Trading Member

- Who can become a member of the derivatives segment as a trading member?
Any member of the cash segment of the exchange is eligible to become a trading member of the derivatives segment.
- What are the criteria of becoming a TCM of the exchange?

*Net worth	INR 25 lakh (as per the format prescribed by the LC Gupta Committee report)
*Minimum security deposit	Nil – Please refer to Notice No. 19 dated 15 June 2011 (click here)

Limited Trading Member

- Who can become a limited trading member (LTM)?
Any member of the NSE or a member of a subsidiary company of the RSE, who is a clearing member of the derivative segment, can become an LTM of the derivatives

- segment.
- What are the rights and liabilities of an LTM?
 - A person need not be a member of the exchange in order to be eligible for registration as an LTM.
 - An LTM shall have the rights, privileges, obligations and liabilities of a TM.
 - The rules, bye-laws, regulations, BRS, guidelines and other provisions of the derivatives segment, exchange and SEBI would apply to an LTM.
 - An LTM is not entitled to voting rights.
 - An LTM needs to be registered with SEBI as a TM.
 - An LTM should satisfy all the eligibility conditions specified by SEBI.

What are the requirements to become an LTM of the exchange?

*Net worth	INR 10 lakh (as per the format prescribed by the LC Gupta Committee report)
*Minimum security deposit	NIL – Please refer to Notice No. 19 dated 15 June 2011 (click here)

Existing Risk Management at Exchanges

The exchange shall provide an adequate and effective risk management mechanism for creating a proper risk management framework and for enforcing the requirements uniformly, to the extent possible, which may be provided herein, or provided in the relevant regulations from time to time, to ensure market safety and security and to ensure smooth and orderly completion of settlement of transactions.

Capital Adequacy

The exchange shall prescribe appropriate capital adequacy norms for the different trading segments, which shall be in accordance with the requirements, as may be prescribed by SEBI from time to time.

- Base minimum capital
- Additional base capital
- Value of securities to be maintained
- Upper limit and lower limit
- Online position monitoring system
- Non-compliance

Margin Requirements

Transactions in securities shall be subject to margin requirements and every trading member/clearing member shall deposit or pay such amount of margins and in such form as may be prescribed by SEBI or the exchange or the clearing agency and in turn collect such margins from their clients. The exchange/clearing agency may provide an automatic mechanism to compute margin liability taking into account the obligations arising out of the transactions executed in the capital market segment, futures and options segment and any other segment(s) that the exchange may have at any point of time and after providing for such risk containment mechanisms as may be put in place by the exchange/clearing agency or as may be directed by SEBI from time to time.

- Margin on gross client basis
- Mark to market margin
- Normal margin
- Normal margin
- Client liability to pay margin upfront

- Deposit or margin to be kept in separate bank account
- Exemption from margin
- Withholding additional base capital or margin

Capital, Margin Money and/or Other Money to be Held by the Exchange or Clearing Agency

The base minimum capital, additional base capital, margin money and/or other money shall be held by the exchange or clearing agency as may be provided in the relevant regulations from time to time. In case of bank deposit receipts and approved securities, they shall be held in the form and manner as may be provided in the relevant regulations from time to time.

Lien on Moneys or Securities

The base minimum capital, additional base capital, bank deposit receipts, securities, other moneys and assets deposited by a trading member/clearing member shall be subject to a first and paramount lien for any sum due to the exchange or clearing agency. Subject to this, the amount deposited towards margin shall be available, in preference to all other moneys of the trading member/clearing member, for the due fulfilment of their engagements, obligations and liabilities arising out of or incidental to any trade, transactions and contracts made on the ATS of the exchange or anything done in pursuance thereof.

Early Pay-in of Funds and Securities

The exchange or clearing agency shall make necessary arrangements to facilitate trading members/clearing members to effect early pay-in of funds and/or securities through electronic mode for themselves and/or for and on behalf of their clients and give corresponding benefit in exposure and/or margin there against, as may be provided in the relevant regulations from time to time.

Additional or Special Risk Containment Measures

Besides the requirements specified hereinabove, the exchange or clearing Agency shall have absolute the right to initiate additional or special risk containment measures on the market as a whole or on specific trading members/clearing member or specific securities, as may be warranted, depending upon the condition and development taking place in the market and with a view to providing greater safety and security to the settlement system, as may be provided in these bye-laws and relevant regulations from time to time, and all transactions in the securities shall be deemed subject to such additional and special risk containment measures.

If, in the opinion of the relevant authority or SEBI, an exceptional situation exists or has arisen or is likely to occur, which may make free trading in the securities extremely difficult, the relevant authority may take such action, as deemed fit, for stabilising the market. Without in any way limiting or derogating from the generality of this provision, the relevant authority may proceed and initiate such measures as hereinafter provided:

- Acquiring control
- Exceptional situation
- Restrict or prohibit trading
- Initiate various risk containment measures

Non-Compliance with Capital Adequacy and Margin Requirements

If any trading member/clearing member fails to comply with any one or more of the requirements of capital adequacy and/or margin requirements contained hereinabove, such trading member and/or trading members associated with the clearing member shall

be liable for de-activation of the trading facility forthwith and consequential measures of closing out of positions, selling out of securities withheld, penalty, penalty points or disciplinary action, as may be provided in the relevant regulations from time to time, shall automatically be initiated and the trading facility shall remain deactivated until all the requirements are fully complied with.

The managing director or relevant authority may, however, order continuation of deactivation of the trading facility of the trading member and/or of the trading members associated with the clearing member for such longer period as may be decided by them after recording the reasons in writing.

Non-Compliance by Clients

In case of non-payment of upfront margin and/or applicable margin by a client to facilitate the concerned trading member/clearing member to make available such money at the appointed time in making payment to the exchange/clearing agency, the trading member/clearing member shall have a right to close out the outstanding transaction of such client by selling and/or buying the securities, unless the client has an equivalent or more credit in any form available with the trading member/clearing member. The loss, if any, incurred on closing out of such transactions, shall be payable by the client and the trading member/clearing member shall have the right to adjust the said loss amount from any money deposited by the client with the trading member/clearing member or from any money due to the client by the trading member/clearing member. The gain, if any, arising out of such closing out shall be paid to the client by the trading member/clearing member, within two working days of payout.

Evasion of Margin Requirements Forbidden

No trading member/clearing member shall directly or indirectly enter into any arrangement or adopt any practice for the purpose of evading or assisting in the evasion of the margin requirements.

Incremental Risk Management for Proposed Bullion Exchange

Area of Risk Management	Mitigating Factor	Owners
Pre-trading controls	<ul style="list-style-type: none"> • Only exchange-approved member can trade on the exchange • Membership to be monitored on an annual basis 	Exchange
Margin and circuit filter requirements	<ul style="list-style-type: none"> • Security deposits from members at the time of registration, which forms part of upfront margin • Enforcement of circuit filters as approved by the regulator/governing board • Upfront margin (10 percent), which is portfolio-based margining system 	Exchange

MTM loss monitoring	<ul style="list-style-type: none"> • MTM profit and loss calculated for each member daily and effects of pay-in and pay-out • Trading system to track losses incurred by members on a real-time basis 	Exchange
Compliance and monitoring investigation	<ul style="list-style-type: none"> • To oversee that compliance is maintained with the relevant law, rule, policy • Conducting and coordinating investigations of violations of the rules of the exchange • Conducting of on-site member visits, inspection of member books and other compliance reports 	Exchange
Trade and vault surveillance	<ul style="list-style-type: none"> • Monitor market manipulation and insider trading practices • Verification, sampling and grading process at all exchange-approved vaults • Spot tests of sampling ,weighing process and the grading process 	Exchange
Settlement guarantee fund	<ul style="list-style-type: none"> • Annual contribution by the exchange (5 percent of its gross revenue of the previous year) • Income accrued on the investment of funds of SGF shall also be credited to SGF 	Exchange
Default risk	<ul style="list-style-type: none"> • Specification of a margin for all trades • Stringent penalty of 10 percent on failure of delivery 	Exchange
Purity risk	<ul style="list-style-type: none"> • Initially LBMA and later on India Good Delivery Standard 	Exchange

Details of various tranches of the SGBS issued by the RBI¹⁰¹

Year	Tranche	Issue Date	Issue Price	Market Price	Price above the Market Rate of Gold
FY16-17	1	5-Nov-15	2,684	2,756	5 percent
FY16-17	2	8-Feb-16	2,600	2,800	-7 percent
FY16-17	3	29-Mar-16	2,916	2,780	5 percent
FY16-17	4	5-Aug-16	3,119	2,780	12 percent
FY16-17	5	30-Sep-16	3,150	2,800	13 percent
FY16-17	6	17-Nov-16	2,957	2,767	7 percent
FY16-17	7	17-Mar-17	2,893	2,681	8 percent
FY17-18	1	12-May-17	2,901	2,836	2 percent
FY17-18	2	28-Jul-17	2,830	2,896	-2 percent
FY17-18	3	16-Oct-17	2,956	3,001	-1 percent
FY17-18	4	23-Oct-17	2,987	2,959	1 percent

101 RBI, HDFC, BSE, MCX as of 25 October, 2017

Summary Proposals of Sub-Groups

A. “Trade and Investment Issues – Incentive Structure & Ease of Doing Business”

Category of Recommendation	Recommendation	Implementing Institution	Timeline
Short Term	(i) To institutionalize a coordinated approach in decision making and regulations in respect of Gold, establishment of a Gold Board with participation of all concerned Ministries/authorities as well as Industry.	Ministry of Finance / Department of Commerce	6 months
	(ii) Rationalizing import duty on Gold to a level that trafficking of gold into the country through illegal channels become unattractive.	Ministry of Finance	Budget 2018-19
	(iii) Ensuring smooth and easier availability of duty free gold to exporters	Department of Commerce / Ministry of Finance / RBI	6 months
	(iv) Rationalizing duty drawback policy for gold to encourage exports	Ministry of Finance	6 months
	(v) Adoption of responsible sourcing guidelines for Gold Refineries in line with international best practices and finalization of India Good Delivery Standard for Gold Bullion.	Bureau of Indian Standards (BIS) / Department of Commerce	6-8 months
	(vi) Availability of credit/working capital for MSME exporters	Ministry of Finance / Reserve Bank of India	6-8 months
	(vii) Policy for sale to Foreign Tourists.	Department of Commerce / Department of Revenue	6-8 months

Medium Term	(i) Establishment of Gold Spot Exchanges in at least 10 Centers	Ministry of Finance	12-18 months
	(ii) Working out Standard Operating Procedure for exports through-commerce of Gold Jewellery .	Ministry of Finance/ Department of Revenue/ DGFT/ Department of Commerce / DIPP	12 months
	(iii) Generic Promotion of Indian Gold Jewellery especially handcrafted jewellery	Department of Commerce	12 months
	(iv) Enhancing role of Bullion Banks by allowing them to source gold locally, borrow and lend among banks and participate on the local commodity (gold) exchanges.	Ministry of Finance / Reserve Bank of India	1-2 years
	(v) Implementation of BIS Act, 2016 to make Hallmarking mandatory	Ministry of Consumer Affairs/ BIS	1-2 years
	(vi) Accession to Vienna (Hallmarking) Convention and mutual recognition agreements by BIS with its counterpart authorities in leading export destinations for Indian jewellery exports	Bureau of Indian Standards (BIS)	2 years
	(vii) Promoting domestic Gold Refining capacity by ensuring availability of raw material through international sourcing and domestic recycling.	Ministry of Finance / Department of Commerce	1 year
	(viii) Credit Policy for Gem & Jewellery Sector	Ministry of Finance / Department of Commerce	1 year
	(ix) Formulation of Gems and Jewellery Park Policy	Department of Commerce	1 year
	(x) Cluster facilitation through Common Facility Centres for Gems & Jewellery manufacturing and policy for Cluster Development in Gems & Jewellery sector	MSME / Department of Commerce	1-2 year

Note:-

1. **Short Term:** Recommendations that can be implemented in the current financial year and can be incorporated in the Union Budget 2018-19.
2. **Medium Term:** Recommendations that may spill over to the next financial year.
3. The summary recommendations should be brief. Not exceeding one or two lines and should be key recommendations of the sub-group.

B. Sub Group on Regulatory Affairs on Gold

Category of Recommendation	Recommendation	Implementing Institution	Timeline
Short Term	1. WDRAI to notify gold (precious metals) as commodity for vault accreditation	WDRAI/ Ministry of Consumer Affairs (MoCA)	At the earliest
	2. Allow only LMBA accredited gold to enter to enhance tracking of smuggled gold	Ministry of Commerce (MoC)	At the earliest
	3. Simplify Doré import policies, treat Doré as a raw material, and align tenure for settlement of Doré import in line with that of bullion	MoC	At the earliest
	4. Allow for B2C exports of gold and jewellery through online channels	MoC	At the earliest
	5. Banks should be allowed to source gold domestically from accredited refineries	RBI	At the earliest
	6. Banks should be allowed to hedge on exchange	RBI	At the earliest
	7. Banks must be allowed to buy back gold	RBI	At the earliest
	8. RBI to create separate Gold Department till creation of Gold Board	FinMin MoC/FinMin FinMin	At the earliest
	9. Issue guidelines for Bullion Banks under differentiated banking license		Budget Announcement
	10. Abolish CTT		Budget Announcement
	11. Reduce custom duty to zero		Budget Announcement
	12. For GMS:		Budget Announcement
	i. Allow banks to bypass CPTC route to accept coins in tamper proof packaging.	RBI/FinMin	Budget Announcement
ii. Reduce minimum deposit limit to 1 gm		At the earliest	
iii. End use of gold collected through GML to be left to banks			
iv. Banks to accept vaulted gold for GMS			
13. For GML:			
i. Flexible tenure for GML			
ii. Classify GML under PSL			
iii. Allow banks to buy scrap gold from local market		At the earliest	

Medium Term	1. Define Gold to encapsulate the various functions of gold as commodity, security and currency	FinMin/RBI/MoC/SEBI	Budget Announcement, 6-9 months
	2. Curve out precious metal as a different segment and treat differently from other commodities	FinMin/SEBI	Budget Announcement, 6-9 months
	3. Create a Bullion Board as a Statutory Regulatory body for all regulatory decision related to gold	FinMin/MoC/MOCA/RBI	Budget Announcement, 6-12 months
	4. Set up a Bullion Spot Exchange	FinMin/SEBI/MoC	Budget Announcement, 9-12 months
	5. Develop a India Price Fix through Walrasian Auction	Ministry of Mines	6 months
	6. Implement the recommendations of V N Vasudeva Report of the mining target of 100 tonnes	MoCA	3-6 months
	7. Set up a Gold Ombudsman under Ministry of Consumer Affairs	FinMin/ICAI	Budget Announcement, 3 months
	8. India must develop a gold accounting system in line with IFRS Standards		Budget announcement, 6-9 months

Note:-

1. Short Term: Recommendations that can be implemented in the current financial year and can be incorporated in the Union Budget 2018-19.
2. Medium Term: Recommendations that may spill over to the next financial year.
3. The summary recommendations should be brief. Not exceeding one or two lines and should be key recommendations of the sub-group.

C. Sub Group on Tax Sub - Group

Category of Recommendation	Recommendation	Implementing Institution	Timeline	
Short Term	1. Reduce import duty on gold bullion and doré	CBEC		
	2. Differences in tariff value for mine doré and bullion should be done away with			
	3. A policy on import duty on gold to be framed which is linked to the “smuggling threshold” & “balance of payment situation (BoP)” in the country			
		4. Until such time the above is implemented, administrative mechanisms to be implemented to prevent misuse of DTAA	DGFT/RBI/ Department of Revenue	
		5. Threshold for GST needs to be defined with reference to value addition achieved instead of referring only to turnover. This would keep small firms beyond the purview of GST	GST Council	
		6. Documented movement of goods without issuing invoice has recently been allowed for approval of deigns etc. (circular number 10/10/2017-GST) The same procedure should be extended for job work as well.	GST Council	
		7. 3% IGST exemption on import of gold bullion by Banks and Nominated Agencies must also be extended to cover gold content in mine Doré	CBEC	

	<p>8. IGST on duty free imports for purpose of exports – quick refund mechanism should be developed including an e-wallet which can be used to pay other taxes Alternatively, the earlier regime of IGST free imports can be reintroduced.</p>	GST Council	
	<p>9. 3% IGST exemption on import of gold bullion by Banks and Nominated Agencies must also be extended to cover exporters who are availing of duty free gold from nominated agencies for exports</p>	GST Council	
	<p>10. 3% IGST exemption on import of gold bullion by Banks and Nominated Agencies must also be extended to supply of gold by Foreign Buyers for processing/fabrication and exports</p>	GST Council	
	<p>11. Mismatch between rules for inter-state trade and intra-state trade should be eliminated to create a single seamless market. Case in point – 6 month goods on approval facility should apply for inter-state trade as well.</p>	GST Council	
	<p>12. The notification exempting Banks and Nominated Agencies from paying 3% IGST at the time of import must also apply to refineries that import gold Doré under actual user import license issued by DGFT</p>	CBEC	

	<p>13. On KYC reporting, the compliance costs might encourage informal sector and informal transactions. The threshold needs to be reviewed – to begin with reporting requirements can be done way with for transactions with digital payments.</p>	CBDT	
	<p>14. Investments in financial gold should be treated on par with equity investment – Long term capital gains provisions should apply for assets held beyond one year.</p>	CBDT	
	<p>15. For job workers, a simplified system like a presumptive tax at 10 percent of charges received might bring in more people into the reporting system.</p>	CBDT	
	<p>16. Providing people some clarity on how gold brought in to deposit within the gold monetization scheme would be viewed by tax department might reduce some of the scepticism for this scheme.</p>	CBDT	
	<p>17. A high rate of Commodity Transaction Tax (CTT) has adversely affected the development of the gold derivatives market, discouraging hedgers from using domestic gold derivatives. CTT should be reduced, if not eliminated.</p>	CBDT	

<p>Medium Term</p>	<p>18. While PMLA requirements for the gold sector have been removed, if they are to be introduced, the gold sector needs to be treated on par with other sectors in the economy. A separate threshold might encourage under-reporting and create a problem instead of solving it.</p>	<p>CBDT</p>	
<p>Long Term</p>	<p>19. If the BCD is not reduced, the government would have to explore alternative administrative measures like excluding HSN classification 7113, 7114, 7115 & 7118 from any FTA / CEA.</p> <p>20. Imports under HSN 7113, 7114, 7115 & 7118 may be subject to actual user condition, i.e. require an import license till such time existing agreements are re-negotiated.</p>	<p>CBEC</p>	

D. Sub-group on Gold in the Financial System & Digital Payments

Category of Recommendations	Recommendations	Implementing Institution	Timeline
SHORT TERM	<p>Gold Monetization Scheme (GMS)</p> <p>a. Make the interest rates for gold deposits accepted in sync with international gold rates, so that the lending arm remains competitive.</p> <p>b. Pass the relevant legislation to ensure that temples do not keep physical gold, (up to a pre-fixed quantity), and they deposit all their gold donations, thereby disabling theft and ensuring transparency for all gold donations received.</p> <p>c. Give targets to Banks to accumulate gold deposits from temples, as 99% of the deposits accumulated shall be from temples and religious trusts and not from individuals, as has been said repeatedly by the Secretary, DEA, MoF.</p> <p>d. Permit inter-bank lending of the gold deposits received, so that the gold is never “idle”. This is not to be confused with extending of GML against Stand by Letter of Credit, (SBLC), rather it is to permit banks’ lending physical gold amongst themselves, similar to INR inter-bank lending.</p> <p>e. For gold deposits sought from individuals, use the jewellery industry via the shop owners, as they can permeate the mindset of the individual customers who consider the shop owners as a part of their family. Doing so would provide a huge impetus to the GMS, however such type of involvement of the private sector would require further deliberations.</p> <p>f. Prohibit the sale of gold accumulated under the GMS and push Banks to seek borrowers from the gold jewellery industry to utilize the benefit of the low interest bearing financial product, the Gold (Metal) Loan, of 3-4% per annum, thus helping uplift the industry and also increasing reporting of financial transactions.</p> <p>g. Permit deposits as low as one gram, and multiples thereof, to be made. This would enable the masses to come forward to deposit their un-utilized gold.</p> <p>h. Inform the public that the source of up to 500 gms of gold deposited in the GMS shall not be questioned on a one-time basis. (This is the amount of gold that is permitted under the IT Act for which no questions are asked).</p> <p>i. Make it mandatory for all banks to participate in the GMS, as opposed to only three that are currently accepting deposits of GMS, (SBI, PNB & IOB only).</p> <p>j. Ensure that all branches of banks accept gold deposits under GMS and also to extend GML, (of gold received under GMS or from international leasing), as opposed to the current practice of only a few branches being enabled to do gold business. Disseminate information regarding the GML to all bank officials to better understand the gold jewellery industry and to maximize the benefits of the low interest rate offering of the GML.</p> <p>k. Examine the reasons as to why private banks are not receiving any deposits under the GMS from temples and pass the necessary ordinance, if required, to enable them to do so.</p> <p>l. Include gold loans issued by NBFCs as a part of the monetization of gold, as gold jewellery is used as collateral against which a loan in INR is extended.</p>	MoF/RBI	3 Months

SHORT TERM	<p>Gold Metal Loan (GML)</p> <ol style="list-style-type: none"> a. Sanctioning the GML in the weight of gold itself, akin to the foreign exchange lending that is done by banks. This shall create stability in the borrowing from the perspective of the borrower as margin calls create volatility. b. Increase the tenor of the GML to match that of the gold deposit taken with an annual renewal, similar to that of CC limits. This would dramatically reduce the needless import of gold. (Permit the renewal of the GML as is done in CC limits through paperwork and not by reimporting gold). c. Make the GML an identical financial product amongst all the Banks. d. Gold delivered under the GML should be accompanied with a Delivery Note and the amount should only be raised at the time of sale, which is upon completion of the tenor of the GML. Issuing the same with a Sales Invoice shifts the ownership to the borrower and this would dilute the security of the Bank. Currently the tenor of the GML is set at 180 days and GST also permits a consignment sale for a period of up to 180 days, after which a Sales Invoice needs to be raised. In the event the tenor of the GML is increased, the necessary amendment in GST would also be required, so that the Bank may raise a Sales Invoice at the time of sale accordingly. e. For gold received under GML, GST should be payable at the time of the issuance of the Sales invoice. f. Clarify the treatment on the Balance Sheet of the gold received under the GML. The correct methodology to adopt is to indicate the borrowing in the weight of gold itself and by mentioning it in the Auditor's Notes along with the Notional Value of the total gold borrowed. Thus, the loan amount would not be mentioned in the Liabilities on the Balance Sheet. There is much confusion of whether or not this is the correct way in which to report the GML and the point that needs to be understood is that gold is being lent/borrowed and it is being repaid in gold itself, along with interest that is payable in gold terms too. Thus, it is correct to indicate the borrowing as gold itself and to make a mention of the same in the Auditor's Notes where the quantum of gold borrowed should be mentioned along with the notional value of the gold, (based on the notional price of gold provided by the Bank). g. For GML issued from gold leased from a foreign supplier, make the process flow chart of lending/delivery identical amongst all Banks. That is, the import duty needs to be paid by the borrower at the time of delivery of the gold, while GST needs to be paid by borrower the Bank at the time of closing the GML, (at the time of repayment). Monies paid by the Bank need to be factored in the fixing of the interest rate of the GML offered. h. Keep the rates charged as premium for the sale of gold under GML to a minimum and comparable to the premium being charged for the import of gold on outright purchase, thereby ensuring the operations of the borrower remains profitable and competitive in the marketplace. i. Permit exports of gold jewellery of gold received under GML and the repayment of the same from the proceeds. j. Permit repayment of the GML in quantities as low as one hundred grams and, moving forward to ten grams. k. Remove the requirement of a Forward Cover for the borrowers of the GML, as there is a natural hedge since the gold borrowed is converted to its equivalent 24 ct quantum to 22 ct jewellery. 	MoF/RBI	3 Months
---------------	---	---------	----------

	<ul style="list-style-type: none"> l. RBI must monitor the interest rates being charged by Banks for the GML to ensure that the benefits of the low interest rate are being passed on to the borrowers. m. Classify GML as "Priority Sector Lending". n. Permit the calculation of MPBF, (Maximum Permissible Bank Finance), to be of two trade cycles, in an effort to promote GML and as a result of understanding that this sector has lower trade cycles than other manufacturing industries. o. Permit borrowers of the GML to sell the gold received, thus reversing the restriction laid down under the RBI Circular dated April 2, 2014. p. Permit the GML for retailers of gold jewellery and also those that are engaged in the bullion business thereby removing the restriction of the GML for manufacturers only. (The GML is a financial product that is offered on an extremely low interest rate and its use must be maximized so that this MSME dominated sector is uplifted. q. Only permit GML against SBLC of other banks where the SBLC has been sanctioned as a sub-limit of CC limits. This would ensure better monitoring of the borrower. Such Banks need to sanction the SBLC keeping in mind that the GML is to be sanctioned in the weight of gold itself. Thus, any margin calls made by the GML bank need to be fulfilled by the SBLC issuing bank, so that the borrower obtains the GML with the same spirit of being sanctioned the GML in the weight of gold itself. As the SBLC issuing bank has taken the obtained collaterals etc., it is their responsibility to ensure the inventory levels of the borrower remain constant and not volatile. r. Prohibit Banks from solely issuing GML against SBLC only, as this is against the spirit of the banking license issued to them by the RBI, and to take exposure against borrowers, (most of the industry comprises of NPAs). Therefore, permit banks to issue GML against SBLC on a 1:1 ratio, wherein banks be restricted to issue GML against SBLC no more than the GML as sublimit of CC limits, or of the equivalent amount. This would drive banks to issue GML as sublimit of CC limits, which is healthier for the Indian banking ecosystem and shall prevent conversions to NPAs unnecessarily. (Banks sanction SBLC limits against diluted collateral securities and when the gold prices have risen in the past, SBLCs have devolved, leaving the SBLC issuing bank with an NPA. This shall avoid such outcomes). s. Permit the repayment of the GML from locally sourced gold also. t. Permit the banks to purchase scrap gold locally and to extend GML from such gold. 		
--	--	--	--

	<p>Bullion Exchange & Sovereign Gold Bond Scheme (SGBS)</p> <p>a. A Bullion Exchange, (BE), shall reduce the import of gold while making gold readily available to the industry members, by reducing the excess holding of gold within the nation.</p> <p>b. The BE should be positioned as an alternative source for the purchase of bullion and coins and not the only source. The BE should add to the choices available for the trade and it should not be exclusive in nature, as this is the only true method through which market dynamics and efficiencies will come into play, thereby making the customer and the market evolve towards the better mechanism on its own. Any action leading to 'prohibition' would create a resistance in the marketplace and would needlessly lead to people not reporting financial transactions, which should be encouraged.</p> <p>c. The Sovereign Gold Bond Scheme, (SGBS), is known internationally as "Unallocated Gold Certificates". The success of the SGBS lies in being able to sell it and then to find a mechanism through which it can be "backed" with physical gold and this is only possible if the identical quantity of gold is lent to a jeweller by giving him the equivalent money in INR under the GML scheme, thus removing any scope of negative impact due to fluctuations in the gold price. Thus, the SGBS would then become an "Allocated Gold Certificate" and any volatility in the gold prices would be successfully transferred to the borrower, who in turn would be able to pass it on to the customer as gold jewellery is sold based on the prevailing gold rate along with making charges etc. This should be mandatory for all sales of the SGBS.</p> <p>d. Any Bank may lend gold that is accumulated by another and a Bullion Exchange would permit optimal use of gold available in India.</p> <p>e. The Sovereign Gold Bond Scheme needs to be available 'on tap', thus at any time of choosing by the customer and this is possible through a Bullion Exchange. Instant availability would enhance the subscription of the SGBS.</p> <p>f. Permit banks to sell the SGBS.</p> <p>g. Permit a minimum sale of one gram of gold and multiples in one gram thereof. This would make the SGBS accessible to the masses.</p> <p>h. Market the SGBS vs. purchase of gold coins, wherein it is beneficial for the purchaser to opt for the SGBS, as it avoids any labour charges and there is no need of storage, (as are needed for gold coins).</p> <p>i. Make the SGBS transferable and redeemable on choice with absolutely no lock in period.</p> <p>j. Permit the purchase of SGBS up to 500 gms through cash with a guarantee that the source of funds shall not be questioned. ((This is the amount of gold that is permitted under the IT Act for which no questions are asked and permitting this would merely stop people from purchasing gold in its physical form to deposit the same in the GMS).</p> <p>k. SGB presently is for a minimum tenor of 8 years, with an option to exit in 5th, 6th and 7th year. It is suggested that SGB for shorter tenure may also be introduced based on the preference of the customer. Thus, no lock in would be required and customers should be permitted to en-cash it as and when they wish.</p> <p>l. The SGB should be tradable on the BE as this shall provide liquidity and shall make it more attractive.</p>	MoF/RBI	3 Months
--	---	---------	----------

	<p>m. The SGBS should be transferrable to any person at the choice of the customer.</p> <p>n. Sell the SGBS without the import duty component. This would not only reduce the price of acquisition of gold for the customer, but would also shield the customer from fluctuations in import duty, if made. Doing so would also increase the quantity of gold that the customer would be able to purchase, thus making the SGBS more attractive. Duties and other taxes may be charged as applicable on the date of redemption.</p>		
	<p>India Gold Coin (IGC)</p> <p>a. Manufacture the IGC in 995 purity, in an effort to reduce its cost and also as the gold rate quoted in the local market is based on 995, thus the customer does not lose too much at the time of resale.</p> <p>b. Simulate the pricing of the IGC as preferred by the customer based on the local day's gold rate and the labour charges + GST. This would ensure a positioning, (value-wise), to be competitive to the local gold coin that is sold.</p> <p>c. Why should gold accumulated from the GMS only be used for the IGC? The manufacturer should be permitted to purchase gold locally as and when the need arises, based on the demand for the IGC.</p> <p>d. Permit the manufacture of the IGC by local vendors in an effort to reduce the cost of the coin to the customer and to promote jobs. Such coins should be hallmarked to ensure the purity of the same.</p> <p>e. Permit the sale of the IGC through the Bullion Exchange, (BE).</p> <p>f. The pricing of the IGC should be based on the prevailing gold rate + labor charges + GST, as is the method through which coins are sold to customers in the local markets. This would 'position' the IGC as a choice for the price conscious customer.</p> <p>g. Permit Banks to buyback the IGC, (or try and do so in the future).</p> <p>h. To position the IGC as a replacement to the "Guinea" that is sold and is synonymous with a "Shagun".</p>	MoF/RBI	3 Months
	<p>Digital Payments</p> <p>a. Provide an SOP, (Standard Operating Procedures), for the merchant establishment to guarantee the payment by credit cards if the established processes are followed for both, offline and online transactions.</p> <p>b. Permit purchase of jewellery by credit cards.</p> <p>c. Permit EMIs for the purchase of jewellery via credit cards in an effort to promote purchases without cash.</p> <p>d. Creation of an 'Ombudsman' that must deliver judgments with a time bound period of thirty days or less for any disputes that are made for the payment made.</p> <p>e. Make the approaching the 'Ombudsman' relatively inexpensive or free.</p>		

	<p>f. Lowering the charges for accepting the credit card as jewellery is sold through a transparent pricing method, where the customer is informed of the gold price, labour charges, miscellaneous charges, taxes etc. As such, customers hesitate to use their credit card when they are informed of the charges applicable for accepting the credit card. Thus, it is imperative that the charges be reduced or kept to a minimal amount to encourage customers to use their credit cards as a payment option.</p> <p>g. Banks need to initiate a drive to install the EDC machines throughout all markets, to enable accepting credit cards as a payment option for customers.</p> <p>h. Offer a rebate of 50% on the GST payable in an effort to incentivize people to choose to make digital payments.</p>	MoF/RBI	3 Months
	<p>Gold Board</p> <p>a. As the gold jewellery industry is dealt by numerous Government agencies, it is imperative to form the “Gold Board of India” that has representation from all Government agencies that gold impacts vis-à-vis the Indian economy, along with industry representation such as:</p> <p>i. RBI-FED</p> <p>ii. DGFT</p> <p>iii. DGETiii (a) CBECiii (b) CBIT</p> <p>iv. Ministry of Commerce</p> <p>v. Ministry of Finance – Department of Economic Affairs</p> <p>vi. Ministry of Finance – Department of Financial Services</p> <p>vii. Ministry of Finance – Department of Revenue</p> <p>viii. Ministry of Finance – Department of Expenditure</p> <p>ix. Ministry of MSME</p> <p>x. Ministry of Skill Development and Entrepreneurship</p> <p>xi. National Institute of Public Finance</p> <p>xii. Ministry of Consumer Affairs</p> <p>xiii. Ministry of Mines</p> <p>xiv. Department of Industrial Policy and Promotion (DIPP)</p> <p>xv. Indian Banks’ Association (IBA)</p> <p>xvi. One or two Managing Directors from leading Banks, such as SBI or PNB</p> <p>xvii. India Gold Policy Centre, Indian Institute of Management - Ahmadabad</p> <p>xviii. Representation from industry associations, such as GJEPC, FICCI and local associations too.</p> <p>xix. The Warehousing Authority... (to permit bonded warehouses for the import of gold... I’m unsure as to what the name of this GOI agency is)</p> <p>b. The Gold Board of India, (GBI), should be ‘housed’ within the Ministry of Finance.</p> <p>c. The Chairman and other functionaries should be appointed by the GOI.</p>	MoF/RBI	3 Months

	<p>d. The mandate must be clearly articulated and the decision-making should be binding on the other departments of the GOI, as the primary aim of the GBI is to act as the 'Liasoning' factor between all the arms of the GOI. It should have a comprehensive understanding of gold from an international and domestic perspective.</p>		
	<p>Tax Issues</p> <p>a. To permit an Accounting Standard that may be without the value of gold, as is internationally accepted. This would help in reflecting the true nature of the enterprise and would 'deflate' the turnover, which may present a picture, which may not necessarily be correct.</p> <p>b. To increase the GST exemption levels based on the understanding of Point 16 a, so that the artisans are truly not impacted.</p> <p>c. Transfer of inventory from Office to branch should not entitle payment of GST, as it negatively impacts the cash flow of the business.</p> <p>d. Casual or temporary GST should be provided to the participant of a trade show/exhibition without the requirement of having to pay GST till such time that sales are not made.</p> <p>e. Job workers receiving gold from other states should be exempt of GST registration.</p> <p>f. To keep the transport of jewellery outside the ambit of E-Way Bill of GST, since doing so would pose a threat to the lift of the person transporting the jewellery.</p> <p>g. To circumvent the gold import problem posed by the FTAs by learning from the Sri Lanka example of implementing a 'Port Clearance Tax' to stop gold imports from countries where the import duty is lower, as per FTA.</p> <p>h. Complete removal of PMLA.</p> <p>i. Increase the requirement of PAN Card to INR 5,00,000 for cash sales from the current level of INR 2,00,000/-, as it is only deterring the sales of the compliant jeweller.</p>	MoF/RBI	3 Months
	<p>Other Recommendations</p> <p>a. Increase the requirement of PAN Card for cash sales of Rs. 5,00,000/-. A low level for the requirement of the PAN Card only creates a restriction for the compliant jeweller and does not impact those that do not report financial transactions.</p> <p>b. Recognize that 70% of gold jewellery is sold in rural areas, (as per the RBI report), thereby debunking the myth that black money is used for purchases of jewellery, as agricultural income is tax free.</p> <p>c. Remove PMLA from the gems and jewellery sector and amend the view that this sector attracts black money with the understanding of sub point (b).</p> <p>d. Launch the modified Gold (Metal) Loan by advertising its low interest rate as an incentive for this sector to report financial transactions.</p> <p>e. Use the low interest rate of the GML to attract borrowers and to increase their leverage and thus to use their own funds in other areas of their choice, (be it expansion of the purchase of a house). This will increase the reporting of financial transactions substantially and the "multiplier effect" will come into play.</p> <p>f. Reduce the GST rate to 1% alone.</p>		

	<p>g. To study the policies of the leading jeweller manufacturing and exporting countries such as the Middle East, China, Turkey, Thailand and Malaysia with a view to adopt the best practices and to make India the leader in this segment.</p> <p>h. Increasing gold jewellery exports and re-evaluating the Handbook of Export Procedures so that export activity is possible throughout India and not confined to cities where there is a Customs Appraiser only and to replace this with hallmarking capabilities.</p> <p>i. To design a Policy for Exports that should be focused on enabling and encouraging B2C transactions, (directly to the customer). This would enhance exports and its value addition of export made substantially.</p> <p>j. To boost gold jewellery exports via Internet sales, (this is also B2C, but focused on the challenges of Internet sales). As such, the USA does not have any sales tax for Internet sales and this provides a huge opportunity that should be excavated.</p> <p>k. Compare the FTAs of GCC, (Gulf Cooperation Council), countries and try to include India in similar type of FTAs.</p> <p>l. To treat retail sales made against foreign exchange as exports and to refund the duty paid as of the date of the sale.</p> <p>m. The refund of duty should be simplified to a mere refunding mechanism and should be time bound within a period of thirty days or less. An Agency needs to be identified by the GOI for such refunds and the refund needs to be seamless and uncomplicated, so that the exporters are encouraged to export.</p>		
Medium Term			

Note:-

1. Short Term: Recommendations that can be implemented in the current financial year and can be incorporated in the Union Budget 2018-19.
2. Medium Term: Recommendations that may spill over to the next financial year.
3. The summary recommendations should be brief. Not exceeding one or two lines and should be key recommendations of the sub-group.

E. Sub-group on Skill Development

Category of Recommendations	Recommendations	Implementing Institution	Timeline
SHORT TERM	Dual purpose “Common Facilitation Centres” (CFC), which can train the workers, upgrade their skills and also act as a provider for various services should be promoted, and set up in all the clusters.	GJSCI with the help of ministries of MSDE, MSME & Commerce.	0 - 3 years
	With implementation of GST, it is being felt that there could be decentralisation of clustered manufacturing or staggering of manufacturing clusters, which could also lead to either migration of present workforce, causing many more, smaller clusters to emerge. There is need to reassess the training needs in the up and emerging clusters for Jewellery manufacturing.	GJSCI	0 - 3 years
	Training future workforce is a great social empowerment cause. Trade organisations such as, The Gem & Jewellery Export Promotion Council, All India Gems & Jewellery Trade Federation etc. need to play more active roles, and partner with government in this noble mission. The trade bodies could be given a clear mandate to partner for being able to claim benefits, or deny all the benefits in case of non-participation.	GJSCI with the help of various trade bodies & GOI	0 - 3 years
	Most of the job-roles in the industry have “National Occupational Standards” (NOS) mapped to them, however, the NOSs were prepared around 4 years ago, many of them need revision. Training and skilling must be standardised through NOSs and Qualification Packs	GJSCI	0 - 1 year
	Similar to our country’s technical education system where all the engineering colleges accredited by AICTE (All India Council of Technical Education), all the jewellery training institutes should be affiliated with the Gems and Jewellery Sector Skill Council. They will follow a standardized curriculum validated by the industry and approved by the NSDC (National Skill Development Corporation) under MSDE (Ministry of Skill Development and Entrepreneurship).	GJSCI with the help of MSDE, HRD & other related ministries.	0 - 3 years

	Making the trade aspirational via promoting the benefits in terms of wages etc. for this, to happen the Govt. must mandate regulated wages, healthy work environment, regulated work hours etc.	GOI	0 - 3 years
	The number of institutions related to gems and jewellery training in India are less. These training institutes are mostly autonomous and do not have training modules aligned with the industry demands. All the training & skilling in this sector must be standardised and should adhere with GJSCI's course & curriculum	GJSCI with the help of MSDE, HRD & other related ministries.	0 - 3 years
	There is a growing need for industry linkage, all the training / skilling programmes must have industry linkage, on the job training, internships, apprenticeships, to offer trainees a practical exposure to working on precious metals.	GJSCI with the help of MSDE & other related trade bodies	0 - 3 years
Long term	· There is a distinct need to set up manufacturing infrastructure such as refineries, hallmarking centers etc., to promote Jewellery manufacturing in rural areas.	GJSCI with the help of trade bodies such as GJEPC, GJF, IBJA etc.	0 - 5 years
	The GOI must mandate hiring of candidates who are certified by GJSCI either through fresh skilling or via RPL	GOI with the help of various trade bodies	0 - 5 years
	Trade bodies need to play an active role in the skilling programmes. We must not forget our demographic opportunities which could turn into challenges, if youth don't get employed meaningfully	GOI with the help of various trade bodies	0 - 5 years
	A model code of ethics for industry bodies, for their members to adhere to, with a view to improve working standards for the workforce. Industry needs some initiatives to implement better working. Industry must create values in shape of aspirations for the youth to join. Better wages, better working conditions are key to this objective.	GOI with the help of various trade bodies	0 - 5 years

	The Govt. can provide incentives to training centres taking up manufacturing job roles by giving them some subsidy to ease their financial burden. Alternatively, the Govt. can build such skill parks and with the help of Public Private Partnership based model and let an experienced agency/entity to run it.	GJSCI with the help of Commerce, MSME & MSDE ministries.	0 - 5 years
	Training in jewellery is capital intensive. Public private partnership models should be explored. Government as well as industry bodies need to work jointly on this.	GOI, GJSCI & various trade bodies.	0 - 5 years

F. Sub-group on Technology Upgradation

Category of Recommendations	Recommendations	Implementing Institution	Timeline
SHORT TERM	Zero custom duty on import of 2 nd hand plant & Machinery	Ministry of Finance	2017-18
	50% grant for obtaining technology and machines from the international markets for placing in the cluster developments in the Common Facility Centres, (CFC).	Ministry of Finance	2017-18
Medium Term	To develop a Cluster Development Program and to extend financial support of up to INR 100 crores,	M/o Finance/ MSME/ DIPP	2018-19
	Setting up of at least model assay & hallmarking centers across India.	M/o DIPP/ SD&E	2018-19
	Tie up with the Italians to obtain technology to make lightweight jewellery.	Dept of Commerce	2018-19

Note: As discussed during the second meeting of the committee to transform India's Gold Market held on 12.10.2017 under the Chairmanship of Principal Adviser, NITI Aayog, the report has been circulated to all members with the request to provide comments/suggestions. The final report will be submitted after incorporating the requisite comments/suggestions.

Summary Recommendations of FICCI

Revisiting the Impact of Gold on the Current Account Deficit

1. Identification and isolated treatment of the unproductive component of ~15% of gold imports that adversely impacts CAD.
2. Explore the re-classification of gold imports to the capital account.

The Gold Monetisation Scheme: The Gold (Metal) Loan

3. Sanction the GML in the weight of gold itself, thereby removing the concept of being marked-to-market, thus making it attractive for the borrower as the current method creates fluctuations in the levels of inventory of the borrower
4. Keep the interest rate charged of the GML charged in sync with the international gold leasing rates
5. Keep the rates charged as premium for the sale of gold under the GML to a minimum and comparable to the premium being charged for the import of gold on outright purchase, thereby ensuring the operations of the borrower remains profitable and competitive
6. The RBI must monitor the interest rates being charged by banks for the GML to ensure that the benefits of the low interest rate are being passed on to the borrowers and that banks are not overcharging the borrowers
7. Remove the requirement for a forward cover for the borrowers of the GML.
8. Permit repayments of the GML in quantities as low as 100 grams and, moving forward, 10 grams.
9. Permit the calculation of MPBF to be of two trade cycles, to promote the GML and because of the understanding that this sector has lower trade cycles than other manufacturing industries
10. Increase the tenor of the GML to match that of the gold deposit accepted under GMS or from the international supplier with an annual renewal process that is done on paper and without importing physical gold, like that of WCL in INR terms without requiring further import of gold
11. Make the appropriate changes in the GST Act, to permit consignment of goods without sale for a period of more than six months to match the tenor of the GML period
12. Permit borrowers of the GML to sell the gold received, thus reversing the restriction laid down under the RBI Circular dated 02 April 2014
13. Permit the GML for all the participants in the gold industry including, manufactures, wholesalers, Karigars, retailers and also those that are engaged in the bullion business, thereby removing the restriction of the GML for manufacturers only. The GML is a financial product that is offered on an extremely low interest rate and its use must be maximised so that this 90%-95 % MSME dominated sector is uplifted.
14. Banks should await the opinion of the ICAI as to the accounting treatment of the GML on the balance sheet and the financial documents at the time of delivery of gold and all the banks should, thereafter, adopt the same accounting method thereafter. The banks may continue with the current accounting methodology till such time
15. Prohibit banks from solely issuing GML against SBLC only. Banks should realise that their banking licenses have been issued for them to take credit exposures against

- the borrower and not against any other bank.
16. Permit banks to issue GML against SBLC on a 1:1 ratio, wherein banks should be restricted to issue GML against SBLC no more than the GML as a sublimit of WCL to be calculated of the equivalent amount and the number of borrowers. Banks would then issue GML as a sublimit of WCL, which is healthier for the Indian banking ecosystem and shall prevent conversions to NPAs unnecessarily
 17. Provide GML as priority sector lending to the entire industry
 18. Make the GML an identical financial product amongst all banks and prohibit any change in it without prior approval of the RBI
 19. Permit the repayment of the GML from locally sourced bullion from LBMA or NABL accredited refineries

Gold Monetisation Scheme: Gold Deposits

20. Make it mandatory for all banks to participate in the GMS.
21. Ensure that all branches of banks accept gold deposits under the GMS and also to extend the GML (of gold received under the GMS).
22. Disseminate information regarding the GML to all bank officials to better understand the gold jewellery industry and to maximise the benefits of the low interest rate offering of the GML.
23. Examine the reasons as to why private banks are not receiving any deposits under the GMS from temples and ensure that the necessary state/central ordinance are provided, if required, to enable them to do so
24. Prohibit the sale of gold accumulated under the GMS and push banks to seek borrowers from the gold jewellery industry to utilise the benefit of the low interest bearing financial product, the GML, of 3-4% per annum, thus helping uplift the MSME dominated industry and also increasing reporting of financial transactions.
25. Make the interest rates for gold deposits accepted in sync with international gold rates, so that the lending arm remains competitive
26. Permit deposits as low as 1 gram, and multiples thereof. This would enable the masses to come forward to deposit their un-utilised gold.
27. Encourage religious institutions not to hold physical gold beyond a pre-fixed quantity, and to deposit all their gold donations, thereby disabling theft and ensuring transparency for all gold donations received.
28. Banks to engage with the state endowment departments to encourage greater participation of the religious institutions in the GMS
29. Permit inter-bank lending of the gold deposits received, to optimally utilise the gold deposits.
30. The transfer of gold collected under the GMS should be exempt from the purview of GST
31. The RBI should consider subscribing its gold reserves to the GMS and should refine its legacy gold and subscribe to the GMS.
32. Enable the jewellery industry to be a point of collection for the gold deposits under GMS. A tolerance limit of 1-1.5% should be permitted to the jewellers along with the CPTC to bring greater efficiency in the process to collect gold deposits under GMS. They should coordinate further with the banks to create a broader outreach to the masses
33. CPTCs should also be granted the same tolerance limit of 1-1.5% for the purity approval, which would also be an incentive for them, reduces the customer time

- for certification and creates greater efficiency in the entire process of gold deposit collection
34. Inform the public that the source of up to 500 grams of gold deposited in the GMS shall be permitted under appropriate provisions of the Income Tax Act and not be questioned on a one-time basis
 35. Remove any reserve requirements for the gold accumulated under GMS deposits
 36. Include gold loans issued by NBFCs as a part of the monetisation of gold, as gold jewellery is used as a collateral against which a loan in INR is extended

Tax and Duty Structure

37. Import duty on gold should be reduced to zero and thereby making the entire 6000-9000 tonnes of jewellery that sits as inventory throughout the jewellers of the nation, ready for export / saleable in the international markets. It will remove smuggling of gold and aid the migration to the organised sector
38. Reduce GST from 3 percent to 1 percent to aid the migration to the organised sector
39. Under GST, a tax exemption of up to INR 20 lakh is provided. An accounting standard that may be without the value of gold, as is internationally accepted, should be permitted. This would help in reflecting the true nature of the enterprise and Karigars who fall in this category can claim appropriate exemption
40. The GST threshold levels should be increased based on the understanding of the above point so that the artisans are truly not impacted.
41. Job workers receiving gold from other states should be exempt from obtaining GST registration. This is currently the case with the job workers in all other products
42. The international limits for money laundering of US\$ 15,000 should be adopted. To be in sync with it, the value of cash sales for which PAN is required should be increased to INR 5,00,000 from the current level of INR 2,00,000, as it is only deterring the sales of the compliant jeweller
43. The job worker or the Karigar should be exempt from GST. Alternatively if job work is not made exempt then the (i) the threshold limit for registration of a job worker/ Karigar should be substantially increased in order to relieve them from stringent tax compliance and (ii) the GST rate on job work charges should be reduced from 5% to 3%, at par with the supply of gold/jewellery. A separate classification entry may be given for repairing/alteration/modification/remaking of articles of jewellery with the rate being 3%. Alternatively, the definition of job work may be changed suitably to include within its ambit the process of repairing/alteration/modification.
44. This is important even in the context of flows from countries with which India has signed an FTA. If the BCD is not reduced, the government would have to explore alternative administrative measures like excluding HNS classifications 7113, 7114, 7115 and 7118 from any FTA/CEA. Alternatively, imports under HSN 7113, 7114, 7115 and 7118 may be subject to actual user condition, i.e., require an import license till such time existing agreements are re-negotiated. It should be noted that such measures could require elaborate administrative machinery without tangible benefits to the government or to the sector.
45. The provision in GST for inter-state job work was that all such job workers need to be registered for GST. On 14 September 2017, a notification was issued by the GST authorities to exempt such supplies by job workers for all sectors other than jewellery and goldsmiths. It is desirable that such relaxation should also apply to gold and jewellery articles.

46. IGST on imports of gold by permitted agencies and on gold content in mine doré imports by refineries: The Revenue Authorities declare a tariff value for gold periodically, which forms the basis of which the customs duty payable is computed. The 3% IGST is also computed basis this valuation. For gold content in mine doré, the valuation is based on the LBMA price on the airway bill date.
- It is necessary to do away with a different system of valuation for the same underlying asset, be it gold in the form of refined bullion or gold in the form of gold content in mine doré. A simple uniform coverage of tariff value for both forms of gold (bullion and mine doré) can be notified by the Department of Revenue in its fortnightly notification of tariff value for gold.
 - Importing agencies and refineries selling refined output have a mismatch between IGST computed basis valuation at the time of import and value charged at the point of sale. The imports are on consignment/unpriced basis, with the price of gold being determined at the point of its sale (and not at the point of its import). To correct this problem, some mechanism for refund of such input taxes needs to be put in place.
 - Alternatively, the imports by these agencies can be kept outside the purview of IGST at the point of import and the IGST can be applied when it leaves the vaults or the banking system.
47. Expand the use of this credit to the payment of taxes beyond the GST domain to enable easy utilisation of the available credit. Alternatively, the system could revert to the earlier scheme where supplies to exports both from within the economy and from imports could be obtained free of payment of duty under various schemes.
48. The procedures for exports and imports would mandate a certain lot size for getting duty-free gold for the purpose of exports. While the route of paying duty and claiming refunds on undertaking exports would remain available for jewellers operating mainly in the domestic market, the increased cost of doing business would discourage these people from exploring the export markets. Thus, simplification of procedures to make it easy to export is desirable.
49. The threshold for PAN reporting and trigger of penalty for cash sales should be increased to INR 5 lakh to align with the threshold which was statutorily recognised earlier for TCS.
50. Investments in financial gold should be treated at par with investments in listed stocks where if the asset is held for more than one year, the gains would be treated as long-term capital gains.
51. To maintain legal entity parity and encourage non-corporate taxpayers to migrate to the corporate form of organisations, presumptive tax scheme be extended to corporate taxpayers as well.
52. For search and seizure proceedings, there are internal instructions issued by the CBDT not to seize holding of a small quantity of gold jewellery to the extent of 100 grams by men, 250 grams by unmarried women and 500 grams by married women. It is recommended that similar thresholds may also be clarified for the GMS to encourage people to come forward and monetise their gold.
53. Under the GST, for ferrying goods across states there is a requirement of electronic-way (e-way) bill to keep a check on consignments. This applies for goods worth more than Rs. 50,000/- transported within or outside a state. The e-way registration is to be done by prior registration of the consignment. Jewellery is currently exempt from the requirement of e-way bill and the same needs to continue as it is important

to recognise that if this information is leaked, then there is a security threat to the life of the carrier.

Gold Exports

54. Design a policy for exports that should be focused on enabling and encouraging B2C transactions (directly to the customer). This would enhance exports and its value addition of export made substantially.
55. To focus on B2C sales, an SOP for e-commerce of gem and jewellery items needs to be developed so that the interests of consumers, as well as sellers, can be protected. Boost gold jewellery exports via internet sales, (this is also B2C but focused on the challenges of internet sales). As such, the United States does not have any sales tax for internet sales and this provides a huge opportunity that should be explored.
56. Treat retail sales made against foreign exchange as exports and to refund the duty paid as of the date of the sale. This can be achieved by allowing for the comparable tax credit through GST.
57. Reduce the bank mark-up rates charged on gold supply to the exports to nil so that the pricing of the jewellery meant for exports remains competitive in the international markets. The rates should be at the international rates for exports.
58. The replenishment scheme should be allowed for the consignment export of gold jewellery, which shall be claimed by the exporter post receiving of remittance from its overseas buyers.
59. The duty drawback rates for gold may be announced and disbursed on a daily basis. Both the foreign exchange rate for import and export as well as tariff value for calculating the price of gold and silver is declared by the government every fortnight. By calculating the duty paid on gold and silver on a particular day, an exporter/importer can declare the duty amount to be claimed at the time of export on the invoice itself and have the same appraised by customs. Hence, price fluctuation of gold and silver can be addressed without causing any revenue loss to the government.
60. Allowance of supply of gold by a foreign buyer post export of precious metal jewellery. As per Para 4.45 and 4.77 of FTP and HBoP 2015-2020 respectively, a status holder or an exporter of 3 years standing having an annual average turnover of INR 5 crores during the preceding three financial years, foreign buyer may supply in advance and free of charge, gold/silver/platinum for manufacture and export. The same facility may be extended post the manufacture and export of finished precious metal jewellery to the foreign buyer. In such cases, when the gold is supplied, either before or after the export of jewellery, it should be exempt from payment of IGST.
61. It is not possible to establish a one-to-one correlation between the duty-free gold procured from banks for the purpose of exports and the corresponding jewellery exported. However, in the recent past, enquiries have been made as to whether, in terms of the scheme, the very precious metal which has been procured duty-free is itself exclusively used for making the value-added export prescribed under the FTP. Non-insistence on one to one correlation of the duty-free procured gold and the subsequent export of the precious metal jewellery will increase ease of doing business for jewellery exporters.
62. Introduce a passbook scheme and club exporters for procurement of duty-free gold in small denomination from nominated banks. At present, an exporter post exporting the metal jewellery can claim the replenishment from the nominated bank in the form of a passbook wherein entries of all the replenished gold will be done.

The threshold limit for the passbook for this replenished gold may accordingly be decided by the nominated bank and informed to all its concerned account holders. In this scheme, the multiples of gold in 1 kilogram can be booked and entered. In the clubbing scheme, a small number of exporters can club together to procure the duty-free gold of below 1 kilogram from a similar nominated bank. They can distribute this duty-free gold amongst themselves. One exporter in such group can become the nodal exporter for getting all the e-BRCs from the clubbed jewellers and submit the same to the nominated bank.

63. All precious metal jewellery (both plain and studded) should be clubbed the MEIS, thereby extending the benefits to the gold industry. The exporters of precious metal jewellery need to be incentivised through the inclusion of gems and jewellery products under MEIS. To begin with, all jewellery products (both plain and studded) only for the United States and Europe markets may be included for MEIS benefits at the rate of 5% as per the following details:
 - Precious metal plain jewellery – Achievement of minimum 8% of value addition
 - Precious metal studded jewellery – Achievement of minimum 15% value addition
64. Allow the replenishment of gold by nominated agencies against export from own stock. If these exporters are given the flexibility of exporting from their stock and then claiming replenishment from the nominated agency without having to wait for sale proceeds they will be more than eager to export more.
65. Increase gold jewellery exports by re-evaluating the Handbook of Export Procedures so that export activity is possible throughout India and not confined to cities where there is a customs appraiser only and replace this with hallmarking capabilities.
66. Supply of precious metals by nominated agencies and banks to jewellery exporters should be treated as zero-rated supply under GST. Nominated agencies and banks importing precious metal and supplying it duty-free to the exporters may take bank guarantee or bond from them to secure payment of GST and interest thereon. If the exporter fails to fulfil linked export obligation within the prescribed period, the nominated agency/banks can deposit the applicable GST and interest thereon to the Exchequer on behalf of the exporter from bank guarantee/bond. The same mechanism is already working in the case of customs duty. It needs to be extended for IGST as well.
67. Explore possibilities of FTAs with GCC countries. It is imperative to point out that corresponding import of jewellery from the FTA partner country should not be offered as it will debilitate local manufacturing of jewellery.
68. Sell the IGC at international markets, especially with countries with major NRI populace. At present 24 carat jewellery / coins is not permitted and the Committee recommends that the relevant legislation be passed to permit the same.
69. Gold should be provided to exporters in small quantities to attract a wide array of customers. (Ideally a minimum of 1 gram and multiples thereof or at least 10 grams and multiples in 1 gram thereafter).
70. Prepare a fair, transparent and robust policy so that the courier agencies enable the distribution of jewellery in both the domestic and the global markets.
71. Develop clusters, provide for the technology and also encourage skill development to promote machine-made lightweight jewellery

Digital Payments

72. Create an SOP through which credit card payments would be guaranteed to the merchant establishment

73. Set up a dispute resolution mechanism:
 - Create an Ombudsman to resolve disputes raised with regards to the credit card payment
 - Approaching the Ombudsman must be free, or nominal
 - The Ombudsman must deliver judgments within a time bound period of fourteen days for any disputes that are raised
74. Lower the charges for accepting credit card by jewellery retailers as it is a transparent pricing method
75. Improve the availability of EDC terminals for accepting credit cards: Banks need to initiate a drive to install the machines throughout all markets, to enable the acceptance of creditcards as a payment option for customers
76. Regulatory:
 - Permit purchase of jewellery by credit cards
 - Permit EMIs for the purchase of jewellery via credit cards
77. Offer a rebate of 50% on the GST payable in an effort to incentivise investors to make digital payments

Hallmarking

78. The Jewellery Certificate, should be confined to the entity, (Sponsor), that is sending the jewellery for hallmarking.
79. The Jewellery Certificate should not be required for manufacturing jewellery.
80. The Jewellery Certificate should not be required for selling hallmarked jewellery.
81. All purities of gold jewellery should be permitted to be sold in the nation with no restriction whatsoever.
82. The hallmarking stamp should only have the purity of the item, the mark of the Hallmarking Centre and the mark of the Sponsor, (entity), having the jewellery hallmarked.
83. The hallmarking records should be maintained by the Hallmarking Centre only, with no requirement of the jeweller to do so.
84. The Hallmarking Centre may be held solely responsible for the purity of item, once hallmarked.
85. In the event of under-caratage, the retailer should compensate the consumer and should be re-compensated by the Hallmarking Centre accordingly.
86. There should be requirement for the jeweller to establish proof of purchase of the hallmarked jewellery.
87. Only those employees/officials involved in under-caratage must be held responsible and not those that are innocently employed or have no knowledge of the fraud being perpetrated.
88. Sweeping powers for officials must be curtailed and search and seizures must be permitted only with the prior approval of a senior official.
89. BIS should formulate a plan with milestones for infrastructure development before recommending hallmarking to be a mandatory activity in India.
90. Hallmarking of gold coins of 24 carat, (or any other purity), should be conducted by Hallmarking Centres, along with refineries.

Gold Mining

91. Revisit existing mining policy and provision to encourage gold mining:

92. Auctioning: The amended Act of 2015 has the feature of an auction which though transparent may not deliver the results the government seeks as nowhere in the world are mineral resources developed through an auction-based system. The government should revisit the procedure to provide an efficient regulatory mechanism. It should incentivise private sector participation in mineral exploration by providing the right of first refusal (ROFR) to the company undertaking prospecting.
93. Seamless transition: In order to attract investments, the provision of preferential right from reconnaissance to prospecting and then to mining should be given to the companies.
94. Single window clearance: There should be single window clearances and assistance, with some incentives on profit sharing on a model similar to Australia and Canada.
95. Encouraging investment and latest technology: These are required to make the mineral-based industry viable and profitable.
96. This will encourage the involvement of junior exploration companies which are the repositories of knowledge, know-how and the latest technology, which is imperative with regard to minerals like gold.
97. Convergence in procedures and approvals adopted by the forest wing and environment wing in MOEFCC. Single window clearance with clear policy and regulation should be quite encouraging for the industry or foreign players. Hence, a detailed review and benchmarking of existing environmental policy need to be undertaken taking into account other environmental policies globally.
98. Support and collaborate with the private sector on the 20 gold mines to produce the targeted 100 tonnes gold per annum by 2025.
99. Technology: Though India could benefit as a low-cost producer, a lot of further resource drilling and feasibility studies have to be done to detail mine plans and justify high investment costs. Companies are currently looking for favourable and fair policies to gain confidence to make such sizeable investments. India also lacks the necessary availability of and has not incentivised the funding for technology and expertise in the mining sector.
100. Building a pool of risk capital that can be earmarked for providing seed capital for development of mining resources — in private or joint sector. The development of such a resource may not follow an auction route, but may rather rely more on selecting a partner with relevant competency.
101. There should be the possibility and scenarios of exiting at various stages: For junior exploration companies, it has been observed in mature mining regions such as Canada and Australia that one of the major incentives to undertake such a high-risk activity is that the exploration company can then sell the mining license at a premium to a larger, better-capitalized company.
102. Stakeholders, including the Government must understand the risks related to the mining venture and strive to collaborate in the development and implementation of their mitigation strategies. The rights, obligations, roles and responsibilities must be equitably balanced with their risks and benefits for diverse stakeholders, to optimise bid outcomes and long-term sustainable success.
103. Update and upgrade the quality and availability of digital data. The Fraser Survey indicates that India ranks low in the quality of its geological database (which includes quality and scale of maps and ease of access to information). One of the reasons could be that the information so far was non-digitised and was not available freely in the public domain.

104. Create a policy on brownfield explorations. The government should engage with the private sector as globally, exploration is largely funded by private enterprises which have the technology and the expertise to carry out such a risky and capex-intensive activity.
105. A comprehensive taxation policy should be drawn up to align India's taxation framework with the strategic needs of the gold mining sector. Some of the countries also provide attractive and innovative tax incentives as a way to attract exploration companies, for whom such incentives might make or break their decision to engage.
106. Improve coordination between the Central and State Governments to kick-start mining sector activities in the country with a right earnest and have taken several steps starting with updating or amending the regulations relating to mining activities.

Gold Refining

107. Boost gold refining for exports. Lack of Indian standardised good delivery norms similar to what are established globally should be addressed. Refining for exports should be encouraged and restrictions on gold medallions, coins and jewellery above 22 carat purity from domestic tariff areas (DTA) and export-oriented units (EOUs) should be addressed. Since the import duty on doré bar of lower quality is 9.35%, the situation where traders took advantage of the tax mismatch between doré and bullion bars has self-corrected. Hence there needs to be a review or study on how to boost gold for refining but also ensuring such situation where traders' benefit from taxation is avoided.
108. Levy favourable import duty on gold instead of 9.35% as is the case currently, similar to leading refining countries like China and Switzerland, which levy zero percent duty.
109. Develop an Indian standard or adopt to LBMA. Indian refiners should be encouraged and assisted to get accredited by LBMA.
110. Review mining certificate. Policies around mining certificate for doré imports should be reviewed to ensure Indian refiners are competitive and can gain by utilising the ideal capacity and large investments in the refinery.
111. Promote India as a gold trading hub. Due to the government's policy of not allowing free exports of gold bullion, Indian refineries are only encouraged to meet domestic demand and do not cater to international gold centres.

Employability: Skill Development and Technology Upgradation

112. Integrate institutes of repute such as NID and NIFT to provide courses on innovation, creativity and new ways of marketing
113. Integrate training institutes like as National Institute of Securities Management and any other interested institute to introduce certificate and degree courses on financial products linked to gold
114. Create a training program for assaying, hallmarking, mining and refining jewellery and thereby encourage skill in this arena
115. Identify and tie up with leading international jewellery designing and training centres for improving the manufacturing skills as per international standards
116. Form a joint venture with the Italian jewellery industry, which is recognised as the global leaders in machine-made jewellery, wherein they can come to India to teach workers how to manufacture lightweight gold jewellery
117. Training centres need to provide a degree course and not only a certification course,

- for which help is needed for affiliations from both domestic and international institutions.
118. The certification course offered by the various training centres needs to be uniform and GJSCI needs to preset standards of education/training that need to be maintained
 119. Set up a department/board/council which can hasten decision making.
 120. Create new institutes and various apprentice programmes which would give industry training
 121. Facilitate absorption of candidates in the industry through the apprenticeship model, where the cost of hiring and risk of hiring fresher's is low
 122. Similar to our country's technical education system where all the engineering colleges accredited by the All India Council of Technical Education (AICTE), all the jewellery training institutes should be affiliated with the Gems and Jewellery Sector Skill Council. They will follow a standardised curriculum validated by the industry and approved by the National Skill Development Corporation (NSDC) under the Ministry of Skill Development and Entrepreneurship (MSDE)
 123. Government of India should recognise that the fees payable for a quality training programme is approximately INR 1,50,000 and a contribution from the government of up to 70% is needed for the payment of these fees till such time that the reputation of the institute is established, after which this may be discontinued. The period for this subvention would need to be at least five to seven years, after which the training centre would be able to operate profitably on its own
 124. All the training/skilling programmes must have industry linkage, on-the-job training, internships and apprenticeships to offer trainees a practical exposure to working on precious metals
 125. Training centres may also be set up keeping activities such as refining and retail sales in mind so that the offerings may be attractive to a larger audience
 126. All training centres must have a department to assist the graduates locate a job. However, IIGJs need to work on standardisation of training in alignment with NOS
 127. Identify and tie up with leading international jewellery designing and training centres for improving the manufacturing skills as per international standards and compete in the export market
 128. There is a need to create an Assay Training Institute in India. This can supplement assay and hallmarking technology upgradation. The trained cadre of assayers will enhance employment potential and create skills for which industry has a dire need
 129. Promote and set up dual purpose 'Common Facilitation Centres (CFCs) in all clusters to train the workers, upgrade their skills and also act as a provider for various services should. CFCs should be permitted to offer their services on a commercial basis to industry members
 130. Tie-up with countries who are global leaders in machine-made jewellery like Italy, turkey and China to obtain state-of-the-art technology in order to make jewellery for international customers. Additionally, it is imperative to provide a 50% grant for obtaining technology and machines from the international markets for placing in the cluster developments in the CFC.
 131. Extend nil customs duty for the import of plant and machinery, as these machines shall enable the manufacture of gold jewellery that is consumed by the Caucasian customer.

132. Draft a scheme on similar lines to the Credit Linked Capital Subsidy Scheme, wherein 15% subsidy should be given MSMEs for buying second-hand machinery/new machinery
133. With the implementation of GST, it is being felt that there could be decentralisation of clustered manufacturing or staggering of manufacturing clusters, which could also lead to the migration of the present workforce, causing many smaller clusters to emerge. There is a need to reassess the training needs in the up and emerging clusters for jewellery manufacturing
134. Improve the quality and consistency of aqua regia based refining in India.
135. There is a need to infuse technology and set up at least 50 model assay and hallmarking centres across India, which will incentivise the remaining centres to follow
136. Set up world-class master alloy and solder manufacturing units.
137. Set up parameters and compliance norms for worker accommodation and working condition and provide grants and subsidies for MSME units complying with these parameters and norms
138. Allocate a special fund under the Technological Upgradation Fund Scheme for the MSME segment of the jewellery sector
139. Continually review and amend all NOS to be in line with global standards
140. Encourage MSMEs to shift to Cluster Development (CD) by offering initiatives such as:
 - A grant of up to 50% of the cost of machinery acquired by the MSME unit
 - An interest subsidy on the loans obtained by the entrepreneur for both capital goods as well as inventory financing. Inventory financing is available through the GML at an annual interest rate of 3%–4% and this may be further subsidised by 1%–2% for the MSME unit located in a CD
 - Offer workers undergoing training for upgrading their skills a stipend of INR 3,000–INR 4000 for a period of up to six months, as is done in the textiles and leather industry
 - Moving manufacturing units to a CD would help in increasing the hygiene and work conditions of the workers. This would play a large role play in improving the quality of life for the workers/artisans and is something that needs to be recognised
141. Include the following in CFCs:
 - Refining: Prescribe global standards of refining for the refineries that are located here with an emphasis on master alloys and the availability of quality solders, which would help in making the jewellery manufactured of an international standard
 - Common Manufacturing Facilities: Provide access to expensive machines to the local artisan to help in improving the quality of jewellery being manufactured
 - Hallmarking and Assaying Capabilities: Prescribe global standards for the hallmarking and assaying facilities that are located here
 - Skill Development: Make the cluster synonymous with courses and training where skills may be developed. Tie up with international agencies that may impart skills at the clusters from time to time
142. Set up infrastructure such as refineries and hallmarking centres to promote jewellery manufacturing in rural areas, since 70% of jewellery is sold there. This

- could control the migration to urban areas through job creation in rural areas
143. Set up JPs which are not only confined for exports alone, but also for the domestic players, as they are also the exporters. It is recommended that the government's contribution for setting up of a JP should be in line with that in the leather industry, where up to 70% of the capital cost (with a maximum of INR 100 crore) is contributed by the government
 144. Creation of JP by CD should be supported by CFC with a focus on the revival of existing manufacturing centres. These can be set up by incorporating mining, refineries and hallmarking centres along with manufacturing
 145. Provide the various trade impetus for the market for gold for both domestic and export purposes. Value addition in terms of making jewellery/coins etc. has been the USP of the Indian Karigar.
 146. Assign the Ministry of MSME the responsibility of looking after this sector. All concerned verticals in this sector, including the export promotion councils and training institutes, should be transferred to the Ministry of MSME along with budget heads and manpower
 147. Adopt the public-private partnership model for skilling/training programmes. The industry works with precious metals, cost of training can be high for the industry, and an efficient partnering programme is need of the hour
 148. Trade organisations such as the proposed Domestic Council, Gem & Jewellery Export Promotion Council and All India Gems & Jewellery Trade Federation need to play more active roles and partner with the government in this noble mission. These bodies could be given a clear mandate to partner to be able to claim benefits, or their benefits would be denied in case of non-participation
 149. Develop a model code of ethics for members of industry bodies to adhere to, with a view to improve the working standards for the workforce. The industry needs some initiatives to implement better working methodologies. The industry must create values in the shape of aspirations for the youth to join, and better wages and better working conditions are key to this objective
 150. Set up digital libraries/museums for technology as well as designs. Similarly, trade shows and exhibitions should be promoted, with cluster focus

Indian Gold Coin

151. IGC is sold at a premium to the prevailing gold price. Due consideration needs to be examined to reduce the sale price further.
152. IGC is manufactured in 24 carat of 999 fineness and the Committee suggests that this be changed to 24 carat of 995 fineness. This would serve two purposes:
 - Reduction in the sale price of IGC, thus supporting the recommendations made in the first point
 - Reduction in the loss to the customer at the time of resale, as the gold rated quoted in the domestic market is based on 995 purity
153. The Government may consider allowing manufacturing and marketing of IGC by local vendors. These coins may be hallmarked to ensure purity and should be packaged in tamper proof packing as is being practised currently.
154. The sale of IGC may be permitted through the proposed Bullion Exchange to enhance its availability.
155. The sale of IGC may be permitted through local jewellers to enhance its availability.
156. Manufacturers may be permitted to purchase gold from the domestic markets as

- and when the need arises, based on the demand for IGC.
157. To enhance the liquidity of IGC, the designated banks may be authorised to buyback IGC, if sold by them. The terms for buyback adopted currently by MMTC should be accepted by the banks and all other sellers. To start off, the Committee suggests that this buyback be restricted to the same branch that sold IGC.
 158. IGC is only available in denominations of 5 gm, 10 gm and 20 gm. In order to appeal to all target groups, IGC may be available in denominations as low as 1 gm to as high as 100 gm. IGC may be made available in the following denominations of 1, 2, 8, 50 and 100 gm:
 159. Promote the IGC as a replacement for the “Guinea” that is sold and is synonymous with a “shagun”.
 160. Price the IGC on the international gold rate to make it attractive for the NRI and foreign buyer.

The Gold Board of India

161. Setting up of a new statutory body ‘The Gold Board of India’ under the Ministry of Finance
162. The members of the GBI will include representation from all concerned Ministries, Regulators, Warehousing authorities, etc. associated with gold and gold industry in any form.
163. The powers of the GBI and its mandate will be as detailed in this report. The decision of GBI should be binding on all other departments of the Government of India
164. The GBI may be the trial authority in all issues related to gold in the country.
165. All circulars, notifications or any decisions issued or taken by the GBI may supersede and be binding over all the agencies dealing with gold, whether or not the agency is a member of the GBI.
166. The GBI Chair and Co-Chair appointment preferable be approached for a fixed tenure, fairly long as the gold industry is highly technical requiring expertise and vast knowledge.
167. The GBI members should have a detailed handover process through which the outgoing incumbents have a minimum of two months of time working together with the new appointee, to enable transfer of domain knowledge.
168. The GBI members should aspire to become experts on gold from both the domestic and international perspectives.
169. In order to boost exports and value addition of gold jewellery, the GBI should closely work with the Ministry of Commerce to develop Free Trade Agreements (FTAs). The GBI would work on the details of the feasibility of the FTAs.
170. To uplift the domestic refining business, opportunities to source gold doré globally should be explored by exploring the possibility of FTAs and bilateral trade agreements.
171. The GBI would study the policy developments across global countries to keep up-to-date with the developments in the global industry. It would work to provide a better and efficient ecosystem whereby foreign investments may flow in the country, which can have a positive spill over to domestic enterprises.

Bullion Exchange

172. Consider setting up a Bullion Exchange under the aegis of the Gold Board of India.
173. The Gold Board of India would provide the necessary regulatory notifications:

- To mandate availability and trade of all financial instruments with gold underlying to be listed on the exchange
 - To ensure all market intermediaries — including banks, CPTCs, and investors — are linked together to provide integration for successful implementation of the GMS
 - To set standards for Indian gold delivery
 - To mandate sale of gold through the exchange — till jewellers/end users can continue to purchase directly from Jewellers or through the exchange
 - To enable Gold (Metal) Loan through the exchange
 - To enable the IGC Coin sale through the exchange
174. Consider setting up a Bullion Exchange in GIFT-IFSC to be an additional option in the choice of venue for trade for the global market participants and be the primary intermediary for all gold imports and exports.
175. The Bullion Exchange should be an alternative source for the purchase of bullion and coins and not the only source. The Exchange should add to the choices available for the trade and it should not be exclusive in nature.
176. The government may consider another bullion exchange in India in the domestic markets. This exchange could be set up at Ahmedabad.

Domestic Council

177. The Domestic Council would be an important body with the primary task of representing the entire Indian domestic gold industry.
178. The Composition of the Domestic Council may include Chairs of trade associations, including:
- FICCI Gems and Jewellery Committee
 - ASSOCHAM Jewellery Committee
 - All India Gems & Jewellery Federation (GJF)
 - Gems and Jewellery Export Promotion Council (GJEPC)
 - India Jewellers Forum (IJF)
 - India Bullion Jeweller Association (IBJA)
 - Swarna Shilpa Bachao Committee (SSBC)
 - The Bullion and Jewellers Association (TBJA)
 - Other such trade associations that the chair may deem fit
179. The Chair of the Domestic Council may be the Joint Secretary, Ministry of Commerce, initially and the hand-holding process should continue for a period of at least three years, after which elections may be held and the members may elect a Chairman of their own accord.
180. The Domestic Council may have verticals to independently cover the major segments of the gold industry such as:
- Gold jewellery
 - Bullion
 - Financial products based on Gold, with representation from banks and gold spot exchange(s)
181. A representation from all the market players would ensure completeness of the Domestic Council. These market participants would cover Retailer, Manufacturer/Wholesaler, Assaying and hallmarking, Training and skilling, Specialist in financial

products based on gold, mining and refining.

182. The Chair and Co-Chair of the Domestic Council should have a permanent seat on the proposed the Gold Board to help formulate policies on Gold

The Sovereign Gold Bond Scheme (SGBS)

183. Introduce a new financial product – the Gold Savings Account (GSA)
184. Replace the SGBS with the GSA
185. Utilise the exiting SGBS by extending the Gold (Metal) Loan through banks, to mitigate the exposure of speculative profit/loss that may occur by backing the digital gold with physical gold

The Gold Savings Account

186. Introduction of a new financial product Gold Savings Account, that will accept INR and credit grams of gold, with passbook facility
187. The price of gold will be the prevailing price as of the date the deposit is made. The credit to account will be without the component of import duty and GST
188. The redemption of the account can be in INR or gold weight. For redemption in gold weight the import duty and GST will be payable
189. The minimum investment size will be 0.1 grams (100 milligrams) and multiples thereof.
190. The interest payable on GSA will be the same as the interest on gold deposits collected under Gold Monetisation Scheme (GMS), 2015. The interest can be accumulated in terms of weight of gold.
191. Banks to have agreements with the jewellers to handle the physical gold deliveries that are hallmarked and in tamper proof packing. The redemption would be in INR terms till such capabilities are developed.
192. The tax treatment (Capital Gains Tax) will be payable as in the case of physical delivery of gold
193. The account will be like INR savings account without any minimum or maximum tenor.
194. The gold accumulated in the GSA can be transferred to another GSA by submitting appropriate transfer request.
195. There should be no Bank charges for this account as it will supplement the GMS scheme.
196. The Committee also feels that the gold rates for both selling and buying should be at the market rates with no premium to be charged by bank towards profits. The GSA should be an act of service alone.
197. The gold accumulated under the GSA may be backed by physical gold without the need for gold imports. It has to be extended to the borrower under GML, albeit in the form of INR. It may be noted that approximately 6,000–9,000 tonnes of gold valued at approximately INR 18 trillion–INR 27 trillion is lying as inventory across the various members of this industry throughout the nation and it is this inventory that could be used to create the physical backing of gold for the GSA.



सत्यमेव जयते

NITI Aayog

Government of India