



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

1. **Objective:** To solicit comments / views from the stakeholders on the following:
 - 1.1. “proposed framework for operationalizing the regulated **Gold Exchange** in India”;
 - 1.2. registering the Vault Managers as a SEBI intermediary by way of issuance of “Regulations for the Vault Managers”.

2. Background

- 2.1. Hon’ble Finance Minister, Ms Nirmala Sitharaman, in her budget speech for FY 2021-22 has announced that SEBI will be regulator for gold exchange and WDRA will be strengthened to set up the commodity market ecosystem. Para 71 of the budget speech stating the same is as under:

“In the budget of 2018-19, Government had announced its intent to establish a system of regulated gold exchanges in the country. For the purpose, SEBI will be notified as the regulator and Warehousing Development and Regulatory Authority will be strengthened to set up a commodity market eco system arrangement including vaulting, assaying, logistics etc. in addition to warehousing.”

- 2.2. Post the budget announcement, following a discussion between the Ministry of Finance and SEBI, it has been decided that SEBI would regulate the entire ecosystem of the proposed gold exchange and SEBI would be the sole regulator for gold exchange including for vaulting, assaying and gold quality and delivery standards.

3. Constitution of two working groups by SEBI to implement the budget announcement

- 3.1. India is the second largest consumer of gold globally, with annual gold demand of approximately 800-900 tonnes, and holds an important position in the global markets. Despite being second only to China, in consumption of gold, India has remained only as a price-taker in the global markets. At present, India does not play any significant role in influencing the global price-setting for the commodity. The proposed gold exchange



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would infuse transparency in gold transactions and over a period of time enable India to emerge as a global price setter for the commodity.

- 3.2. The proposed Gold Exchange, encompassing the entire ecosystem of trading and physical delivery of gold, is extremely necessary to create a vibrant gold ecosystem in India which is commensurate with India's large share of global gold consumption. The proposed Gold Exchange would lead to efficient and transparent domestic spot price discovery, assurance in the quality of gold, promotion of India good delivery standard with active retail participation, greater integration with financial markets, and augment greater gold recycling in the country.
- 3.3. To implement the aforesaid budget announcement, SEBI constituted two working groups involving the stakeholders in the proposed gold exchange framework.
- 3.4. First Working Group was constituted to examine and recommend suitable framework for trading of the "instrument" representing gold on the exchange platform and settlement by Clearing Corporation. The group comprised of representatives from the Stock Exchanges, Clearing Corporations and the Depositories. The terms of reference for first working group involved understanding the transaction flow from physical gold to electronic receipt and back to physical gold, role of each entity in the transaction flow, storage and handling capacity of existing vaults, clearing and settlement, risk management, taxation etc.
- 3.5. Second Working Group was constituted to understand the Gold ecosystem in India and suggest measures for setting up of the Gold Exchange including Regulations for Vault Managers. The group comprised of representatives from Department of Food and Public Distribution (DFPD), Warehousing Development and Regulatory Authority (WDRA), Vault Managers, Depositories, World Gold Council (WGC), Metals and Minerals Trading Corporation (MMTC), India Bullion and Jewelers Association (IBJA), Bureau of Indian Standards (BIS), India Gold Policy Centre (IGPC) and HDFC Bank. The terms of reference for second working group involved understanding the various sources from where the gold is channelized for trading in the physical market, determining financial requirements for setting up vault managers, understanding the safety and security features followed by the vault managers, understanding the mechanism of verification



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of the purity of gold and role of assayers, quality testing agencies and other partakers, seeking inputs for framing regulations for vault managers etc.

3.6. The two working groups have submitted their reports to SEBI on April 27, 2021.

4. Nomenclature of the instrument

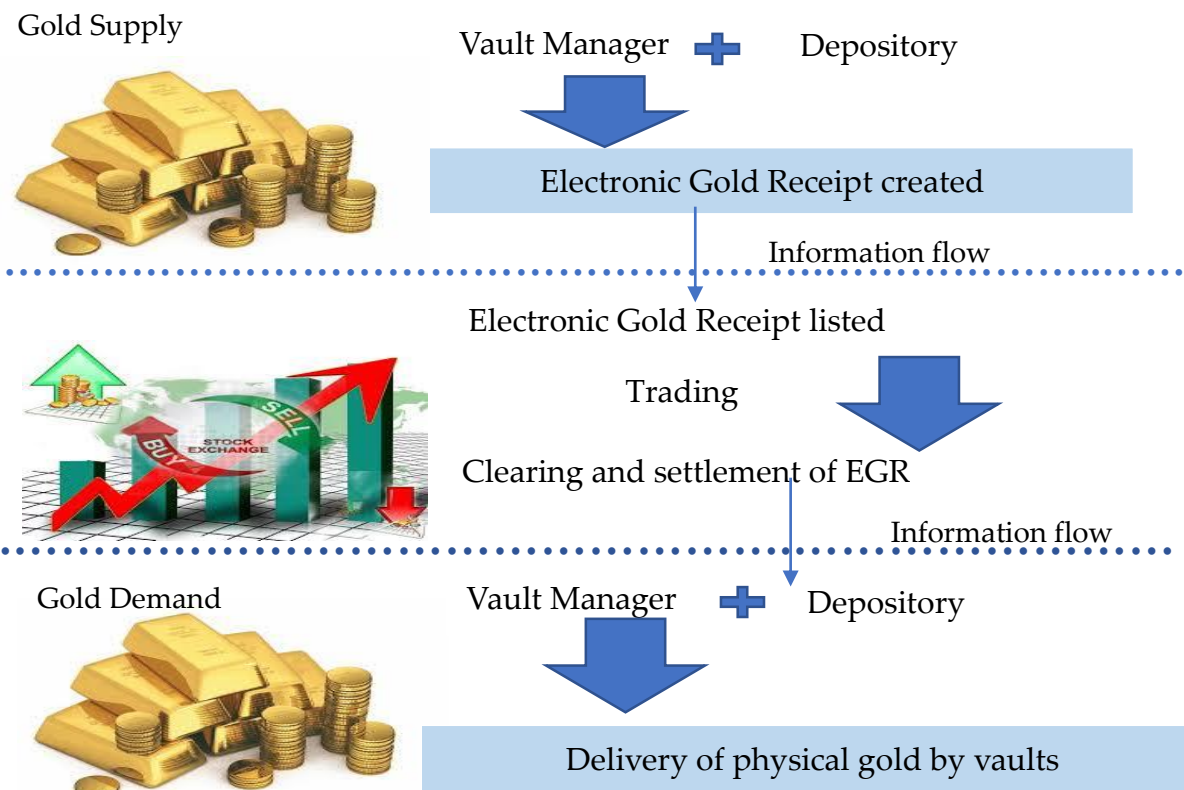
4.1. Establishment of regulated gold exchange is a landmark measure and to give due prominence to the historic step, it is believed that the terminology for the instrument should be unique and one that carries a global resonance. Hence, it is being considered that the instrument may be termed as “**Electronic Gold Receipt**” (hereinafter referred to as **EGR**).

5. Proposed flow of transactions in the Gold exchange

5.1. After extensive consultations, discussions with various stakeholders and considering the recommendations made by the two working groups, the entire transaction in the proposed Gold Exchange has been divided into three tranches as follows:

- 5.1.1. **First Tranche:** Conversion from Physical Gold to Electronic Gold Receipt
- 5.1.2. **Second Tranche:** Trading of Electronic Gold Receipt on stock exchange/s
- 5.1.3. **Third Tranche:** Conversion from Electronic Gold Receipt to Physical Gold

5.2. The pictorial presentation of the three tranches is as follows:





5.3. Brief details of transactions in first tranche are as follows:

- 5.3.1. A common interface will be developed between the Vault Managers, Depositories, stock exchanges and clearing corporations.
- 5.3.2. The source of supply of the physical gold, to be converted into EGR, shall be the fresh deposit of gold, coming into the vaults, either through imports or through stock exchange/s accredited domestic refineries. The existing deposit of gold lying in the vaults, which meets the aforesaid source criteria and has never been out of the vaulting infrastructure, may be transferred to the instant vault for conversion into EGR.
- 5.3.3. The depositor (or owner of the gold) intending to convert his/her physical gold into EGR and trade on the stock exchange/s, shall ensure delivery of such gold to the Vault Manager. The Vault Manager then shall record relevant information, in the common interface and shall create the EGR.
- 5.3.4. The Vault Manager shall ensure that no EGR is created without the presence of physical gold in the vaults.
- 5.3.5. Based on the information of EGR/s, the Depository shall assign appropriate ISIN to EGR to make it tradeable on the stock exchange/s.
- 5.3.6. The standard operating guidelines with well-defined timelines shall be put in place for creation of EGR and flow of information from Vault Manager to Depository / stock exchange / clearing corporations.
- 5.3.7. The EGR shall reflect either in the existing demat account or new account of the Depositor maintained with the Depository Participant.
- 5.3.8. The Vault Manager and the Depository shall regularly reconcile the data. Additionally, the Depository shall inspect the physical gold in the vault/s at frequent intervals.

5.4. Brief details of transactions in second tranche are as follows:

- 5.4.1. The stock exchanges shall receive on receipt of information pertaining to the EGR/s, from the Depository on a daily basis, shall list the EGR and allow trading.



- 5.4.2. The Clearing Corporation shall settle the trades executed on the stock exchange/s, by way of transferring EGR/s and cash to the buyer and seller of EGR/s, respectively.
- 5.4.3. The Clearing Corporation shall inform the Depository and the stock exchange, regarding the change in beneficial owner of the EGR at the end of the trading day.

5.5. Brief details of transactions in third tranche are as follows:

- 5.5.1. Beneficial owner intending to obtain physical gold against the EGR/s shall be required to surrender the EGR/s. The Vault Managers after delivering the gold to the beneficial owner, shall extinguish such EGR/s and request the depository to cancel the entry of said extinguished EGR from the DP account of the beneficial owner.
- 5.5.2. The depository shall simultaneously send the information about the extinguished EGR to the stock exchange and clearing corporation to carry out necessary revisions in the records
- 5.5.3. The information with respect to the list of valid EGRs shall at all points in time remain reconciled in the records of Vault Managers, Depositories, stock exchanges and clearing corporations.
- 5.5.4. If there are any disputes, related to quality of physical gold, during the withdrawal of physical gold, the same would be dealt with by obtaining quality report from independent assayer.

6. Single Exchange or Multiple Exchanges

6.1. Background:

- 6.1.1. SEBI, in October 2018, allowed “Universal Exchange” wherein stock exchanges were allowed to deal in both equities and commodities which allowed for greater and efficient utilization of existing infrastructure and resources of securities market. Extending the same logic, the existing stock exchanges may be allowed to deal in EGR either through a separate segment or as a new asset class in existing segment.



6.1.2. Setting up a new stock exchange exclusively for EGR has advantages such as single Good Delivery Standard, reduced market fragmentation, improved liquidity, single reference price etc. However, it will be time consuming, will require fresh investments in setting up new stock exchange, clearing corporations, will require fresh registration of members of stock exchanges, will increase compliance cost and may not be viable being based on a single product i.e., gold available for trading.

6.2. **Views/comments sought on:**

6.2.1. Whether there should be new exchange or existing stock exchanges be allowed to deal in EGR?

6.2.2. If existing stock exchanges are allowed to deal in EGR, whether the contract should be launched in a new segment or allowed to be added as new asset class in existing segment?

7. Product denomination for trading and conversion of EGR into physical gold

7.1. **Background:**

7.1.1. Product denomination for trading: To begin with, the EGR of 1 kg, 100 grams and 50 grams denomination may be available with the stock exchange/s with same denomination for trading of EGR and conversion of EGR into physical gold. In order to attract more players to this market, EGR with smaller denominations such as 10grams and 5 grams may also be allowed, for trading purposes.

7.1.2. Product denomination for conversion: Considering delivery and logistics aspects, conversion of such smaller denomination of EGR/s into physical gold, may be permitted only when the beneficial owner has accumulated, say, at least 50 grams (or multiples thereof) of physical gold in the form of EGR/s.

7.1.3. Since, EGR is created on the backing of physical gold, the question may come that how such EGR of 10 grams (or 5 grams) of gold be created in first place when delivery of 10 grams of physical gold is not to be permitted. To resolve this, we may consider that, at the time of deposit of physical gold, the depositor shall indicate the denomination of EGR to be created (which shall not be changed subsequently).



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For example: depositor of, say, 50 grams of physical gold, shall be allowed to create 5 EGRs representing 10 grams physical gold each (or 1 EGR representing 50 grams of physical gold). Such EGRs representing 10 grams physical gold will be tradeable and to convert the same into physical gold, a beneficial owner will have to purchase/accumulate 5 such EGRs.

7.2. Views/comments sought on:

- 7.2.1. Should smaller denominations, say 10 grams or 5 grams (or even lower) be considered for only trading?
- 7.2.2. What should be the smallest denomination to be considered for conversion of EGR into physical gold?

8. Trading and validity period of EGR/s

8.1. Background

- 8.1.1. Since EGR will be notified as “securities”, all features of trading as applicable to other securities would be made applicable to EGR as well.
- 8.1.2. Also, considering the EGR as equivalent to any “securities” traded on the stock exchange/s, a perpetual life period of EGR is being considered. Such perpetual life period of EGR may also promote the instrument for investment purpose. However, the storage charges levied by the vault manager for the physical gold, lying in the vaults against such EGR/s, shall have to be borne by the EGR holder. The Vault Managers are, traditionally, known for safe storage and transfer of physical gold and not as much for storage of physical gold for longer (or perpetual) duration. Hence, the storage charges levied by the vault managers may be higher as compared to the bank locker charges, where, alternatively, the EGR holder can safely keep the physical gold. However, the gold stored in bank lockers shall not be available for trading on the stock exchange/s.

8.2. Views/comments sought on:

- 8.2.1. Whether all trading features generally ascribed to “securities” traded on the stock exchange/s be also applied to EGRs?
- 8.2.2. Considering the storage charges of the physical gold, whether there should be a perpetual validity of EGR?



9. Fungibility of EGR and inter-operability between Vault Managers

9.1. Background

- 9.1.1. It is being considered that EGR may be made “fungible” and “inter-operability between Vault Managers” may be allowed.
- 9.1.2. Fungibility means that the EGR, so created by the Vault Manager/s, shall not be linked with the unique bar reference number of the physical gold, i.e., gold deposited against EGR1 can be delivered against surrender of EGR2 (for the same contract specifications).
- 9.1.3. “Inter-operability between Vault Managers” means that physical gold deposited at one location and with one Vault Manager, can be withdrawn from different location of same or different Vault Manager (depending on the availability of physical gold).
- 9.1.4. Such fungibility and inter-operability between Vault Managers would allow the Depository to facilitate withdrawal of physical gold from the preferred location of the buyer, to the extent possible.
- 9.1.5. As opposed to this, if fungibility and inter-operability between Vault Managers is not allowed, it can happen that buyer of EGR in Mumbai is required to withdraw physical gold from specific vault in Ahmedabad and vice-versa which shall entail extra cost for the buyer.

9.2. Views/comments sought on:

- 9.2.1. Whether there should be fungibility of EGR and inter-operability between Vault Managers?
- 9.2.2. What can be the possible safety features that may be built in the system to facilitate fungibility and inter-operability between Vault Managers?

10. Delivery Center

10.1. Background

- 10.1.1. In commodity derivatives market, there is a practice of having a base delivery center and additional delivery center/s. Such delivery centers are known in advance to the market participants and disclosed in the contract specifications by the stock exchange/s. Additionally, there is also a mechanism of charging premium / discount based on the location of physical delivery.



10.1.2. It is being considered that similar model of base delivery center and additional delivery center/s may be adopted for the delivery location of physical gold in the proposed framework.

10.2. **Views/comments sought on:**

10.2.1. Whether the model of base delivery center and additionally delivery center/s, as applicable to commodity derivatives market, is appropriate to be considered in the proposed framework?

10.2.2. Considering the fungibility of EGR and inter-operability between Vault Managers, is there a better mechanism of deciding on the delivery location?

11. Storage (vaulting) and Delivery Charges – Levy and collection

11.1. **Background**

11.1.1. The storage or vaulting charges, as levied by the Vault Managers, shall be paid by the beneficial owner of the EGR as at the end of the trading day, whereas the Delivery Charges shall be borne by the beneficial owner of EGR opting for withdrawal of the physical gold.

11.1.2. It may not be possible for Vault Manager/s to collect storage charges and delivery charges from each EGR holder or beneficial owner opting for withdrawal of physical gold respectively.

11.1.3. It is being considered that the storage and delivery charges shall be collected by the depository participant from the beneficial owner of EGR/s to be deposited with the Depository for onward payment to the Vault Managers.

11.1.4. The request of the beneficial owner of EGR/s, intending to withdraw the physical gold, shall be sent to the Vault Manager only upon payment of storage/delivery charges by such beneficial owner to the Depository.

11.2. **Views/comments sought on:**

11.2.1. Is the above mentioned mechanism for levy and collection of storage and delivery charges appropriate?

11.2.2. Is there a better mechanism for levy and collection of storage and delivery charges?



12. Regulating gold logistics and assaying

12.1. Background

12.1.1. Currently, in commodity derivatives market, LBMA approved refiner's gold or BIS "Refined Gold and Silver Bars for Good Delivery" standards are being accepted for physical delivery of gold. It is understood that assaying is mostly not resorted to in case of imported gold or LBMA approved refiner's gold. However, after BSE, NSE and MCX have (recently) allowed BIS standard gold also to be delivered on the commodity derivatives platform, there may be need for assaying of gold by the buyer. Therefore, considering that assaying may not be a regular activity in case of physical delivery of gold, it is not being considered to register "assaying agencies" as SEBI intermediaries. Such "assaying agencies" may be empaneled by the Vault Managers or any other suitable entity in the proposed framework.

12.1.2. Presently, in commodity derivatives market, the physical movement of gold is the responsibility of the owner of the gold for which he/she avails the services of vault service provider (for safe and secure transportation). As far as the choice of vault service provider or the choice of vehicle used for such transportation is concerned, SEBI or the Clearing Corporations do not have any role to play in the same. It is being considered that the same may be followed in Gold Exchange also with SEBI not having jurisdiction over logistic services.

12.2. Views/comments sought on:

12.2.1. Is it adequate that assaying agencies are empaneled by stock exchange / vault managers?

12.2.2. Is it adequate that choice of vehicle or logistics for physical movement of gold be left to the discretion of owner of such gold?

13. Taxation and incentives to create liquidity in trading of EGR

13.1. Background

13.1.1. Securities Transaction Tax (STT) will be applicable to trading of EGR on stock exchange platform as it is applicable to trading of any other "securities".



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13.1.2. Additionally, Goods & Services Tax (GST) may also be applicable during the conversion of EGR to physical gold i.e., at the time of withdrawal of physical gold from the vaults.

13.1.3. Further, due to the buyer and seller, possibly, being from different states of the country, there may be issues with regard to levy of SGST. In view of this, it is being considered that IGST alone shall be made applicable at the time of withdrawal of gold from the vault/s.

13.2. Views/comments sought on:

13.2.1. What kind of incentive/s and/or exemption/s / modification/s in tax structure would require to be built-in or may be requested from the Government of India, to make the EGR market liquid?

14. SEBI Regulation for Vault Managers, 2021

14.1. Background

14.1.1. As stated above, SEBI will regulate the Vault Managers as part of the gold ecosystem. It is proposed to regulate the gold exchange related business of the Vault Managers thereby not hindering the non- gold exchange business of the Vault Managers.

14.1.2. Salient features of the proposed draft Regulations for the Vault Managers are as follows:

14.1.2.1. Registration

14.1.2.2. Net worth criteria and security Deposit

14.1.2.3. Infrastructure requirements

14.1.2.4. Standard Operating Procedure

14.1.2.5. Issuance of EGR

14.1.2.6. Inspection by SEBI

14.1.2.7. Action against Vault Managers

14.1.2.8. Maintenance of records

14.1.2.9. Code of Conduct

14.1.2.10. Segregation of gold exchange and non- gold exchange business



14.2. **Views/comments sought on:**

14.2.1. Draft Securities and Exchange Board of India (Vault Managers) Regulations, 2021 are enclosed at [Annexure](#), for comments.

15. The following aspects in the proposed framework for setting up the Gold Exchange in India are flowing primarily from the current practices followed in the securities market. The same have been stated in the instant paper with the objective of providing clarity on the proposed framework:

15.1. **Settlement cycle:** It is being considered that settlement of trades shall be carried out on T+1 day.

15.2. **Clearing and Settlement and Risk Management:** It is being considered that the Clearing Corporation shall follow the existing model of clearing and settlement and risk management activities as used in equities market.

15.3. **Grievance redressal mechanism:** It is being considered that Vault Managers will be required to have in place a grievance redressal mechanism. The timeline for resolution of the complaints by the Vault Manager will be specified by SEBI in due course.

15.4. **KYC and KYD requirements:** It is being considered that existing mechanism of KYC (know your client) through KYC Registration Agency i.e., KRA, shall be utilized and existing mechanism of KYD (know your depositor) being followed in commodity derivatives market shall be utilized.

15.5. **Participants:** It is being considered that Banks, FPIs, bullion dealers, jewelers, retail participants, refiners etc. shall be permitted to access this market.



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16. Public Comments

16.1. Comments are invited on the proposed framework as specifically stated in Paras 6.2 to Para 15 in the following format:

Name of the entity / person / Organization		
Para:	Suggestion	Rationale
6.2		
7.2		
8.2 and so on		

16.2. Comments may be sent by email to goldex@sebi.gov.in on or before **June 18, 2021**.

Mumbai

May 17, 2021



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Annexure

SECURITIES AND EXCHANGE BOARD OF INDIA

(VAULT MANAGERS) REGULATIONS, 2021

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THE GAZETTE OF INDIA

EXTRAORDINARY

PART III-SECTION 4

PUBLISHED BY AUTHORITY

SECURITIES AND EXCHANGE BOARD OF INDIA

NOTIFICATION

Mumbai, the, 2021

SECURITIES AND EXCHANGE BOARD OF INDIA (VAULT MANAGERS) REGULATIONS, 2021

S.O. __ (E).—In exercise of the powers conferred by sub-section (1) of Section 30 read with clause (ba) of sub-section (2) of section 11, sub-section (1A) of section 12 of the Securities and Exchange Board of India Act, 1992 (15 of 1992), the Securities and Exchange Board of India hereby makes the following regulations, namely:—

CHAPTER I

PRELIMINARY

1. Short title and commencement

- (1) These regulations may be called the Securities and Exchange Board of India (Vault Managers) Regulations, 2021.
- (2) They shall come into force on the date of their publication in the Official Gazette.

2. Definitions

- (1) In these regulations unless the context otherwise requires, the terms defined herein shall have the meanings assigned to them, and their cognate expressions shall be construed accordingly,-



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- (a) "Act" means the Securities and Exchange Board of India Act, 1992 (15 of 1992);
- (b) "Assayer" means a person engaged in the process of measuring the purity or quality of gold;
- (c) "Beneficial Owner" means a person whose name is recorded as such with a depository/depository participant;
- (d) "Board" means the Securities and Exchange Board of India established under section 3 of the Securities and Exchange Board of India Act, 1992 (15 of 1992);
- (e) "change in control", in relation to a Vault manager being a body corporate, shall be construed with reference to:
- i. the definition of control in terms of regulation 2(1)(e) of SEBI (Substantial Acquisition of Shares and Takeovers) regulations, 2011 as amended from time to time;
 - ii. in any other case, change in the controlling interest in such entity;
- Explanation* — For the purpose of sub-clause (ii), the expression "controlling interest" means-
- (A) an interest, whether direct or indirect, to the extent of at least fifty-one percent of voting rights in the entity; or
- (B) right to appoint majority of the directors or to control the management directly or indirectly;
- (f) "Depositor" means a person who owns the gold deposited with the vault for storage and creation of Electronic Gold Receipt and its trading on recognized stock exchange;
- (g) "Electronic Gold Receipt" shall have the meaning assigned to it under the Securities Contracts (Regulation) Act, 1956;
- (h) "Good delivery standard" means the quality or standard of gold as may be specified by the recognized stock exchanges;
- (i) "Nominated agencies" means banks or agencies nominated by Reserve Bank of India for import of Gold;
- (j) "Recognized vault" means the premises encompassing a strong room set up and managed by the Vault Manager which conforms with all the requirements specified by the Board for the purpose of providing vaulting services;



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(k) “Vault Manager” means any person who intends to carry on the business of providing vaulting services;

(l) “vaulting service” in relation to gold means the storage and safekeeping of gold deposited with the vault manager by the depositor for the purpose of trading in electronic gold receipt and providing services incidental thereto, and includes—

- (i) utilizing the services of assayers for testing the good delivery standard of gold deposited in the vault, wherever required;
- (ii) coordination with depositories for creation, transfer and extinguishment of electronic gold receipt; and
- (iii) providing deposit, storage and delivery services to the beneficial owners.

(2) The words and expressions used and not defined in these regulations, but defined in the Act, the Securities Contracts (Regulation) Act, 1956, (42 of 1956), the Companies Act, 2013 (18 of 2013), the Depositories Act, 1996, or any rules or regulations made thereunder, shall have the same meanings respectively assigned to them in those acts, rules or regulations, or any statutory modification or re-enactment thereto, as the case may be.

CHAPTER II

REGISTRATION OF VAULT MANAGERS

3. Application for registration

- (1) Any person intending to carry on the business as a Vault Manager on or after the commencement of these regulations shall make an application to the Board for grant of a certificate of registration.
- (2) An application for grant of a certificate under sub-regulation (1) shall be made in Form A of the First Schedule and shall be accompanied by a non-refundable application fee in the manner as specified in the Second Schedule.



4. Eligibility criteria

(1) For the purpose of grant of certificate of registration, the applicant shall fulfil the following criteria, namely:

- (a) The applicant shall be a body corporate incorporated in India.
- (b) The applicant shall fulfil the minimum net worth of fifty crores rupees.

Explanation— For the purposes of this regulation, the expression "net worth" means the aggregate value of paid up equity share capital plus free reserves (excluding statutory funds, benefit funds and reserves created out of revaluation) reduced by the investments in businesses, whether related or unrelated, aggregate value of accumulated losses and deferred expenditure not written off, including miscellaneous expenses not written off.

(c) The applicant shall furnish the refundable Security Deposit or Financial Security Deposit as may be specified by the Board.

(d) The applicant shall have the infrastructure as specified by the Board for safe deposit, storage and delivery of gold.

(e) The applicant shall obtain adequate insurance cover to deal with potential losses subject to the conditions as may be specified by the Board.

(f) The applicant shall have a Standard Operating Procedure (SOP) in respect of all the recognised vaults which shall specify the following:

- i. Procedures for deposit, and delivery of gold;
- ii. Procedures for assaying of gold prior to its deposit, wherever required, as per industry standards;
- iii. Procedure for continuous physical verification of gold;
- iv. Maintaining details of persons appointed by the Vault Manager for creating the Electronic Gold Receipt;
- v. Know Your Depositor requirements;
- vi. Security policy for ensuring the safety of the goods including from theft or burglary;



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- vii. Procedure for dealing with losses caused due to theft, fire, burglary, fraud, negligence and other force majeure events;
- viii. Procedure for creation of Electronic Gold Receipt;
- ix. Procedure for maintenance of record and record reconciliation with the Depository;
- x. Grievance redressal procedures;
- xi. Maintenance of adequate infrastructure, office space and computer systems capability; and
- xii. Any other requirement as may be specified by the Board.

5. Furnishing of information, clarification and personal representation

- (1) The Board 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 Board for personal representation, in connection with the grant of certificate.

6. Consideration of application for grant of certificate of registration

- (1) While considering the grant of certificate of registration, the Board shall take into account all matters which it deems relevant to the activities of a Vault Manager and in particular, whether:—
 - (a) the applicant fulfils the net worth requirement as provided in regulation 4;
 - (b) the applicant has the necessary infrastructure, including adequate office space, vaults for safe deposit, storage and delivery of the gold and computer systems capability, required to effectively discharge his activities as the Vault Manager;
 - (c) the applicant has the requisite approvals, if any, under any law for the time being in force, in connection with providing vaulting services;
 - (d) the applicant has adequate and competent persons employed who have the required experience, knowledge and ability for managing the business of the Vault Manager;



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- (e) the applicant has prepared a Standard Operating Procedure (SOP) in accordance with regulation 4, setting out the systems and procedures to be followed by it for the effective and efficient discharge of his functions;
 - (f) the applicant engages in any other business apart from providing vaulting services;
 - (g) the applicant has been refused registration by the Board or whose certificate of registration has been cancelled by the Board;
 - (h) the applicant or any of its employees is involved in any proceedings connected with the securities market or any other regulatory or enforcement agency;
 - (i) the applicant is fulfilling the fit and proper criteria as specified by the Board in in Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008; and
 - (j) the grant of certificate is in the interest of investors.
- (2) Notwithstanding anything contained in sub-regulation (1) the Board shall not consider an application made under regulation 3 unless the applicant meets the requirements mentioned in regulation 4.

7. Procedure and grant of certificate of registration

- (1) After considering the application under regulation 3, with reference to the matters specified in regulation 4 and on being satisfied that all particulars sought have been furnished and that the applicant is eligible for the grant of a certificate of registration, the Board shall send an intimation of the same to the applicant.
- (2) Upon receipt of intimation from the Board under sub-regulation (1), the applicant shall pay to the Board a registration fee specified in Second Schedule in the manner specified therein.
- (3) The Board shall grant the certificate of registration to the applicant in the format specified in Form B of the First Schedule upon receipt of the registration fee.

8. Conditions of certificate of Registration

- (1) The Registration shall be subject to the following conditions: -



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- (a) the Vault Manager shall maintain net-worth as specified in regulation 4 at all times during the validity of its registration;
- (b) the Vault Manager shall, while seeking registration, immediately intimate the Board about any change in information submitted including information about change in control;
- (c) the Vault Manager shall abide by the provisions of the Act and these regulations in the discharge of its obligations and duties as a Vault Manager;
- (d) the Vault Manager shall pay the fees as required in these regulations.
- (e) the Vault Manager shall take adequate steps for redressal of grievances of the investors within such time as may be specified by the Board and keep the Board informed about the number, nature and other particulars of the complaints received, if any.

9. Period of validity

Every certificate of registration granted under sub-regulation (3) of regulation 7, shall be valid unless it is suspended or cancelled by the Board.

10. Procedure where registration is refused

- (1) After considering an application made under regulation 3, if the Board is of the opinion that a certificate should not be granted to the applicant, it may reject the application after giving the applicant a reasonable opportunity of making a written representation.
- (2) The decision of the Board to reject the application shall be communicated to the applicant within thirty days of such decision.

11. Surrender of registration

- (1) A Vault Manager shall make an application to the Board in terms of Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 to surrender the certificate of registration along with information that would satisfy the Board that:



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- (a) the vaults have no pending obligations for physical delivery of gold with respect to the Electronic Gold Receipts generated by it;
- (b) there are no pending disputes with respect to the gold deposited by it for the purpose of providing vaulting services as specified in these regulations.
- (2) After surrender of registration, the security deposit furnished by the Vault Manager shall be released as per the procedure specified by the Board.

CHAPTER III

DUTIES AND OBLIGATIONS OF VAULT MANAGERS

12. General Obligations

- (1) The Vault Manager shall be responsible for taking deposit of the gold in the manner specified in Chapter IV of these regulations.
- (2) The gold deposited by the Vault Manager shall be in form and manner as specified by the stock exchange.
- (3) The Vault Manager shall store the gold only in recognized vaults.
- (4) Before depositing gold, the Vault Manager shall ensure the quality specifications of the deposits.
- (5) The Vault Manager shall create Electronic Gold Receipt in accordance with regulation 19.
- (6) Every Vault Manager shall have appropriate safekeeping measures, as may be specified by the Board, to ensure that deposits, records or documents are protected from theft and natural hazard.
- (7) The Vault Manager shall deliver the gold referred to in Electronic Gold Receipt, to the beneficial owner of Electronic Gold Receipt after satisfying the vaulting lien.
- (8) The Vault Manager shall ensure that the Beneficial Owner of Electronic Gold Receipt, on receiving gold from the Vault Manager, acknowledges the receipt of the gold in a form and manner as specified by the vault manager.
- (9) The Vault Manager shall take necessary actions to maintain the quantity of gold stored in the vault(s).



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- (10) The Vault Manager shall maintain records of all transactions pertaining to the operation of a registered vault(s).
- (11) The Vault Manager shall have adequate internal controls to prevent any manipulative activity.
- (12) The Vault Manager shall ensure that the physical inventory of gold tallies exactly with the record maintained by it and the depository.
- (13) The Vault Manager shall not differentiate among depositors regarding use of and access to vault(s).
- (14) The Vault Manager shall not issue Electronic Gold Receipt to itself for the gold stored in its recognized vaults
- (15) The Vault Manager shall not sell, remove, dispose or create any interest in the gold deposited in the vault(s), including by way of pledge or hypothecation, for the purpose of trading on exchange, except as specified by the Board.
- (16) Every Vault Manager shall have adequate mechanisms for the purposes of reviewing, monitoring and evaluating the vault's controls, systems, procedures and safeguards.
- (17) The Vault Manager shall ensure good delivery of gold bars underlying the Electronic Gold Receipts.
- (18) The Vault Manager shall submit periodic reports to the Board in such form and manner, including in electronic form, as may be specified by the Board in this behalf.

13. Segregation of activities

- (1) Where a Vault Manager is carrying on any activity besides those laid down in these regulations, then the activities relating to his business as Vault Manager shall be separate and segregated from all other activities including earmarking separate space for storage of gold for trading of Electronic Gold Receipt and storage of goods for its other businesses.

14. Maintenance of records and its reconciliation with depositories



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- (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) Sourcing of gold to ensure that gold can be traced back to its original source;
 - (b) Details of transfer, storage and delivery of gold to the beneficial owner of Electronic Gold Receipt;
 - (c) Quantity and weight of deposited gold;
 - (d) Creation and extinguishment of Electronic Gold Receipts;
 - (e) Depositors under KYD requirement;
 - (f) Ledger for each beneficial owner whose gold is in its custody;
 - (g) Details of instructions received from and sent to beneficial owners; and
 - (h) Records of all reports submitted to the Board.
- (3) Every Vault Manager shall intimate to the Board the place where the records and documents under sub-regulation (1) are maintained.
- (4) Every Vault Manager shall preserve the records and documents maintained under sub-regulation (1) for a minimum period of five years.
- (5) The Vault Manager shall devise procedures for physical reconciliation of deposited gold with the corresponding record of Electronic Gold Receipts with the depositories at the end of the day.
- (6) In case of any discrepancy between electronic records and physical gold with the Vault Manager, the Vault Manager shall ensure to resolve the same expeditiously, failing which the Vault Manager shall be liable for such discrepancy.
- (7) The Vault Managers shall also submit periodic report to the Board with details of such discrepancies and action taken.

15. Liabilities of Vault Managers

- (1) In case of loss or damage of the gold despite taking all care and precautions due to unavoidable circumstances, then the Vault Manager shall indemnify the beneficial owner for an amount equivalent to the value of gold which is lost or damaged.



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- (2) In case of loss or damage of the gold due to the negligence of the Vault Manager, the Vault Manager shall indemnify the beneficial owner for an amount equivalent to the value of the gold which is lost or damaged
- (3) The value of the gold referred to in clause (1) and (2) shall be as specified by the Board.

16. Code of conduct

- (1) Every Vault Manager shall abide by the Code of Conduct as set out in the Third Schedule.

17. Grievance Redressal

- (1) The Vault Manager shall put in place a grievance redressal mechanism details of which shall be provided to the Board at the time making 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 Board
- (3) The Vault Manager shall submit periodic report to the Board of the grievances received and the action taken thereof.

CHAPTER IV

ELECTRONIC GOLD RECEIPTS

18. Deposit of gold into the vault(s)

- (1) Any person desirous of dealing in Electronic Gold Receipt on the stock exchange shall place a request for the deposit of the gold with the Vault Manager registered with the Board.
- (2) The Vault Manager or any person authorized in this behalf, shall ensure compliance with the good delivery standard, weigh the gold bars and check necessary documentation at the time of deposit of gold by the depositor.



- (3) The Vault Manager or any person authorized in this behalf, shall ensure that, at the time of the deposit, it has collected appropriate documentation to ensure traceability of the gold deposited by the authorized refineries or the nominated agencies.

19. Creation of electronic gold receipt

- (1) Every Vault Manager registered with the Board shall have common interface with the depository for generation and extinguishment of Electronic Gold Receipt.
- (2) The Vault Manager shall have authorized persons for creation of Electronic Gold Receipts.
- (3) Upon acceptance of the gold from the depositor, the Vault Manager shall create an Electronic Gold Receipt in the name of such depositor as beneficial owner by entering the required details in the depository system.
- (4) Upon creation of Electronic Gold Receipt, the depository shall credit the demat account of the beneficial owner in accordance with the procedure specified by the Board.
- (5) The Electronic Gold Receipt shall contain the following particulars, namely:
- (a) Electronic Gold Receipt number;
 - (b) registration number of the Vault Manager and date up to which such registration is valid;
 - (c) name of the vault and its complete postal address;
 - (d) name and address of the beneficial owner;
 - (e) date of creation of the Electronic Gold Receipt;
 - (f) statement that the gold received shall be delivered to the beneficial owner thereof;
 - (g) rates of storage charges and other related charges, if any;
 - (h) description of the gold bars with particulars of quantity etc.;
 - (i) date and signature of the Vault Manager or his authorized agent;
 - (j) any other particulars as may be specified by the Board.
- (6) In case a Vault Manager omits from an Electronic Gold Receipt any of the particulars set out in sub-regulation (8), such Vault Manager shall be liable for action as may be specified by the Board.



20. Delivery of gold

- (1) A beneficial owner seeking to withdraw gold from the vault shall place a request with the depository and the depository shall intimate the same to the concerned Vault Manager after granting approval.
- (2) Upon receipt of communication from the depository under sub-regulation (1) above, the Vault Manager shall deliver the gold underlying the Electronic Gold Receipt held by the beneficial owner, subject to the beneficial owner producing such documents and acknowledgement of receipt as may be specified by the Board.
- (3) Upon the withdrawal of gold underlying an Electronic Gold Receipt from the vault, the Vault Manager shall extinguish such Electronic Gold Receipt and intimate the same to the depository and stock exchange.
- (4) The Vault Manager shall not deliver the gold to the beneficial owner of the Electronic Gold Receipt until the due charges are paid to the Vault Manager.
- (5) If a Vault Manager refuses or fails to deliver the gold in compliance with the provisions of this regulation, the burden of proof shall lie on the Vault Manager to establish the existence of a lawful excuse for the refusal or failure.

CHAPTER V

INSPECTION AND AUDIT

21. Board's right to inspect

- (1) The Board may appoint one or more persons 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 these regulations;



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- (b) to examine the complaints received from investors or any other person on a matter having a bearing on the activities of the Vault Managers;
- (c) to ascertain whether the provisions of the Act and these regulations are being complied with by the Vault Managers;
- (d) to inspect into the affairs of the Vault Managers in the interest of the securities market or in the interest of investors.

22. Notice before inspection

- (1) Before ordering an inspection under regulation 21, the Board shall give not less than ten days' notice to the Vault Manager.
- (2) Notwithstanding anything contained in sub-regulation (1), where the Board is satisfied that in the interest of the investors 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 taken up without such notice.
- (3) During the course of an inspection, the Vault Manager against whom the inspection is being carried out shall be bound to discharge his obligations as provided in regulation 23.

23. 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 to the inspecting officer, such books of accounts, records and other documents in its custody or control and furnish him with such statements and information relating to his 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.

24. Submission of Report

The inspecting officer shall, as soon as possible, on completion of the inspection submit an inspection report to the Board:

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

25. Action on inspection

The Board or the Chairman shall after consideration of inspection report take such action as the Board or Chairman may deem fit and appropriate including action under Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008.

26. Appointment of auditor

The Board 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:

Provided that the auditors so appointed shall have the same powers as vested in the inspecting officer under regulation 21 and the Vault Manager and its directors, officers and employees shall be under the same obligations, towards the auditor so appointed, as are mentioned in regulation 23.



27. Board to recover the expenses

The Board shall be entitled to recover from the Vault Manager, such expenses as may be incurred by it for the purposes of fees paid to the auditor for inspecting the books of account, records and documents of the Vault Manager.

CHAPTER VI

PROCEDURE FOR ACTION IN CASE OF DEFAULT

28. Liability for action in case of default

(1) A Vault Manager who—

- (a) contravenes any of the provisions of the Act, the rules framed thereunder or these regulations;
- (b) fails to furnish any information relating to its activity as Vault Manager as required by the Board;
- (c) furnishes false and misleading information to the Board;
- (d) does not submit periodic returns or reports as required by the Board;
- (e) does not co-operate in any enquiry or inspection conducted by the Board;
- (f) fails to update its systems and procedures as recommended by the Board;
- (g) fails to resolve the complaints of complainants or fails to give a satisfactory reply to the Board in this behalf;
- (h) is guilty of misconduct or makes a breach of the Code of Conduct specified in the Third Schedule;
- (i) fails to pay fees in accordance with these regulations;

shall be dealt with in the manner provided under Chapter V of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008.



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CHAPTER VII

MISCELLANEOUS

29. Power of the Board to issue clarifications

In order to remove any difficulties in respect of the application or interpretation of these regulations, the Board may issue clarifications or guidelines in the form of circulars.



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FIRST SCHEDULE

FORMS

FORM A

SECURITIES AND EXCHANGE BOARD OF INDIA (VAULT MANAGER) REGULATIONS, 2021

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 Board at its head office at Mumbai.
3. This application form should be filled in accordance with these regulations.
4. The application will be considered by the Board provided it is complete in all respects.
5. All answers must be typed.
6. Information which needs to be supplied in more detail may be given on separate sheets which should be attached to the application form.
7. The application must be signed and all signatures must be original.
8. The application must be accompanied by an application fee as specified in the Second Schedule to the Securities and Exchange Board of India (Vault Managers) Regulations, 2021.

GENERAL INFORMATION:

1. Name of the applicant
2. Address of registered office, along with the proof of address



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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 board 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; PAN no. (Certified PAN Copy); 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 India.
2. Details of affiliates and subsidiaries of the applicant operating in India, and activities carried on by them.
3. Please state whether the applicant is involved in any other business related to the 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

INFORMATION CONCERNING THE VAULT(S)

1. Number of vault(s) in respect of which registration is applied for:
2. Details of the vault(s):
 - i. Complete address of the vault(s) along with pin code, email address, contact person and contact number
 - ii. Year of construction of the vault(s)
 - iii. Storage capacity of each vault
 - iv. Total capacity of the vault(s) (MT)
 - v. Number of storage units
 - vi. Dimensions of the storage units (attach lay out plan of the vault(s))
 - vii. Whether the vault(s) is owned/hired/leased, along with documentary proof
 - viii. If hired / leased, please state duration of the hiring / lease
 - ix. Name of the jurisdictional Police Station and distance from the vault(s)
 - x. Name of the nearest fire station
 - xi. Number of entry and exit points for the vault(s)
 - xii. Details of the security agency along with contact number.
 - xiii. Details of fire safety arrangements (number & type of fire extinguishers, fire buckets, water arrangements, fire safety alarms and any other measures etc.) (attach a list)
 - xiv. Equipment for weighing gold present in the vault(s) (attach a list)
 - xv. Equipment for assaying of gold, wherever required, available in the vault(s) (attach a list)



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- xvi. Whether all the local laws have been complied with for carrying out the business of providing vaulting services
- xvii. Please provide details of staff at the vault(s) (name, designation, educational qualifications and details of experience in the vaulting business)

SECURITY FEATURES

1. Vault access control systems;
2. Systems for tracking of gold;
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 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.

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 Securities and Exchange Board of India immediately of any change in the information provided in the application.



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I/We further agree that I/we shall comply with, and be bound by the Securities and Exchange Board of India Act, 1992, and the Securities and Exchange Board of India (Vault Manager) Regulations, 2021, and such other guidelines/instructions as may be announced by the Securities and Exchange Board of India from time to time.

For and on behalf of _____

(Name of the applicant)

Authorized signatory _____

(Name)

Signature _____

Date:

Place:



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FORM B

SECURITIES AND EXCHANGE BOARD OF INDIA (VAULT MANAGERS) REGULATIONS, 2021

Certificate of Registration as Vault Manager

- I. In exercise of the powers conferred by sub-section (1) of section 12 of the Securities and Exchange Board of India Act, 1992 read with the regulations made thereunder for Vault Managers, the Board hereby grants a certificate of registration to _____ as a Vault Manager subject to the conditions specified in the Act and in the regulations made thereunder.
- II. The Registration Number of the Vault Manager is IN/VM/_____
- III. This certificate of registration shall be valid till it is suspended, cancelled or surrendered.

Date:

Place: **MUMBAI**

By order

(Signature)

For and on behalf of

Securities and Exchange Board of India



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SECOND SCHEDULE

FEES

SECURITIES AND EXCHANGE BOARD OF INDIA (VAULT MANAGERS) REGULATIONS, 2021

1. Every Vault Manager shall pay a non-refundable fee of one lakh rupees along with the application for grant of certificate of registration.
2. Every Vault Manager shall pay a sum of ten lakh rupees as registration fee at the time of the grant of certificate by the Board.
3. A Vault Manager who has been granted a certificate of registration, to keep its registration in force, shall pay fee of ten lakh rupees every three years, 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 to in clause (2) shall be paid by the Vault Manager within fifteen days from the date of receipt of intimation from the Board under regulation 7 by way of direct credit in the bank account through online payment using SEBI payment gateway.
5. The fee referred to in clause (1) and (3) shall be paid by the Vault Manager by way of direct credit in the bank account through online payment using SEBI payment gateway.
6. Where due to the Vault Manager's default, any fee which was liable to be paid on his behalf under these regulations 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 Board.



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THIRD SCHEDULE

CODE OF CONDUCT

SECURITIES AND EXCHANGE BOARD OF INDIA (VAULT MANAGERS) REGULATIONS, 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 gold 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 Board.
 - 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.



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- 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 gold.
- xiii. ensure that an arm's length relationship is maintained, both in terms of staff and systems, from its other businesses
- xiv. be liable for loss of, or any damage to, gold caused by its failure to exercise such care and diligence in regard to the gold as a careful and vigilant owner of the gold would exercise in the custody of them in similar conditions.
- xv. not be responsible for any loss, destruction, damage or deterioration of the gold delivered to him for storage attributable to circumstances such as force majeure, act of war or act of public enemies etc.