



**CIRCULAR**

**F. No. 415/IFSCA/Consolidated Operating Guidelines/2021-22      August 25, 2021**

**To,**

**Bullion Exchange,  
Bullion Clearing Corporation,  
Bullion Depositories, and  
Vault Managers at IFSC**

**All Market Participants**

**Dear Sir/Madam,**

**Sub: Operating Guidelines on Bullion Exchange, Bullion Clearing Corporation,  
Bullion Depository and Vault Manager**

This Circular is being issued to enable the Bullion Exchange, Bullion Clearing Corporation, Bullion Depository and Vault Manager in an International Financial Service Centres (IFSC) to operationalise their activities as per the International Financial Services Centres Authority (Bullion Exchange) Regulations, 2020.

2. The Bullion Exchange, Bullion Clearing Corporation, Bullion Depository and the Bullion intermediaries in an IFSC shall comply with the operating guidelines specified in Annexure - I of this Circular. The Vault Manager shall comply with the guidelines specified in Annexure-II of this Circular.

3. This Circular has been issued in exercise of the power conferred under section 12 of the International Financial Services Centres Authority Act, 2019 r/w Regulation 58 of the International Financial Services Centres Authority (Bullion Exchange) Regulations, 2020.

4. A copy of this Circular is available on the website of International Financial Services Centres Authority at [www.ifsc.gov.in](http://www.ifsc.gov.in) at "Legal →Circulars".

Yours faithfully,

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Encl: As Above

**I. Operating guidelines for Bullion Exchange**

1. General guidelines for the Bullion Exchange:

- (1) A systems interface shall be developed between the Bullion Exchange, Bullion Clearing Corporation and Bullion Depository.
- (2) The Bullion Exchange shall have a trading platform that offers trading in products related to bullion.
- (3) The Bullion Exchange shall have products in Gold, Silver or such other precious metal backed by physical bullion.
- (4) The Bullion Exchange shall enable trading of bullion through Bullion Depository Receipts (BDRs) issued in electronic form by Bullion Depository.
- (5) The Bullion Exchange must offer different modes of trading which may include trading driven by quotes, block deals enabled through a separate window on the Bullion Exchange and Benchmark pricing, if any.
- (6) The trading hours for all products traded on the Bullion Exchange shall be determined by the bullion exchange.
- (7) The timings and process for determination of daily benchmark price, if any, shall be decided by the Bullion Exchange. The Benchmark price fixing shall be conducted in a transparent manner adhering to the basic principles of price fixing. The Bullion Exchange shall put in place mechanism so that an independent & transparent benchmark may be determined.
- (8) The Bullion Exchange shall enter into agreements with Bullion Clearing Corporation in case of separate entities for functioning of Exchange and Clearing. In case of Bullion Exchange having the function of a Clearing House there shall be clear ring fencing of the functioning of the Bullion Exchange and its Clearing House.
- (9) The Bullion Exchange shall enter into agreements with the relevant members viz. Trading Members, Market Making member, Benchmark price fixing members (if any) etc.

- (10) A member of Bullion Exchange may enter into a tie-up with a clearing member unless clearing trades for itself, and open a bank account with the Banking Unit at an IFSC for the purpose of settlements, margins etc, of its customers.
- (11) A member of Bullion Exchange shall pay necessary fees, penalties, charges etc. as may be imposed by the Authority and / or Bullion Exchange from time to time.

## 2. Guidelines for Trading on the Bullion Exchange:

- (1) The Bullion Exchange shall only enable trading in Bullion which adhere to *OECD Due Diligence Guidance for Responsible Supply chain of Minerals from Conflict Affected and High-Risk Areas* for establishing supply chain integrity.

- (2) The Bullion Exchange, on receipt of information pertaining to the creation of Bullion Depository Receipt, shall enable trading of the same.

- (3) Members:

The following are eligible to become members of the Bullion Exchange subject to prior registration with the Authority for the purpose of trading in bullion depository receipts with underlying bullion on the Bullion Exchange:

- a) Banking Units at IFSC.
- b) Subsidiaries/Branches of entities dealing with financial products, set up in an IFSC.
- c) Banks authorized by RBI and Nominated Agencies authorized by Directorate General of Foreign Trade (DGFT) to deal in bullion.

- (4) Members shall be allowed to undertake Spot Trading of the Bullion Depository Receipts with underlying bullion in the following manner:

- i. The Bullion Exchange shall enable bullion trading in bullion depository receipts with underlying bullion, in relation to bullion spot delivery contracts which may be traded through order

matching, block deals, market making or benchmark price fixing, if any.

- ii. 'Bullion Spot Delivery Contract' shall have the same meaning as assigned to it vide Central Government Notification on financial products and financial services dated 31<sup>st</sup> August, 2020.
- iii. In case of bullion contracts where the settlement is likely to be on T+0 basis, the funds are required to be available prior to initiation of the trade by the trading member or its customers.
- iv. Margin based trading is to be enabled for only those trades where the settlement will be carried out on T+1 or T+2 basis or any other settlement cycle that may be approved by the Authority.

**v. Types of Spot Trading:**

**a) Order-matching -**

- 1. 'Order matching' is a mechanism where the trades are executed based on matching of orders based on price time priority.
- 2. The initiation of the trade may be done by the Trading member or its customer through an online platform/offline mode that may be provided by the trading member.

**b) Block Deals-**

- 1. Block deals refer to trading of such quantity of bullion as specified in these Guidelines, at a price negotiated bilaterally through a window enabled by the Bullion Exchange between the trading members. The price in a block trade shall be within +/- 0.5 per cent of the ongoing market price in the Bullion Exchange.
- 2. The trades in bullion shall only be executed through the platform provided by the Bullion Exchange.
- 3. Only customers who are not individuals shall be enabled to engage in block deals.

4. Each block deal shall be of quantity not less than 100 Kilograms in case of Gold or 3500 Kilograms in case of silver.
5. Every block deal has to be pre-funded, i.e. underlying bullion or equivalent funds for settlement (depending on the side of trade) shall be required to be deposited with the Bullion Clearing Corporation before executing the deal.
6. The Bullion Exchange shall specify the bullion products that can be traded through block deals.
7. The Bullion Exchange shall furnish disclosure of transaction of the block deal providing details such as names of the members and customers (buyer/seller), quantity of bullion bought/sold etc. The Bullion Exchange shall also furnish the block deal related information to the public immediately on its execution.
8. The Block deal transaction shall not be taken into consideration for calculation of the Opening, Closing or the Benchmark Price.
9. The timings and the procedures for execution of the block deals shall be provided by the Bullion Exchange.

**c) Market Making-**

1. Market making refers to the process of providing continuous two-way quotes in bullion contracts at prices as per the terms and conditions prescribed by the Bullion Exchange.
2. The detailed guidelines for Market Making and other obligations shall be provided by the Bullion exchange.

**d) Benchmark Price**

Benchmark Price generally means a price which is highly liquid with contribution to prices from wide variety of market participants which may include producers, the investment community, banks and central banks, fabricators, jewellers, consumers and other market participants around the globe. The

benchmark prices may be used to transact during timings that may be fixed by the Bullion Exchange.

The Benchmark price and its timing shall be determined by a mechanism that shall be devised by the Bullion Exchange and approved by the Authority.

(5) **Product:** The contract specifications for each bullion product shall be provided by the Bullion Exchange.

**(6) Eligibility Criteria:**

(i) A member shall set up operations in IFSC, either through a subsidiary or a branch or any other mode as permitted by the Authority. All entities shall comply with the 'fit and proper criteria' specified under regulation 52(2) of the International Financial Services Centres Authority (Bullion Exchange) Regulations, 2020.

(ii) The entities proposing to set up a branch or subsidiary in IFSC shall be from a jurisdiction which is not identified in the public statement of Financial Action Task Force as:

- a. a jurisdiction having a strategic Anti- Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or
- b. a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies.

(iii) The membership criteria and registration of the members shall be determined by the Bullion Exchange. The criteria for eligibility of members shall, *inter-alia*, take into account the following:

**a) Trading Member:**

(1) Trading members shall have at least 1 employee having experience of minimum 3 years and sound knowledge in precious metals industry.

(2) Trading members shall have professional competence and general reputation of fairness and integrity in business transactions.

**b) Market-making member**

(1) Market-making member shall have an established setup in Precious Metals Industry and related experience, knowledge, and resources.

(2) Market-making member shall be having membership or license to operate with any existing Exchanges or markets with capacity to execute operations related to precious metals.

(3) Market-making member shall have the capability to provide two-way (buy/sell) quotes on the Bullion Exchange.

(4) Market making members shall have personnel having experience of minimum 3 years and sound knowledge in Precious Metals Industry.

(5) Market-making member shall provide detailed structure of Market Making capabilities to the Bullion Exchange with related aspects pertaining to Risk Management framework and profile of management personnel well-versed in Precious Metals Market.

(6) Market-making member may be allowed to de-register voluntarily from the Bullion Exchange subject to the terms and conditions agreed with the Bullion Exchange. The Bullion Exchange shall provide the list of all the members in a public notice.

**c) Bullion Refinery as IFSC Unit**

**(1) Eligibility Criteria:**

An applicant desirous of setting up Bullion refinery in IFSC shall meet the following eligibility criteria:

a) The applicant shall have a minimum experience of 5 years in refining activities for the metal sought to be refined in an IFSC.

- b) Annual refining production of not less than 5 tonnes for gold, not less than 25 tonnes for silver or as may be prescribed for other precious metals, in each of the year in last 3 years.
- c) Tangible net worth of not less than USD 7 million or its equivalent as per its latest audited financial statement. The same shall be maintained at all points of time.
- d) Neither the applicant, its persons in control nor any of its principal officers should have been at any time in the past been convicted of any offence involving moral turpitude or any economic offence, declared insolvent or wilful defaulter.
- e) The applicant and the persons in control shall have professional competence, financial soundness and general reputation of fairness and integrity in business transactions to the satisfaction of the Authority. The applicant shall comply with the “fit and proper criteria” specified under regulation 52(2) of the International Financial Services Centres Authority (Bullion Exchange) Regulations, 2020
- f) The applicant shall follow *OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas*.

**(2) Permissible Activities:**

The bullion refiner shall be engaged in refining activities of bullion as per the standard design, weight, technical specifications, infrastructure requirements and good delivery standards as prescribed by the Bullion Exchange and supply bullion for the purpose of trading on Bullion Exchange only.

**(3) Application Process:**



An applicant desirous to setting up the bullion refining unit shall apply to Bullion Exchange in the application form specified. Bullion Exchange on being satisfied, shall forward the application with its recommendation to Authority for approval along with the prescribed application fee. Authority may seek additional information and undertake inspection of the bullion refining unit before granting the registration.

**(4) Compliance with other requirements**

- a) The bullion refiner shall comply with all the applicable and relevant obligations, standards, policies and guidelines as issued by any other competent authority(ies).
- b) The bullion refiner shall undergo annual audit (technical, process and sourcing) in terms of the guidelines prescribed by the Bullion Exchange. The audit report shall be submitted to the Bullion Exchange and deviations, if any, shall be informed to the Authority.
- c) The bullion refiner shall comply with all the requirements as may be prescribed by the Bullion Exchange from time to time.

**(5) Submissions of Report / Information**

- a) The bullion refiner shall furnish the following information to the Bullion Exchange and Authority within 10 days of the approval of the Audited Financial Statements by the Board of Directors / Principal Officers:
  - i. Annual Report containing the audited financial statement i.e. balance sheets, profit & loss accounts etc.
  - ii. Confirmation of compliance with the regulations, circulars, guidelines and/or directions issued by the Authority from time to time.
  - iii. Details of material regulatory action, if any.
- b) The Authority from time to time may call for any information, documents or records as it may deem necessary from the bullion refiner.

#### (6) Action in case of default

If a refiner fails to comply with any of the requirement as specified in these operating guidelines, regulations and other directions and guidelines issued from time to time by the Authority or the Bullion Exchange, the Authority may take appropriate action as it deems fit including suspension, cancellation, withdrawal, etc. of registration after giving a reasonable opportunity to the refiner to make its written submissions.

1. **Customers** – For the purposes of these Guidelines, a Customer shall mean:
  - (1) a Qualified individual who is a person resident outside India having net worth not less than \$ 250,000 or any other equivalent foreign currency, which may be determined in such a manner as specified by the Authority. The trading member shall ensure the above. Net worth certificate shall not be older than 3 months and shall be provided by the Individual's qualified chartered accountant firm to the trading member.
  - (2) Persons resident outside India who are **corporate or institutional** entities having net worth not less than \$ 500,000 or any other equivalent foreign currency, in the manner as may be specified by the Authority. The trading member shall obtain a Net-worth certificate not older than 3 months from the Customers' qualified chartered accountant.
  - (3) Persons resident in India, who are Qualified Resident Individual, corporate or institutional entities (Including Banking Entities) who are customers of Nominated Banks/Agencies and fulfil any other requirement as may be specified by the Authority.

*Explanation-1:* "Qualified Resident Individual " means an individual who is a person resident in India having net-worth not less than \$ 2,50,000 or any other equivalent foreign currency in the preceding financial year. The trading member shall obtain a Net-worth certificate not older than 3 months from the Customers' qualified chartered accountant .

*Explanation-2:* The “Qualified Resident Individual” shall only be enabled to trade on the bullion exchange in respect of the Bullion Depository Receipts wherein the investment shall not exceed the threshold that is permissible under the Liberalized Remittance Scheme (LRS) introduced by the Reserve Bank of India vide [A.P. \(DIR Series\) Circular No. 64 dated February 4, 2004](#), as emended from time to time. “Qualified Resident Individual” shall not be permitted to import the bullion underlying invested as Bullion Depository Receipt unless permitted by the prevailing Foreign Trade Policy of India.

(4) Member shall enter into Brokerage agreement with customers and on-board the customers based on the eligibility norms specified. The agreement shall set forth the rights, obligations and address the authorization that will be provided to the member to act on behalf of the customer *inter-alia* seeking quotes, execution of trades, settlement & delivery.

4. Risk Management Framework:

(1) The Bullion Exchange shall have a sound risk management system and infrastructure for comprehensively managing risks related to trading on Bullion Exchange.

(2) The Bullion Exchange shall clearly provide the details of ring fencing of the Clearing House in case the Bullion Exchange itself performs the functioning of Clearing and Settlement.

(3) Recording of trades and communications- The details of every trade executed between trading member and customers shall be recorded *inter-alia* in the form of:

- a) Physical record written & signed by customers;
- b) Telephone recording;
- c) Email from authorized email id;
- d) Log for internet transactions;
- e) Record of messages through mobile phones; or
- f) Any other legally verifiable record.

- (4) The Bullion Exchange shall evolve an appropriate framework for position limits applicable to each bullion product.
- (5) In respect of any order placed by a member, the Bullion Exchange shall *inter-alia* review and verify the adequacy of such members' funds, existing holding and compliance of the order with the applicable requirements of the Bullion Exchange

**(6) Contribution to the Settlement Guarantee fund:**

The contribution of a bullion exchange to the settlement guarantee fund established by a bullion clearing corporation under Regulation 26 of the Bullion Exchange Regulations shall be at least 25% of the Minimum Required Corpus (MRC).

**(7) Halting of Trading by Bullion exchange:**

The Bullion Exchange shall have a procedure for any halt of trading in market or bullion product for promoting fair and orderly trading. This shall be exercised only in case of extra-ordinary circumstances.

**(8) Business Continuity Plan & Disaster Recovery :**

The Bullion Exchange shall have in place Business Continuity Plan and Disaster Recovery Site to maintain data and transaction integrity in the manner as may be specified by the Authority from time to time.

**II. Operating Guidelines for Bullion Clearing Corporation**

**1. General guidelines of the Bullion Clearing Corporation:**

- (1) All trades on the Bullion Exchange shall be cleared and settled by the Bullion Clearing Corporation. Every member of the Bullion Exchange shall be required to operate through a clearing member to settle their trades through the Bullion Clearing Corporation.
- (2) The Bullion Clearing Corporation shall enter into an agreement with the Bullion Depository.

- (3) All entities acting as Clearing Members with the Bullion Clearing Corporation shall comply with the 'fit and proper criteria' specified under regulation 52(2) of the International Financial Services Centres Authority (Bullion Exchange) Regulations, 2020.
- (4) The Bullion Clearing Corporation shall settle the trades executed on the bullion exchange by transferring bullion depository receipt and funds to the buyer and seller of Bullion Depository Receipts (BDRs) respectively.
- (5) The Bullion Clearing Corporation shall build a robust clearing and settlement and risk management framework in line with the principles and responsibilities contained in the Principles for Financial Market Infrastructures (PFMIs), the implementation of which is monitored by Committee on Payments and Market Infrastructures (CPMI) and International Organization of Securities Commission (IOSCO).
- (6) The Bullion Clearing Corporation shall follow a Net-Net Settlement model which may be adopted by having a multi-tiered netting procedure to determine the net settlement obligations (delivery/receipt positions) of the Clearing Members. Accordingly, a Clearing Member would have obligations for funds and Bullion Depository Receipts. Bullion Clearing Corporation may decide if a supplementary settlement is required for silver.
- (7) A Clearing Member's obligation is arrived by aggregating the position of all the Trading Members and all their customers clearing through it. In this model:
  - a) Clearing Member shall have only one fund obligation either 'to pay' or 'to receive' across all its settlement obligations.
  - b) Similarly for the bullion depository receipt, the Clearing Member shall have either 'to deliver' or 'to receive' position and not both.
  - c) The customer can 'buy and sell' or 'sell and buy' during the day and the final obligation would be netted across the ISIN-transactions combination.
  - d) The framework on Clearing Member settling his customers' trades shall be detailed by the Bullion Clearing Corporation.
  - e) The Bullion Clearing Corporation shall inform the Bullion Depository of the changes in beneficial owner status of the BDR at the end of each settlement.

(8) Settlement Accounts

- a) Every member of the Bullion Exchange must open accounts with authorised Clearing Members approved by the Bullion Clearing Corporation.
- b) Every clearing member shall open settlement accounts with Banking Units at IFSC for holding margins on behalf of members of the bullion exchange and relevant payments. The funds for proprietary trades shall be kept separately from customers' funds (Own funds and customers' funds should be clearly segregated).
- c) The transfer of funds to the Bullion Clearing Corporation shall pass through the settlement accounts.
- d) No Clearing member shall transfer the margins of its customers other than for:
  - a) Depositing margins towards trading, fee payment or any other charges of customer.
  - b) Performing withdrawals on excess balance post payment of margins, fees, charges of customer.
  - c) Transfer of funds under any other circumstances as prescribed by the Bullion Clearing Corporation.
  - e) If any clearing member intends to open, rename, change or close the settlement accounts, the clearing member must obtain a written approval from the Bullion Clearing Corporation with the relevant documents to effect the desired change in the records of the Bullion Clearing Corporation.
- f) The Bullion Clearing corporation shall be required to separately manage the settlement accounts related to members' proprietary trades and the members' customer related trades as broker by maintaining sub-accounts of the records with respect to credits, debits, transfers, profit/loss.
- g) The Bullion Clearing Corporation shall be entitled to mark lien / pledge on the bullion depository receipts or any other collaterals on outstanding(s) of members on behalf of the Bullion Exchange or the Bullion Clearing Corporation in its favour. All collaterals having lien marked on them or in the name of Bullion Clearing Corporation can be liquidated at any time by the Bullion

Clearing Corporation subject to the risk management policy of the Bullion Clearing Corporation approved by the Authority.

- h) The deposits into or withdrawals from the Settlement Account shall be processed based on the timelines defined by the Bullion Clearing Corporation.
- i) The settlement may be processed for T+0, T+1, T+2 or any other settlement cycle that may be prescribed under the contract specifications of the Bullion Exchange.

## 2. Risk Management Framework

- (1) The Bullion Clearing Corporation shall have a sound risk management system and infrastructure for comprehensively managing risks.
- (2) The Bullion Clearing Corporation shall develop an appropriate model to calculate the margins for trading on the Bullion Exchange.

### (3) Settlement Guarantee Fund (SGF)

Settlement Guarantee Fund (SGF) shall hold the same meaning as sub-section (1) of Section 26 of the International Financial Services Centres Authority (Bullion Exchange) Regulations, 2020.

- 1. The fund shall have a corpus not less USD 10 million, or the minimum required corpus (MRC) as arrived at from the monthly stress test value or, whichever is higher. The Bullion Clearing Corporation is required to develop a framework for devising a stress test for assessing the size of the SGF .
- 2. The contribution to the settlement guarantee fund shall be made by the bullion clearing corporation and clearing members in the following manner:
  - a) Bullion clearing corporation shall contribute to the Settlement Guarantee Fund at least 25% of the Minimum Required Corpus (MRC) from its own funds.
  - b) The Bullion Clearing Corporation can seek risk-based contribution towards Settlement Guarantee Fund from Clearing Members subject to the following conditions:
    - i) The total contribution from Clearing Members shall at least 50 per cent of the minimum required corpus.

- ii) No exposure shall be available to any Clearing Member on settlement guarantee fund contribution made by it.
- iii) The required contributions of individual Clearing Members shall be on *pro-rata* basis depending on the risk undertaken by them.
- iv) The Bullion Clearing Corporation shall develop a framework for utilisation of the settlement guarantee fund and submit the same for the approval of the Authority.

#### (4) Margining Framework

1. Bullion Clearing Corporation shall develop a margining framework based on the best practices prevalent globally. The Bullion Clearing Corporation shall be required to conduct stress tests, reverse stress tests, back testing, liquidity stress testing etc. to ensure the robustness of risk management framework.
2. Bullion Clearing Corporation shall ensure that the margining framework is compliant with CPMI – IOSCO Principles for Financial Market Infrastructures at all times.
3. Margins may include Initial margin, Value-at-risk (VAR) margin, Extreme Loss margins (ELM), mark-to-market margin (MTM), any other additional margins that may be prescribed by the Bullion Clearing Corporation to be collected by the members of the bullion clearing corporation and deposited into the settlement account.
4. Except for VAR margins and loss margins, the requisite margins are to be deposited within 24 hours of margin calls OR within the time-frame specified by bullion clearing corporation to their customers.
5. Bullion Clearing corporations shall be permitted to accept as collateral:
  - a) Cash, Gold (with the underlying Bullion Depository receipt) and cash equivalents (which shall include major foreign currencies as may be decided by the bullion clearing corporation from time to time and term deposit receipts issued by banking units at IFSC) forming at least 50% of the total assets at all times,
  - b) Sovereign bonds with an “A-” or higher (or equivalent) sovereign bond rating,



- c) Any other security as may be permitted by the Bullion Clearing Corporation and approved by the Authority.
6. The haircut for all the collaterals shall be decided by the Bullion Clearing Corporation and approved by the Authority.

(5) Guidelines for the Clearing Member:

1. A licensed bank or a registered broker with the Authority shall be permitted to act as Clearing Member subject to meeting the eligibility criteria of the Bullion Clearing Corporation.
2. The Clearing Member should have a physical presence at GIFT-IFSC.
3. Clearing member may be:
  - a) Trading and Clearing Member  
A Clearing Member who is also a Trading Member on the Bullion Exchange may clear and settle their own proprietary trades as well as their customers' trades and the trades of other Trading Members.
  - b) Professional Clearing Member (PCM)  
A Clearing Member who is not a Trading member shall be called as a Professional Clearing Member.
  - c) Self-Clearing Member  
Such Clearing Members are also Trading Members. However, a Self-Clearing member may clear and settle only its own proprietary trades and its customers' trades but cannot clear and settle trades of other Trading Members.
4. The Net-worth of the Clearing member shall be not less than \$ 10 Million.
5. The Clearing Member shall have relevant internal controls and risk management framework with respect to clearing and settlement of trades.
6. The Clearing Member shall have requisite resources including personnel to handle the settlement activities of the bullion clearing corporation.
7. The Clearing Member shall have dedicated IT systems with defined protocols to record data, preserve the same and real-time monitoring of funds with the requisite hardware platforms. The systems shall be tested from time-to-time with regular focus on maintenance.

8. The Clearing Member shall undertake the safekeeping of all materials related to settlement of trades related to the Bullion Exchange for any examination in the future.
9. The Bullion Clearing Corporation shall ensure that Clearing Members adhere to the requirements detailed under these Operating Guidelines.

(6) Rights and Obligations of the Clearing Member:

1. The Clearing Member is entitled to-
  - a) Enter into an agreement with the Bullion Clearing Corporation and open related accounts.
  - b) Open settlement account for margin and settlement related to trades executed on the Bullion Exchange and fund transfer and margins related to the Bullion Clearing Corporation of the Bullion Exchange.
  - c) Accept deposits from members of the Bullion Exchange and their customers.
  - d) Exercise any other rights as specified by the Authority.
2. The Clearing Member is obligated to:
  - a) Provide information related to settlement on the member's accounts to the Bullion Clearing corporation.
  - b) Assist the Bullion Clearing Corporation in examining the source of funds.
  - c) Immediately inform the Bullion Clearing Corporation, the Bullion Exchange, and the Authority in case of any misconduct of the members or risk in relation to the margins or collaterals.
  - d) Mitigate the risks faced by the Bullion Clearing Corporation and the Bullion Exchange on settlement.
  - e) Keep confidentiality on the member's margin availability.
  - f) Submit to the supervision and adhere to the guidelines of the Bullion Clearing Corporation or the Authority on relevant business activities.
  - g) Perform operations related to reconciliation of the margin accounts, settlement accounts or Settlement Guarantee Funds account.
  - h) Perform obligations as prescribed by the Authority and Bullion Clearing Corporation from time to time

- i) Pay necessary fees, penalties, charges etc. as may be imposed by the Authority and / or Bullion Clearing Corporation from time to time.

3. Treatment of Default:

(1) The Bullion Clearing Corporation shall recognize a member as defaulter in the following circumstances:

- a) it is unable to fulfil his Clearing or Settlement obligations; or
- b) it admits or discloses its inability to fulfil or discharge its duties, obligations and liabilities; or
- c) it fails or is unable to pay within the specified time the damages and the money difference due on a closing-out effected against it under the Rules, Bye-Laws and Regulations; or
- d) it fails to pay any sum due to the Bullion Clearing Corporation as the Authority may from time to time specified; or
- e) if it fails to pay or deliver all moneys, Bullions/ Bullion Contracts and other assets due to a Bullion Clearing member who has been declared a defaulter within such time of declaration of default of such Bullion Clearing Member, in such manner and to such person as the Relevant Authority may direct; or
- f) if it fails to abide by the arbitration award / proceedings as laid down under the Rules, Bye-Laws and Regulations; or
- g) if it has been adjudicated as an insolvent by a court / tribunal of competent jurisdiction in the petition filed by any of his creditors, it shall *ipso-facto* be declared a defaulter though it may not have at the same time defaulted on any of its obligations on the Bullion Clearing Corporation; or
- h) if it files a petition before a court / tribunal of competent jurisdiction for adjudication of itself as an insolvent or for corporate insolvency resolution process or similar acts; or
- i) under any other circumstances as may be specified by the Authority from time to time.

The bullion clearing corporation through its Rules, Bye-Laws and Regulations shall provide the detailed framework of the measures to be undertaken in the event of any of the above mentioned circumstances of Default.

(2) Penalties :

a) In case of Shortage of Funds:

Cost of Funding (ROI %) X Amount Due X No. of Days / 360

ROI - Rate of Interest shall be determined by the Bullion Clearing Corporation.

b) In case of Shortage of Physical Bullion:

- Any shortfall in the delivery of the BDR shall be financially closed out by the Clearing Corporation. There shall also be a penalty that will be imposed on the short delivery transactions.
- The operational parameters for financial close out and penalty shall be prescribed by the Bullion Clearing Corporation in consultation with the Authority from time to time.

c) The Bullion Clearing Corporation shall settle the obligations under default by utilization of funds in the following order -

- i. Funds of defaulting member, including defaulting member's primary contribution to SGF(s).
- ii. Insurance, if any.
- iii. Bullion Clearing Corporation resources (equal to 5% of the MRC).
- iv. In case the funds from above point (i) to (iii) are not sufficient, the contributions to Settlement Guarantee Fund may be utilized in the following order:
  1. Penalties
  2. Bullion Clearing Corporation contribution to the extent of at least 12.5% of the MRC.
  3. Remaining portion of SGF: Bullion Clearing Corporation contribution, Bullion Exchange contribution and non-defaulting members' primary contribution to SGF on pro-rata basis.
  4. Any remaining loss to be covered by way of pro-rata haircut to payouts.

Bullion Clearing Corporation shall limit the liability of non-defaulting members towards additional contribution to a multiple of their required primary contribution to SGF and the framework regarding the same should be disclosed.

Post default if the member fails to maintain the minimum funds in the SGF, the Bullion Clearing Corporation shall be empowered to:

- a) Suspend / Cancel the membership.
- b) Restrain the member from taking new positions.
- c) Liquidate the existing positions of the member and apply the margins if any.
- d) Liquidate the collaterals marked as Lien/Pledge towards margins/settlement guarantee.
- e) Immediately take sufficient measures with respect to Risk Management to prevent ripple effects on the default on the other members.

4. Business Continuity Plan in case of failure of Clearing Member:

- (1) Clearing Member must have a business continuity plan in case of failure of systems, malfunction or any other incidence leading to lack of funds for the purpose of settlement.
- (2) The business continuity plan has to be invoked within 30 minutes of the event of such malfunctions, system issues, technical glitches or lack of settlement funds due to any other reasons.
- (3) Clearing Members shall immediately report to the Bullion Clearing Corporation on their inability to perform clearing obligations.
- (4) Penalties shall be imposed on the Clearing Member failing to perform their settlement obligations irrespective of the reason for such failure.

The detailed rules and procedure for Renewal, Suspension and Cancellation of membership of Clearing Member shall be issued by the Bullion Clearing Corporation.

In addition, the Authority from time to time may issue suitable directions in this regard.

5. Violation:

The Clearing Member shall be in violation in case one or more of the below occurs:

- (1) It fails to respond to any of the Obligations mentioned under these Operating Guidelines.
- (2) It fails to adequately respond to any incident leading to shortfalls in margins thereby affecting smooth market operations.
- (3) It restricts deposits/withdrawals without written consent of the Bullion Clearing Corporation.
- (4) It breaches the agreement with the Bullion Clearing Corporation or the bye-laws of the Bullion Exchange.
- (5) It fails to promptly move to business continuity plans in case of any contingency.
- (6) It fails to cooperate with the Bullion Exchange with respect to segregation of margins related to proprietary and customer trades.
- (7) It fails to co-operate with the Authority on Inspections or does not meet the Authority when formally called up for providing information or a personal hearing.
- (8) It offers poor services to Customers/Clearing members/Bullion Clearing Corporation wherein its employees or the entity do not perform normal operations related to clearing & settlement and the Authority receives 5 valid complaints annually.
- (9) Any other circumstances as may be specified by the Authority and / or the Bullion Clearing Corporation from time to time.

The Bullion Clearing Corporation shall take into account the above violations while framing the policy on Renewal, Suspension and Cancellation of membership of Clearing Member.

#### 6. Dispute Resolution:

Market participants including members of the Bullion Exchange, Bullion Clearing Corporation and their customers shall avail -

- (1) the arbitration, mediation and other dispute resolution mechanisms as specified by the Authority; or
- (2) Mechanism extended by the Bullion exchange in line with regulation 9(2) of the IFSCA Bullion Regulation for settlement of disputes or claims arising out of clearing and settlement of trades executed on the bullion exchange.

### **III. Operating guidelines for Bullion Depositories**

#### 1. General guidelines of the Bullion Depositories:

- (1) Bullion depository shall enter into an agreement with the vault manager which has necessary infrastructure, standards for safe storage of bullion and its security.
- (2) Bullion Depositories shall perform the function of storage and safeguarding of bullion through a vault manager.
- (3) Bullion depository shall perform the function of issuance of the Bullion Depository receipt in electronic form for trading on the Bullion Exchange.
- (4) Bullion Depository shall issue the Bullion Depository Receipt on the underlying bullion in the vault operated by the vault manager registered and regulated by the Authority for trading on the Bullion Exchange.
- (5) Bullion Depository must ensure that the vault manager has the systems, mechanism and related IT infrastructure to provide encrypted transmission of information to the bullion depository and system-based reconciliation of data between the vault manager and bullion depository.
- (6) Bullion Depository shall undertake mandatory physical inspection and ensure fulfilment of eligibility requirements before empanelling the Vault.
- (7) Bullion Depository shall ensure that the Vault Manager shall comply with the “fit and proper criteria” specified under regulation 52(2) of the International Financial Services Centres Authority (Bullion Exchange) Regulations, 2020.

- (8) Bullion Depository must ensure that its authorized personnel shall have an access (physical or electronic) to premises, facilities, data systems, data storage sites and any other facilities related to the electronic data communication network connecting the bullion depository with the vault manager to reconcile the Bullion Depository Receipts (BDRs) issued with the physical bullion on the given day.
- (9) Bullion Depository must ensure that the vault manager shall clearly demarcate the storage area meant for vaulting services for bullion in respect of which the BDR is issued. The physical storage for BDR shall be separate from that of the vaulting services provided for other activities.
- (10) Bullion Depository must make adequate arrangements including insurance for indemnifying the beneficial owners for any loss that may be caused to such beneficial owners by the wrongful act, negligence or default of the bullion depository or its participants or agents or of any of their employees.

2. The following Standard Operating Procedures (SOPs) are to be prescribed by the Bullion Depository for the Vault Manager:

- (1) Procedure for empanelment of vault.
- (2) procedure for deposit and delivery of physical bullion;
- (3) procedure for assaying of physical bullion to be deposited as per standards specified by the Authority;
- (4) procedure for verification of quality of physical bullion and communication to depositor;
- (5) procedure for maintaining details of persons who may act as authorised representatives of the Vault Manager for processing Bullion Depository receipt;
- (6) procedure for ensuring the safety of the physical bullion from fire, theft, burglary, etc.;
- (7) procedure for storage of physical bullion, including any embedded tracking mechanism for physical bullion, as may be specified by the Authority;
- (8) procedure for clear identification of stored physical bullion up to the lowest common factor (for example, lot size);
- (9) procedure for determining losses caused due to fire, flood, earthquake, burglary, misappropriation, fraud, negligence, terrorism, and *force majeure* events;
- (10) procedure for internal verification of stock;



- (11) procedure for grievance redressal;
  - (12) roles and responsibilities of employees (including outsourced employees);
  - (13) procedure for the annual audit of the Vault Manager through the external auditor;
  - (14) any other condition as may be prescribed by the Authority.
3. The Bullion depository shall prescribe the guidelines to Vault Manager with respect to the maintenance, preservation and retrieval of data/records/books of accounts including for-
- (1) vault security and access control systems;
  - (2) systems for tracking commodities;
  - (3) risk control and operations manuals (enclose copies);
  - (4) independent internal control mechanisms for monitoring, evaluation and review of accounting safekeeping and reporting systems and procedures.
4. The Bullion Depository shall ensure that the Vault Manager shall adhere to the guidelines developed by Bullion Depository regarding automatic data processing systems and record keeping including but not limited to-
- (1) details of hardware, software and communications systems, their capability, function and location;
  - (2) details of data storage and back up procedures and sites, their capability, function and location;
  - (3) details of disaster recovery systems and procedures.
5. Bullion Depository Receipt-Procedural framework:
- (1) The beneficial owner of the bullion shall intimate the Bullion Depository and the vault manager about the allocation of the bullion that the vault holds on its behalf towards the creation of Bullion Depository Receipt.
  - (2) The vault manager shall intimate acceptance of the physical bullion to the supplier, subject to adherence to the good delivery standards prescribed by the Bullion Exchange.

- (3) The vault manager shall confirm the receipt of physical bullion from the supplier and electronically provide details of the said bullion to the Bullion Depository.
- (4) The vault manager shall provide the following details of the bullion being held in its vault to initiate the process of creation of Bullion Depository Receipts in electronic form, to the Bullion Depository, namely-
  - a) Name & address of the beneficial owner.
  - b) Details of the vault manager.
  - c) Details of the refiner whose markings are engraved on the physical bars.
  - d) The serial numbers provided by the refiner and engraved on the physical bars.
  - e) The purity of the bar in parts per 1000 viz. 995/1000, 999/1000, 999.9/1000 etc.
  - f) Weight of the physical bar denominated in grams, kilograms or ounces, as the case may be.
- (5) Subject to the above conditions being fulfilled, the Bullion Depository may issue a Bullion Depository Receipt in electronic form with underlying bullion, bearing a unique identifier.
- (6) The Bullion Depository in consultation with the Bullion Exchange, shall devise a mechanism to track and trace the beneficial owner of each BDR.
- (7) Bullion Depository and Vault Manager shall maintain an integrated database of the refiners whose bullion shall be acceptable towards trading on the Bullion Exchange.
- (8) The vault manager shall be responsible for establishing supply chain integrity by verifying the details of the refiner with the system-based electronic database provided by the Bullion Depository of refiners accredited to the good delivery standards, as prescribed by the Bullion Exchange. Bullion depository shall, on a fortnightly basis, check the physical bars deposited in the vault with the details provided during the creation of BDRs by the vault manager.
- (9) The time-lines for creation of Bullion Depository Receipts shall be within two hours of confirmation of allocation of bars towards trading by the initial beneficial

owner of the bars to the Bullion Depository. The Bullion Depository shall create the BDRs on receiving the details as mentioned above.

- (10) Beneficial owner intending to obtain physical bullion against the BDR shall be required to surrender the BDR. The Bullion Depository on receipt of the request for surrender of BDR and re-materialisation from the beneficial owner, shall extinguish the BDR.
- (11) The information of the extinguished BDR shall be relayed through the integrated system to the Vault Managers post which, the delivery of physical bullion shall be made to the beneficial owner of the extinguished BDR.
- (12) With respect to the extinguished BDRs, the audit trail shall be maintained by the Bullion Depository for ten years.
- (13) The Bullion Depository and Vault Manager shall reconcile the information with respect to the list of active BDRs at all points of time.
- (14) If there are any reconciliation issues, the same shall be reported forthwith to the Authority, Bullion Exchange and Bullion Clearing Corporation and fresh deposits / withdrawal shall be temporarily stopped till the investigation is completed.
- (15) After the investigation is complete, deposit and withdrawal shall be resumed only with the approval of the Authority.
- (16) In case of any disputes related to quality of physical bullion, during the process of withdrawal, the same would be dealt with by obtaining a quality report from an independent assayer recognised by the Bullion Depository.

**THE IFSCA (VAULT MANAGER) CIRCULAR, 2021**

REGISTRATION REQUIREMENTS AND OPERATING GUIDELINES FOR VAULT  
MANAGER

CHAPTER I

REGISTRATION OF VAULT MANAGER

**1. Application for grant of certificate of registration**

- (1) Any body corporate, incorporated in India or a foreign jurisdiction, desirous of opening a vaulting facility in IFSC shall set up its operation in IFSC either through a branch or subsidiary or any other mode specified by the Authority and shall be empanelled with the Bullion Depository prior to making an application for registration with the Authority.
- (2) The application for registration with the Authority shall be in accordance with **Form A** specified in the **First Schedule** along with the letter of empanelment with the bullion depository and a non-refundable application fee in the manner as specified in the **Second Schedule**.
- (3) The vault shall be under complete physical and operational control of the Vault Manager.
- (4) A registered Vault Manager may make an application for registration in respect of additional vaults in the manner specified under sub-clause (1).

## CHAPTER II

### ELIGIBILITY CONDITIONS FOR REGISTRATION OF VAULT

#### 2. General Criteria

- (1) The promoters of the Vault Manager should be persons with a good business reputation and credibility, having domain knowledge of handling storage/delivery operations of precious metals and must be in the Vaulting business for at least 3 years as on the date of their application, subject to any exemption as may be considered by the Authority.
- (2) The Vault Manager shall comply with “fit and proper criteria” as specified in Regulation 51 of the Bullion Exchange Regulations.

#### 3. Net worth

- (1) The applicant shall fulfil the minimum net worth of USD 7 million which shall be maintained at all times.
- (2) The Vault Manager shall submit a net worth certificate and/or certificate from its statutory auditors to the Bullion Depository once in every six months i.e. net worth as at the end of every March and September, within 45 calendar days, from the end of March and September. The net worth certificate shall not be older than 3 months.
- (3) The Annual Financial Statements of the Vault Manager should be audited and submitted to the Bullion Depository within six months from the end of Financial Year. Further, each Vault Manager shall also be required to submit its unaudited quarterly financial statements for all the quarters of a financial years to the Bullion Depository, within 45 calendar days from the end of the respective quarter.

#### **4. Security deposit**

- (1) The Vault Manager shall be required to furnish a refundable security deposit of USD 75000 with the bullion depository prior to making application to the Authority.
- (2) Security deposit shall not be released until six months after cancellation or revocation or surrender of the registration of the Vault Manager or until after satisfaction of every claim against the deposit, whichever is later.

#### **5. Insurance:**

- (1) The Vault Manager shall at all times ensure to fully cover under insurance, the value of physical bullion stored in its vaults against all potential perils relevant to the bullion for which insurance cover is available and necessary.
- (2) The Vault Manager shall undertake to keep insurance cover for risks such as Fire and allied perils including flood, cyclone, earthquake and spontaneous combustion, Burglary and Theft and special perils covering riots, strikes, terrorism and also to keep adequate insurance to cover and mitigate additional risks as may be specified by the Bullion Depository.
- (3) The Vault Manager shall take Fidelity guarantee & crime insurance and Professional indemnity cover to cover all deliverable stocks of physical bullion held by the Vault Manager.
- (4) The value of physical bullion to be insured should be marked to market on replacement value on an ongoing basis.
- (5) Vault Manager shall provide information regarding the insurance coverage of the physical bullion to the Bullion Depository quarterly.

#### **6. Infrastructure requirements**

- (1) The Vault Manager shall have reasonable facility, preferably subterranean and infrastructure for proper handling and storage of physical bullion as

mentioned in **Fourth Schedule** .

- (2) In case the vault is a leased property, the Vault Manager should hold a direct lease for at least 3 years. The lease shall be renewed at least three months prior to the date of expiry of the lease period.
- (3) The Vault Manager shall provide a fully secured indoor facility for the storage of precious metals as per specifications prescribed by the Bullion Depository. The Vault for physical bullion must be accessible by an armoured vehicle.
- (4) Vault Manager shall have adequate security personnel with required facilities for immediate communication in case of any unlawful entry, burglary, theft or damage or potential loss to the deposited physical bullion.
- (5) There shall be provision to accommodate two separate power supplies, one for main lighting/fans and other for sensors, cameras, etc. All electrical wiring inside vault shall be as per the state-of-the-art safety standards.

## **7. Standard Operating Procedure**

The Vault Manager shall undertake to adopt all the guidelines and the standard operating procedures specified by the Bullion Depository

### **CHAPTER III**

## **8. Furnishing of information, clarification and personal representation**

- (1) The Authority may require the applicant to furnish such other information or clarification regarding matters relevant to the activities of a Vault Manager for the purpose of processing of the application.
- (2) The applicant or its authorised representative shall, if so required, appear before the Authority for personal representation in connection with the grant of certificate of registration.

## **9. Consideration of the applicant for grant of certificate of registration**

- (1) While considering the application for the grant of certificate of registration, in addition to the aforementioned eligibility requirements, the Authority shall take into account all matters which it deems relevant to the activities of a Vault Manager, including whether :—
  - (a) the applicant has the necessary infrastructure, including adequate office space, vaults for safe deposit, storage and delivery of the physical bullion and computer systems capability required to effectively discharge its activities as the Vault Manager;
  - (b) the applicant has employed adequate and competent persons having the necessary experience, knowledge and ability for managing vaulting business;
  - (c) the applicant engages in any other business apart from providing vaulting services;
  - (d) the applicant has been refused registration by the Authority or whose certificate of registration has been cancelled by the Authority;
  - (e) the applicant or any of its employees is involved in any proceedings connected with the securities/bullion market or any other regulatory or enforcement agency;
  - (f) the grant of certificate is in the interest of consumer.
- (2) The Authority may order for physical inspection after considering the application.
- (3) If on consideration of the above factors, the Authority is not satisfied with the credentials of the Applicant, it may refuse to grant the registration, after giving opportunity to the Applicant to file its written submissions on the deficiencies noted by it.



## **10. Grant of certificate of registration**

(1) On being satisfied that the applicant meets the eligibility requirements under this circular and is eligible to act as a Vault Manager, the Authority may issue a written or electronic communication to the applicant asking it to submit the security deposit within twenty-one working days, failing which the application shall be deemed to be rejected.

*Provided* that the Authority may, if it is satisfied that the applicant was prevented by sufficient cause from submitting the security deposit within the said twenty-one working days, allow him to submit the security deposit within such time as the Authority may deem fit.

(2) On receipt of the security deposit as aforesaid, the Authority shall issue a certificate of registration to the applicant in **Form B** of **First Schedule**.

(3) From the date of grant of certificate of registration the Vault Manager shall be entitled to conduct the vaulting business in respect of the vault for which the registration is granted.

## **11. Surrender of certificate of registration**

(1) A Vault Manager willing to surrender its certificate of registration in respect of a particular vault, may make a request for such surrender to the Authority in such manner as may be specified by the Authority.

(2) While examining a request under sub-clause (1), the Authority shall satisfy itself with respect to the following :

- (i) the Vault Manager has no pending obligations to deliver the physical bullion in respect of which the bullion depository receipts has been issued by the Bullion Depository; and
- (ii) there are no pending disputes in relation to the physical bullion deposited in the vault in respect of which a request has been made.

- (3) The Authority may call for information from such Vault Manager in such form and manner as may be determined by the Authority from time to time.
- (4) The Authority may accept the surrender of registration if it is satisfied that the requirements under this circular have been met.
- (5) If the Authority accepts the surrender of registration, it shall inform the Vault Manager, and all other stakeholders in the specified manner.
- (6) If the Vault Manager continues to conduct the vaulting business from other vault(s) after the surrender of certificate of registration of a particular the vault, the Authority shall return the security deposit only in respect of such vault whose certificate of registration has been surrendered.
- (7) The Vault Manager shall not carry out operations related to deposit of new physical bullion from the vault in respect of which it requests surrender, on and from the date of submitting the request under this circular, until its application is disposed off by the Authority.

## **12. Suspension of registration**

- (1) The Authority may suspend the registration of a vault belonging to a Vault Manager for any violation of the provisions of the Act, rules, regulations, circulars or guidelines made or any notifications issued thereunder, after issuing a notice to the Vault Manager.
- (2) The notice shall include the following details –
  - (a) the specific requirements of the Act or of the rules or regulations made under the Act, that the Vault Manager or the vault has allegedly violated;
  - (b) the action the Vault Manager is required to take to rectify such violation; and;
  - (c) the time limit within which such corrective action may be taken.

### **13. Effect of suspension**

- (1) The Vault Manager shall not carry out any vaulting operations with respect any new physical bullion deposits during the period of suspension in respect of such vault.
- (2) The Vault Manager shall, during the period of suspension of registration of the vault, continue to discharge its obligations in respect of physical bullion already deposited in it.
- (3) The Authority may, during the period of suspension of a vault, conduct an inspection of such vault to ensure compliance with the order of suspension as also the provisions of the Act, rules, regulations, circular and guidelines made and any notification issued thereunder.

### **14. Revocation of Suspension**

- (1) The Authority may revoke the suspension of registration in respect of the vault if it is satisfied that the Vault Manager has rectified the deficiencies mentioned in the notice issued and shall immediately communicate such decision to the Vault Manager.
- (2) A Vault Manager whose suspension has been revoked, may commence the vaulting business from such vault after the revocation of suspension.

### **15. Cancellation of registration**

- (1) The Authority may cancel the registration of a vault if, -
  - (a) the vault is in violation of the infrastructure requirements;
  - (b) the Vault Manager is no longer able to demonstrate complete physical and operational control of the vault;
  - (c) the Vault Manager is no longer a 'fit and proper person' ;
  - (d) the Vault Manager violates the net-worth requirements;
  - (e) the Vault Manager has been repeatedly suspended for a violation of any of the provisions of the Act, rules, regulations, guidelines or circulars issued by the Authority;

- (f) the registration of the vault has been suspended and the Vault Manager fails to rectify the deficiencies in time bound manner;
- (g) the Vault Manager does not cooperate in any enquiry, inspection or audit conducted by or with the approval of the Authority;;
- (h) the Vault Manager fails to comply with any corrective action required as a result of any enquiry, inspection or audit conducted by or with the approval of the Authority.

(2)The Authority shall not cancel the registration of a vault, except after providing the Vault Manager an opportunity to file written submissions.

#### **16. Effect of cancellation**

(1)On and from the date of cancellation of the registration of the vault, the Vault Manager shall,

- (a) cease to conduct the vaulting business in respect of such vault;
- (b) immediately take necessary steps to ensure transfer of existing physical bullion in its vault to another vault registered with the Authority; and
- (c) continue to discharge its obligations in respect of existing physical bullion deposit till the time such transfer of physical bullion is completed..

### **CHAPTER IV**

#### **DUTIES AND OBLIGATIONS OF VAULT MANAGERS**

#### **17. Good Delivery Standards**

Every Vault Manager shall adopt the principles of good delivery prescribed by the Bullion Exchange or the Authority, from time to time.

## **18. Compliance with registration requirements**

- (1) A Vault Manager shall at all times comply with eligibility requirements prescribed in Chapter III and shall put in place appropriate internal systems and controls to monitor its compliance with the requirements under this circular.
- (2) The vault manager shall appoint a Compliance Officer to ensure the compliance with the Act and the rules, regulations and guidelines framed thereunder.

## **19. General obligations of a Vault Manager**

- (1) In the conduct of its vaulting business, a Vault Manager shall -
  - (a) deal only in physical bullion that may be specified by the Bullion Depository from time to time;
  - (b) deliver the physical bullion referred to in a Bullion Depository receipt, to the holder of the Bullion Depository receipt on demand made by the holder after satisfying the vaulting lien;
  - (c) ensure that the Bullion Depository receipt holder, on receiving the physical bullion from the Vault Manager, acknowledges the receipt of the physical bullion in a form and manner prescribed by the Bullion Depository;
  - (d) take necessary actions to maintain the quality and quantity of physical bullion stored in the vault;
  - (e) inform Authority through Bullion Depository / Exchange of any damage to metal held in store by it, whenever such damage occurs to an extent that will render the metal undeliverable;
  - (f) maintain and record a complete and accurate set of records and accounts of all transactions pertaining to the operation of a vault as per the requirements that the Authority/Bullion Depository may specify from time to time;
  - (g) ensure that the physical inventory tallies exactly with the record on a daily basis;

- (h) seek prior approval of the authority for increasing the capacity or area of the existing vault.
  - (i) maintain effective control of all vault storage space;
  - (j) the Vault Manager shall have adequate internal controls to prevent any manipulative activity;
  - (k) carry out periodic checks to ensure that all the equipment are in working condition;
  - (l) provide necessary assistance in the execution of inspections and audits by the Authority;
  - (m) resolve grievances, if any, efficaciously;
  - (n) not differentiate among depositors regarding the use of and access to a vault;
  - (o) not store physical bullion belonging to itself in the vault;
  - (p) not sell, remove or dispose or create any interest in the physical bullion deposited in the vault, including by way of pledge or hypothecation, for the purpose of trading on the bullion exchange except as permitted by the Authority.
  - (q) act with integrity, which includes adopting the best and responsible business practices.
  - (r) conduct its vaulting business with due skill, care and diligence.
  - (s) take reasonable care to organise and control its affairs effectively, with adequate risk management systems.
  - (t) maintain adequate financial resources and records.
  - (u) observe proper standards of market conduct.
- (2) Every Vault Manager, before accepting physical bullion from a depositor, shall ensure that the physical bullion meets the technical specifications specified by the bullion exchange from time to time.

*Provided* that in case a dispute arises with respect to technical specifications specified by the Bullion exchange, the Vault Manager must ensure that the physical bullion is assayed by a recognised assayer as approved by the Bullion Depository.

*Provided further* that if the Vault Manager is of the opinion that the physical bullion does not conform to any of the technical specifications specified by the Bullion exchange under this circular, the Vault Manager may request the Bullion Depository to appoint independent inspectors/assayer to examine such physical bullion and express an opinion as to whether the physical bullion is acceptable for good delivery purposes.

- (3) Every Vault Manager must meet vaulting standards specified under this circular and as specified by the Bullion Depository from time to time based on the guidelines issued by the Authority, especially in respect of response(s) to legitimate complaints about physical bullion quality, minimum annual volume requirements and financial standards.
- (4) All employees including directors and agents of the Vault Manager shall be prohibited from revealing any information regarding customers who have dealings with the vault or regarding bullion deposits or withdrawals by them to any person except as permitted by the Authority / Bullion Exchange/ Bullion Depository.
- (5) In the event the Vault Manager or any of its respective parent, subsidiaries, or affiliates, engage in any trading activity, whether directly or indirectly, in the bullion contract for which the facility has received approval from the Authority, the Vault Manager shall establish mechanism to protect the confidentiality of the users of the vaulting system.

## **20. Segregation of activities**

Where a Vault Manager is carrying on any activity besides those laid down in this circular, then the activities relating to its business as Vault Manager shall be

separate and segregated from all other activities including earmarking separate space for storage of physical bullion for trading of Bullion Depository Receipt and storage of goods for its other businesses related to precious metals.

## **21. Maintenance of records and its reconciliation with Bullion depository**

- (1) The Vault Manager shall have systems for recording all transactions in electronic form pertaining to vaulting services.
- (2) The Vault Manager shall maintain the following records and documents, namely:
  - (a) Details regarding sourcing of physical bullion to ensure that physical bullion can be traced back to its original source, including certificate of origin, refiner's certificate etc;
  - (b) Details of transfer, storage and delivery of physical bullion to the beneficial owner of Bullion Depository Receipt;
  - (c) Quantity and weight of deposited physical bullion;
  - (d) Creation and extinguishment of Bullion Depository Receipts;
  - (e) KYC details of all customers as per AML-CFT guidelines;
  - (f) Ledger for each beneficial owner whose physical bullion is in its custody;
  - (g) Details of instructions received from and sent to beneficial owners; and
  - (h) Records of all reports submitted to the Authority.
- (3) Every Vault Manager shall intimate to the Authority the place where the records and documents under sub- clause (2) are maintained.
- (4) Every Vault Manager shall preserve the records and documents maintained under sub- clause (2) in electronic retrieval form for a minimum period of 20 years.
  - (a) The Vault Manager shall devise procedures for physical reconciliation of deposited physical bullion with the corresponding



record of Bullion Depository Receipts with the bullion depository at the end of the day.

(b) In case of any discrepancy between electronic records and physical bullion with the Vault Manager, he shall immediately inform the same to the Bullion Depository. The Vault Manager shall ensure to resolve the same expeditiously, failing which the Vault Manager shall be liable for such discrepancy to the extent of his failure/fault besides being liable for a disciplinary action by the Authority.

(c) The Vault Managers shall also submit periodic report to the Authority with details of such discrepancies and action taken.

## **22. Liabilities of Vault Managers**

Vault Managers shall have the liabilities as specified in regulation 44 of International Financial Services Centres Authority (Bullion Exchange) Regulations, 2020

## **23. Code of conduct**

Every Vault Manager shall abide by the Code of Conduct as set out in the **Third Schedule**.

## **24. Grievance Redressal**

- (1) The Vault Manager shall put in place a grievance redressal mechanism details of which shall be provided to the Authority at the time of making of application for registration.
- (2) Each grievance registered by the aggrieved party shall be redressed by the Vault Manager in the manner as specified by the Authority.
- (3) The Vault Manager shall submit periodic report to the Authority of the grievances received and the action taken thereon.

## **25. Disclosure of Information**

- (1) A Vault Manager shall make a written disclosure to the Authority of any of the following events, namely:
- (a) any change in the key managerial persons, within fifteen days of such change;
  - (b) any change in the ownership of more than 10% , within fifteen days of such change;
  - (c) any change in the net worth , on a quarterly basis;
  - (d) the occurrence of any of the events mentioned in sub- clause (2) of clause 5, immediately but not later than three days of such event;
  - (e) the initiation of a dispute in relation to the physical bullion deposited in a vault or the Bullion Depository receipt issued in relation to the deposited physical bullion, immediately upon the initiation of the dispute; and
  - (f) any change in location or capacity of the vault managed by the Vault Manager, whether registered with the Authority or not, immediately on the occurrence of such change.
- (2) The Authority may, by order, require the Vault Manager to make any additional disclosures and stipulate the form and manner in which such disclosure is required to be made.

## **26. Submission of information regarding Bullion Depository receipts**

- (1) A Vault Manager shall submit monthly reports to the Authority in such form and manner, as may be specified by the Authority.
- (2) The monthly reports to be submitted under sub-clause (1) shall contain the following details of Bullion Depository receipts in respect of the preceding month, namely:-
- (a) the total number of Bullion Depository receipts issued, surrendered or cancelled in respect of the physical bullion deposited in his vault;

- (b) the physical bullion stock position of all physical bullion (type of physical bullion, its quantity and quality) against which the Bullion Depository has issued Bullion Depository receipts;
  - (c) the aggregate market value of all physical bullion against which the Bullion Depository has issued Bullion Depository receipts as on the last day of the preceding month;
- (3) The Authority may require additional information regarding the Bullion Depository receipts issued by the Bullion Depository, or the physical bullion stored by the Vault Manager in the vault.

## **CHAPTER V**

### **INSPECTION AND AUDIT**

#### **27. Inspection**

- (1) The Authority may appoint any of its officer or any other person as inspecting officer to undertake inspection of the vaults, books of accounts, records and documents of Vault Managers for any purpose, including the following, namely:
- (a) to ensure that the books of account, records and documents are being maintained by the Vault Managers in the manner specified in this circular;
  - (b) to ascertain whether the provisions of the Act and this circular are being complied with by the Vault Managers;
  - (c) to inspect into the affairs of the Vault Managers in the interest of the consumers.

#### **28. Notice before inspection**

- (1) Before ordering an inspection, the Authority shall give not less than three days notice to the Vault Manager.
- (2) Notwithstanding anything contained in sub- clause (1), where the Authority is satisfied that in the interest of the consumers no such notice should be given, it

may by an order in writing, direct that the inspection of the affairs of the Vault Manager be conducted without such notice.

## **29. Obligations of Vault Managers on inspection**

- (1) It shall be the duty of the Vault Manager whose affairs are being inspected and of every director, officer and employee thereof to produce before the inspecting officer, such books of accounts, records and other documents in their custody or control and furnish him with such statements and information relating to their activities as Vault Manager, as the inspecting officer may require, within such reasonable period as the inspecting officer may specify;
- (2) The Vault Manager shall allow the inspecting officer to have reasonable access to the premises occupied by it or by any other person on its behalf and also extend reasonable facility for examining the books, records, documents and computer data in the possession of the Vault Manager or such other person and also provide copies of documents or other materials which in the opinion of the inspecting officer are relevant for the purposes of the inspection;
- (3) The inspecting officer, during the course of inspection, shall be entitled to examine or to record the statements of any director, officer or employee of the Vault Manager;
- (4) It shall be the duty of every director, officer or employee of the Vault Manager to give to the inspecting officer all assistance in connection with the inspection, which the inspecting officer may reasonably require.

## **30. Submission of Report**

The inspecting officer shall, within fifteen days on completion of the inspection submit an inspection report to the Authority:

*Provided* that if directed to do so by the Authority, the inspecting officer may submit an interim report.

### **31. Action on inspection**

The Authority shall after consideration of inspection report take such action as the Authority may deem fit and appropriate.

### **32. Appointment of auditor**

The Authority shall have the power to appoint an auditor to inspect, into the books of account, records, documents or affairs of the Vault Manager, as the case may be:

- (a) Provided that the auditors so appointed shall have the same powers as vested in the inspecting officer and the Vault Manager and its directors, officers and employees shall be under the same obligations towards the auditor so appointed.
- (b) The Vault Manager shall get its internal audit conducted at such intervals and follow such procedure as may be prescribed by the Bullion Depository/ Authority.

### **33. Expenses for Audit and Inspection**

The Vault Manager shall be liable to bear the expenses for Audit and inspection carried out under this Chapter.

## **CHAPTER VI**

### **MISCELLANEOUS**

### **34. Power of Authority in the event of potential loss to Bullion Depository receipt holders**

- (1) If the Authority determines that a Vault Manager is not likely to make adequate efforts or has communicated his inability to preserve the quantity and quality of physical bullion against which Bullion Depository receipts have been issued by either relinquishing custody or control of deposited physical bullion, or in any other manner, and such act or omission is likely to cause loss to the quantity and quality of physical bullion against which Bullion Depository receipts have

been issued, the Authority may, for the purpose of preserving the quantity and quality of such physical bullion, take necessary steps, as it may deem fit.

(2) In case of action being taken under sub- clause (1), the Bullion Exchange/Depository shall immediately inform the affected Bullion Depository receipt holders of such action.

(3) While acting under sub- clause (1), the Authority may, -

(a) appoint an external person for taking control, management and liquidation of the physical bullion; and

(b) forfeit the security deposit in case of non-payment, by the Vault Manager, of the cost incurred for actions under this clause.

### **35. Liability for action in case of default**

(1) A Vault Manager who commits any of the following violations, shall be dealt with in the manner provided under **Chapter III of Annexure II** of this Circular:

(a) contravenes any of the provisions of the International Financial Services Centres Authority Act, 2019 or rules, regulations, guidelines and circular framed thereunder;

(b) fails to furnish any information relating to its activity as Vault Manager as required by the Authority;

(c) furnishes false and misleading information to the Authority;

(d) does not submit periodic returns or reports as required by the Authority;

(e) does not co-operate in any enquiry, audit or inspection conducted by the Authority;

(f) fails to update its systems and procedures as recommended by the Authority;

(g) fails to resolve the complaints of complainants or fails to give a satisfactory reply to the Authority in this behalf;

(h) is guilty of misconduct or breaches the Code of Conduct specified in the

**Third Schedule;**

- (i) fails to pay fees as specified by the Authority.

## **FIRST SCHEDULE**

### **FORM A**

#### **INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY - VAULT MANAGER REGISTRATION**

##### **Application for grant of certificate of registration as Vault Manager**

#### **INSTRUCTIONS:**

1. This form is meant for use by the applicant for grant of certificate of registration as Vault Manager.
2. The applicant should complete this form, and submit it, along with all supporting documents to the Authority at its head office at GIFT CITY, Gandhinagar.
3. This application form should be filled in accordance with this circular.
4. The application will be considered by the Authority provided it is complete in all respects.
5. The application must be signed and all signatures must be original
6. The application must be accompanied by an application fee as specified in the Second Schedule hereto.

#### **GENERAL INFORMATION:**

1. Name of the applicant
2. Address of registered office, along with the proof of address
3. Name and Address of the Contact Person (representative of the applicant)
4. Designation of the Contact Person



5. E-mail address and contact number(s)
6. Certified copy of the authority resolution specifying the approval for providing vaulting services and authorized person for the same.

## **ORGANISATION STRUCTURE**

1. Type of entity
2. Date and place of incorporation or establishment and date of commencement of business (enclose certificate of incorporation, memorandum and articles of association or statutory provisions, if any, under which incorporated or established and any other document specifying that the entity is authorized for providing vaulting services).
3. Organization Chart
4. Particulars of Key Managerial Personnel [Name; Address; Qualification; Designation; Date of Appointment; ; Telephone No.; Mobile; Email]  
  
Work Experience:
5. List of Employees with designation:
6. Whether registered with any other authority

## **BUSINESS INFORMATION**

1. Details of the activities carried on by the applicant, in IFSC, India and abroad.
2. Details of affiliates and subsidiaries of the applicant operating in IFSC and India, and activities carried on by them.
3. Please state whether the applicant is involved in any other business related to the bullion/ securities market.
4. Details of grievance redressal and dispute resolution mechanism

5. Details of outsourced activities
6. Certified copy of SOP

## **FINANCIAL INFORMATION**

1. Net Worth certificate not older than three months from the date of application
2. Copy of audited financial statements for the last two financial years
3. Details of insurance taken

## **INFORMATION CONCERNING THE VAULT**

1. Number of vaults in respect of which registration is applied for:
2. Details of the vaults(s):
  - i. Complete address of the vault along with pin code, email address, contact person and contact number
  - ii. Year of construction of the vault
  - iii. Storage capacity of each vault
  - iv. Total capacity of the vault (MT)
  - v. Number of storage units
  - vi. Dimensions of the storage units (attach lay out plan of the vault)
  - vii. Whether the vault is owned/hired/leased, along with documentary proof
  - viii. If hired / leased, please state duration of the hiring / lease
  - ix. Number of entry and exit points for the vault
  - x. Details of the security agency along with contact number.
  - xi. Details of fire safety arrangements (number & type of fire

extinguishers, fire safety alarms and any other measures etc.) (attach a list)

xii. Equipment for weighing physical bullion present in the vault (attach a list)

xiii. Equipment for assaying of physical bullion, wherever required, available in the vault (attach a list)

xiv. Please provide details of staff at the vault (name, designation, educational qualifications and details of experience in the vaulting business)

xv. Undertaking from the Vault Manager about each of the staff being fit and proper, not having moral turpitude and not having any outstanding cases against them, etc.

#### **SECURITY FEATURES**

1. Vault access control systems;
2. Systems for tracking of physical bullion;
3. Risk control and operations manuals (enclose copies);

#### **OTHER INFORMATION**

1. Whether the applicant or any of its director, officer and employee is involved in any litigation connected with the securities or bullion market which has an adverse bearing on the business of the applicant; or has at any time been convicted for any moral turpitude or at any time has been found guilty of any economic offence.
2. Whether there has been any instance of violation or non-adherence to the securities laws, code of ethics/conduct, code of business rules, for which the applicant, or its parent or holding company or affiliate may have been subject to economic, or criminal, liability, or suspended from carrying out its operations, or the registration revoked temporarily.

3. Any pending litigations in any courts.

In respect of the applicant or its directors, key managerial personnel or controlling shareholders, whether:

1. The person has been convicted of any economic offence? If yes, provide details
2. Any recovery proceeding has been initiated against the person by a financial regulatory authority and is pending? If yes, provide details.
3. Any order for winding up has been passed against the person for malfeasance? If yes, provide details.
4. The person has been declared insolvent and not discharged? If yes, provide details.
5. Any order, restraining, prohibiting or debarring the person from accessing or dealing in financial products or financial services, has been passed by any regulatory authority? If yes, provide details.
6. Any other order has been passed by any regulatory authority against the person which has a bearing on the securities market? If yes, provide details.
7. The person has been found to be of unsound mind by a court of competent jurisdiction? If yes, provide details.
8. The person has been categorized as wilful defaulter? If yes, provide details.
9. The person has been declared as a fugitive economic offender? If yes, provide details.

## **DECLARATION STATEMENT**

I/We hereby agree and declare that the information supplied in the application, including the attachment sheets, is complete and true.

I/We further agree that, I/we shall notify the International Financial Services Centres Authority immediately of any change in the information provided in the application.

I/We further agree that I/we shall comply with, and be bound by International

Financial Services Centres Authority Act, 2019, and the rules/regulations/guidelines, and such other circular /instructions as may be announced by the International Financial Services Centres Authority from time to time.

For and on behalf of \_\_\_\_\_

(Name of the applicant)

Authorized signatory \_\_\_\_\_

(Name)

Signature \_\_\_\_\_

Date:

Place:

**FORM B**

**INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY -  
VAULT MANAGER REGISTRATION**

**Certificate of Registration as Vault Manager**

- I. In exercise of the powers conferred by Regulation 43 of International Financial Services Centres Authority (Bullion Exchange) Regulations, 2020 read with the guidelines made thereunder for Vault Managers, the Authority hereby grants a certificate of registration to \_\_\_ as a Vault Manager, located at \_\_\_\_\_, subject to the conditions specified in the International Financial Services Centres Authority Act, 2019 and regulations and guidelines made there under.
- II. The Registration Number of the Vault Manager is IFSC/VM/ \_\_\_\_\_
- III. This certificate of registration shall be valid till it is suspended, cancelled or surrendered.

Date:

Place: **GIFT CITY, GANDHINAGAR**

**By order (Signature)**

**For and on behalf of International Financial Services Centres Authority**

## **SECOND SCHEDULE**

### **FEEES**

#### **INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY - VAULT MANAGER REGISTRATION**

1. Every Vault Manager shall pay a non-refundable fee of USD 500 along with the application for grant of certificate of registration.
2. Every Vault Manager shall pay a sum of USD 5000 as registration fee at the time of the grant of certificate by the Authority.
3. A Vault Manager who has been granted a certificate of registration, to keep its registration in force, shall pay fee of USD 5000 every year, from the date of grant of certificate of registration within three months before expiry of the block period for which fee has been paid.
4. The fee referred in clause (2) shall be paid by the Vault Manager within fifteen days from the date of receipt of intimation from the Authority by way of direct credit in the bank account through online payment.
5. The fee referred in clause (1) and (3) shall be paid by the Vault Manager by way of direct credit in the bank account through online payment.
6. Where due to the Vault Manager's default, any fee which was liable to be paid on his behalf under this circular remains unpaid or is paid belatedly, he shall, without prejudice to any other action that may be taken under the Act, rules or regulations, pay an interest of 15 per cent per annum for every month of delay or part thereof to the Authority.

**THIRD SCHEDULE  
CODE OF CONDUCT**

**INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY  
(VAULT MANAGER) GUIDELINES, 2021**

1. While providing vaulting services, the Vault Manager shall:
  - i. be prompt in vaulting services to the beneficial owners
  - ii. take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems.
  - iii. maintain adequate financial resources.
  - iv. observe proper standards of market conduct.
  - v. maintain the highest standards of integrity, fairness and professionalism in the discharge of its duties.
  - vi. exercise due diligence in safe-keeping of the assets of the beneficial owners in its custody for which it is acting as Vault Managers.
  - vii. be continuously accountable for the movement of physical bullion in and out of the account of beneficial owners or between its own authorized vaults and shall provide complete audit trail, whenever called for by the Authority.
  - viii. establish and maintain adequate infrastructural facility to be able to discharge vaulting services
  - ix. ensure that all operating procedures and systems of the Vault Managers shall be well documented and backed by operation manuals.
  - x. maintain confidentiality in respect of the information of the beneficial owner.
  - xi. where the records are kept electronically, the Vault Managers shall take



necessary precautions necessary to ensure that continuity in record keeping is not lost or destroyed and that sufficient back up of records is available

- xii. extend to other Vault Managers, depositories and clearing organizations all such co-operation that is necessary for the conduct of business in the areas of inter-vault settlements, transfer and delivery of physical bullion.
- xiii. ensure that an arm's length relationship is maintained, both in terms of staff and systems, from its other businesses

**FOURTH SCHEDULE**  
**INFRASTRUCTURE FACILITIES**

- (1) The vaults shall be physically and operationally suitable for the proper storage of such precious metals and the security and surveillance equipments to include:
- (a) The construction of vaults to be as per standards specified by Authority or the Bullion Depository from time to time
  - (b) CCTV (Close Circuit TeleVision) monitors.
  - (c) Indoor & Outdoor IR (Infra-Red) Cameras.
  - (d) Sensors: Vibration, Smoke, Movement etc.
  - (e) Panic Switches & Alarm Systems.
  - (f) Recoding systems such as DVR (Digital Video Recording) System and have DVR (Digital Video Recording) in a secure place/ area (pre- vault Area/Packing Area) under lock and key.
  - (g) Interlocking Panel for steel doors.
  - (h) Electromagnetic locks for steel doors.
  - (i) Control Panel with Auto dialer.
  - (j) Video Door Phone/Biometric Sensor.
  - (k) Metal Detector.
  - (l) The vault shall be attack and fire proof with SFSR (Steel Fabricated Strong Room) or Additional RCC wall
  - (m) HSD (High Security Door) with Grill Gate with combination, mechanical & timer locks (Steel Door with 2 mechanical locks may be used in low risk areas) to be used to Control Access to Vault.
  - (n) All doors to feature high security locking mechanism & equipped with a spring or hydraulic automatic door closure.

- (o) The recording / storage capability of surveillance data in the DVR should be adequate and meets international standards say for a period of minimum one year.
- (p) Security & Surveillance system to be checked daily & a record maintained thereof
- (q) Non-functioning items to be reported to Security & repaired /replaced immediately or as earliest as possible.

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