



FIRST INDIAN INTERNATIONAL BULLION EXCHANGE (IIBX)

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Gold has traditionally been amongst the most liquid assets. In India, buying and gifting of gold is considered auspicious, especially during festivals and weddings. India accounts for 25% of the global gold demand and is the second largest consumer and importer of gold in the world after China. In 2021, India imported 1,067 tonnes of gold and during April-February of FY22, gold imports stood at 842 tonnes.

On 29th July 2022, PM Narendra Modi launched India's first bullion exchange known as Indian International Bullion Exchange (IIBX) in the Gujarat International Finance Tec (GIFT) City. IIBX aims to serve as the gateway for bullion imports in India.

It is also only the third of its kind in the world which will act as a dedicated physical trading and custody spot exchange for bullions (apart from Shanghai Gold Exchange and Borsa Istanbul where all domestic production and imported gold are bought and sold). IIBX is run by India International Bullion Holding IFSC Limited (IIBH) and is promoted by India INX,¹ CDSL,² NSE,³ NSDL⁴ and MCX⁵. The bullion exchange is regulated by the International Financial Services Centre Authority (IFSCA).

India INX¹ - India INX International Exchange Limited , CDSL² - Central Depository Services Limited , NSE³ - National Stock Exchange of India Limited , NSDL⁴ - National Securities Depository Limited , MCX⁵ - Multi Commodity Exchange of India Limited

Currently, online trading of commodity derivatives is facilitated by two entities in India, the MCX and the National Commodity and Derivatives Exchange (NCDEX). These platforms are primarily used by jewellers who intend to protect their downside risk or traders who want to bet on the price of gold. However, there does not exist a dedicated spot exchange platform for importing the gold.



PRACTICE TILL NOW AND NEED FOR AN EXCHANGE?

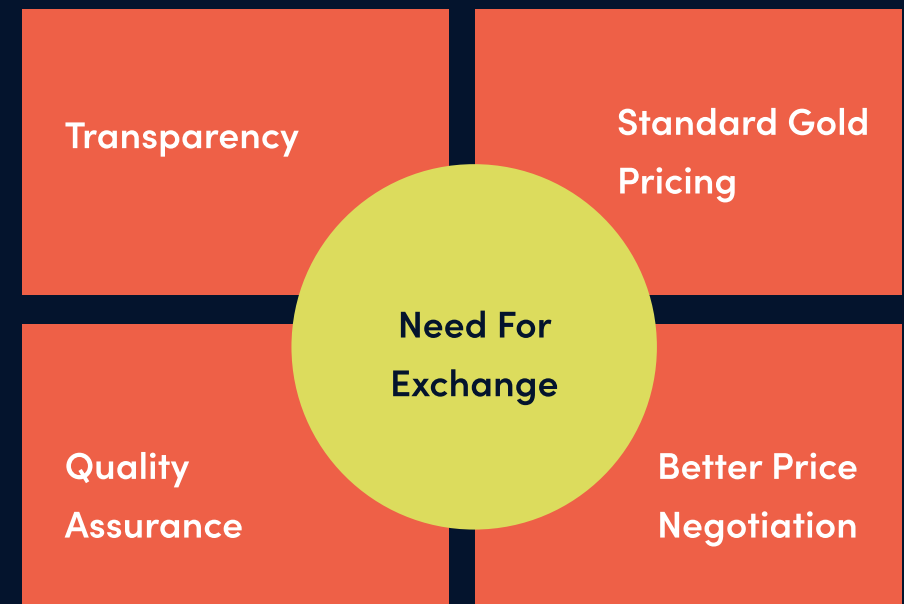
Currently, gold in India is imported on a 30-day consignment model through nominated banks and agencies approved by the RBI and DGFT based on the agreed rate or ongoing rate determined by major gold trading exchanges in London (LBMA - wholesale OTC market for the trading of gold and silver) and in New York (COMEX - futures and options market for trading metals such as gold, silver, copper, and aluminium).

Banks and the agencies supply the imported gold to bullion jewellers/dealers across India after raising the price of the gold by adding a premium on top of the handling, storage, etc. This cost is transferred by the buyer all the way to the final consumer.



This system does not allow the jewellers to directly import gold from their desired suppliers and they rely completely on banks and other licensed entities for their needs. Gold prices are distorted since nominated agencies designated to import gold charge different margins.

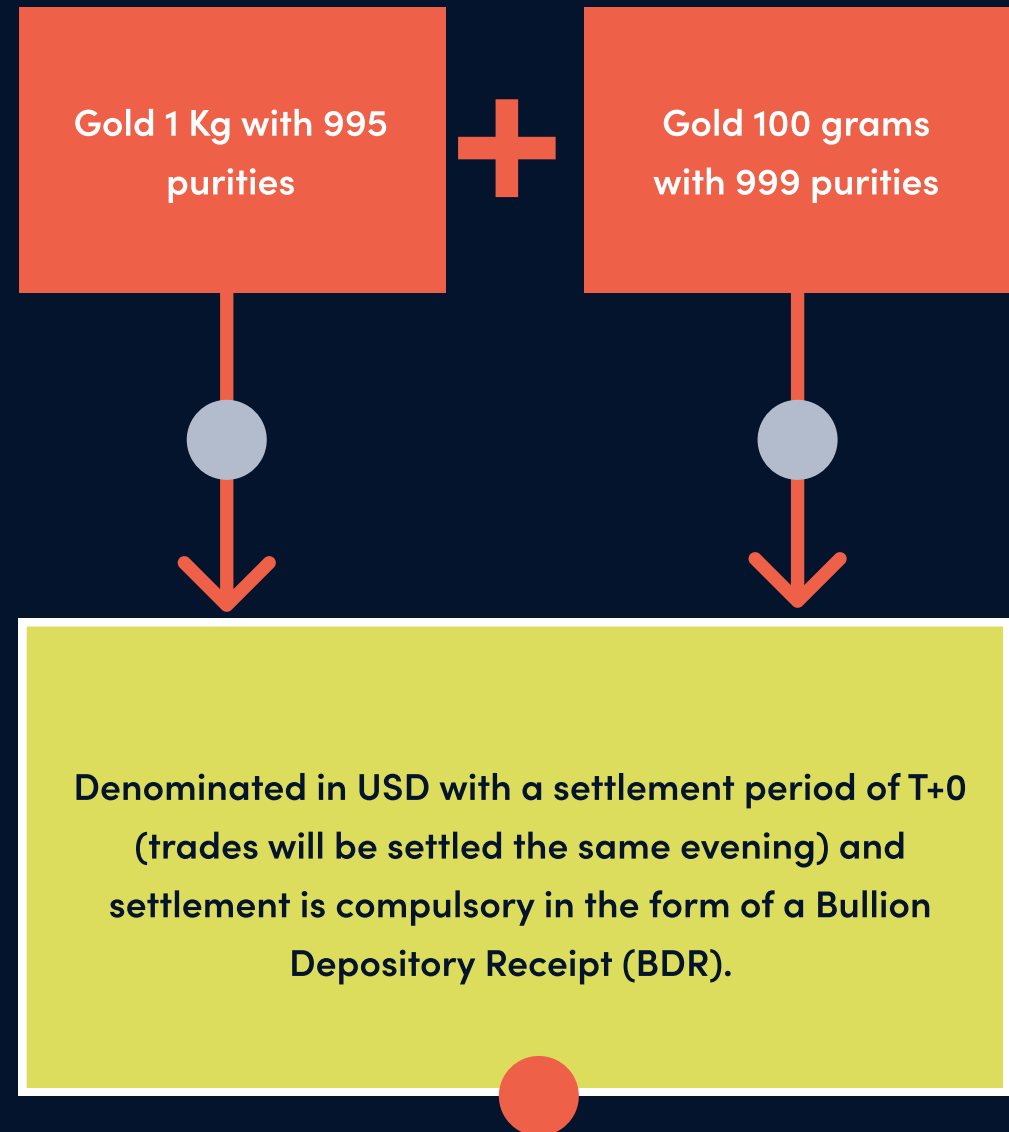
IIBX has been set up to facilitate bullion imports into India and thereby to eliminate the intermediaries involved in the value chain and ensure transparency in the prices. The exchange will also provide quality assurance and credible sourcing since the quality specifications of IIBX stipulates serially numbered gold bars supplied by LBMA approved suppliers or other suppliers approved by IIBX with suppliers' quality certificate. Also, as the IIBX is situated in GIFT SEZ which is a free trade zone, no duties are required to be paid for the imports. Directly importing gold through the exchange will be more advantageous for big jewellers.



WHAT WILL BE TRADED?

Bullion refers to physical gold and silver of high purity that is often kept in the form of bars, ingots or coins. The IIBX provides a platform to deal in these metals.

As shown, currently only gold trading is operational on the exchange. As per Mr. Ashok Gautam, the CEO of the bullion exchange, silver trading will also be allowed on the exchange in the future and the settlement period will also be extended to T+2 days (margin-based contracts).



HOW WILL TRADES BE EXECUTED ON IIBX?

IIBX issues a BDR against the gold deposited by the supplier in the vaults of the exchange and these BDRs are then traded on the exchange. Every BDR unit is backed by physical gold in the vault. A jeweller (buyer) can view the stock of gold available on the platform and bid their competitive price directly to the supplier. Transaction is executed if the buyer's quoted bid price matches with the seller's price. Once a buyer buys a BDR, it is deposited in their respective Demat account within 30 minutes since the exchange currently offers T+0 contracts. After the transaction is settled, buyer can take physical delivery of their purchase. Since each BDR is unique with respect to each bullion bar, it is extinguished once a bar is out for delivery. While the buyers are qualified jewellers, the sellers are foreign banks, bullion banks, trading houses, refiners, and others.

The imported gold is stored in IIBX designated vaults. The exchange is expected to have three vaults where 125 tonnes of gold and 1,000 tonnes of silver can be stored cumulatively. This will enable qualified jewellers to avail gold in a short span of time without paying premium for the same as against 30 days consignment period of banks. On the IIBX website one vault has been listed, which is in GIFT City, Gujarat, with the vault manager being "Sequel Logistics Pvt Ltd". It is not clear where the other two vaults are expected to be constructed and who will own them.



WHO CAN TRADE?

At present, a Qualified Jeweler (QJ) is permitted to purchase BDR on IIBX only for import of gold.

A QJ can participate on the exchange either as a client of a Bullion Trading Member or as a LPTM. The option for a Qualified Jeweller to access IIBX as a Trading Member is currently not operationalized. IIBX members include Globe Capital IFSC, Motilal Oswal Finsec IFSC, Anand Rathi International Ventures IFSC, SMC Global IFSC, Stockholding Corp of India among others.

A QJ participating as client of a trading member may approach a Bullion Trading Member for opening a client account for the purpose of buying BDR for importing gold. A QJ participating as LPTM shall be treated as a client that is permitted to directly access the IIBX trading system. A LPTM shall not be considered as a Trading Member or intermediary on IIBX. However, a QJ participating as LPTM shall have to associate itself with a clearing member for clearing of its purchase transactions, in the manner specified by IIBX. NRIs with \$5 lakh net worth can also participate in the exchange after registering with the IFSCA. IIBX shall suspend the participation of a QJ from transacting on IIBX in the event the net worth falls below ₹ 25 crores. The notification of the entity as QJ may also be revoked by IFSCA, based on the recommendation by IIBX.

To become a qualified jeweler, entities require a minimum Net Worth of Rs. 25 Crore.

And

90% of the average annual turnover in the last 3 financial years through deals in goods categorized as precious metals.





Onboarded Qualified Buyers

Until July 2022, 64 jewelers have been onboarded of which 14 are from Gujarat. These include Augmont Enterprises, Bangalore Refinery, Kalyan Jewellers, MMTC-PAMP, Malabar Gold, PN Gadgil Jewellers, Raksha Bullion and Titan among others. Unless goods are moved outside the city, the trades will be exempt from local duties. List of qualified jewelers link [Qualified Jewellers List for IIBX](#)



IIBX gold contracts trading from 1st August – 21st September 2022.

Business Date	Volume (in Lots) / Quantity (in KG)	Turnover (US \$)
21-Sep-22	8	4,27,898
07-Sep-22	20	10,92,139
02-Sep-22	2	1,09,342
30-Aug-22	26	14,41,588
17-Aug-22	4	2,27,257
12-Aug-22	2	1,14,652
10-Aug-22	4	2,29,560
02-Aug-22	20	11,36,029
Total	86	47,78,465

Source - <https://www.iibx.co.in/markets/marketsummary.aspx>⁸

So far 86 Kgs of gold (i.e., 86 lots of the 1 kg contract) has been traded from 01-08-2022 till 21-09-2022.



Conclusion

IIBX platform is significant because for the first time in India, eligible jewelers are being allowed to directly import gold. Consumers will be the ultimate beneficiaries as the eligible jewelers can avoid bank commissions and purchase at the best price on the exchange. Also, importing bullion through the designated banks or agencies results in incurring penalties if the transactions are cancelled within the 30-day consignment period.

The exchange will solve for this as well as the buyers will not be obligated to purchase the bullion unless the buyer's bid price match with the seller's price and the settlement as well happens on the same day. The exchange will also provide control on the quantity of gold that the jewelers want to buy and allows them to place orders even for smaller quantity. However, as explained above, a QJ is only permitted to purchase BDR on IIBX towards import of gold and is prohibited to enter a sell order thereby affecting the efficiency in price discovery to its fullest.

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The exchange is expected to have the world's largest gold sellers on one side and the world's second largest buyer (Indian jewelers) on the other side. IBX will currently be competing with the existing channels (nominated banks and agencies), however, with benefits like price discovery, lower cost and higher transparency, it aims to become the preferred channel of gold import in the country.

