DEPARTMENT OF EXTERNAL INVESTMENTS AND OPERATIONS
GOLD DEPOSIT SCHEME (GDS)

Introduction

1. With a view to mobilising a portion of the privately held stock of gold in the country and putting it to productive use, the Finance Minister had announced the introduction of a Gold Deposit Scheme in the budget for 1999-2000. The Scheme seeks to provide depositors the opportunity to earn interest on their idle gold holdings along with the benefits of safety and security of holding gold without any cost.

Enabling notifications issued by Government of India

2. In pursuance of the above objective, the following enabling notifications have been issued by the Government:

(a) Notification of the Gold Deposit scheme by Ministry of Finance vide Notification No. GSR. 634 (E) dated 14th September, 1999.
(b) Notification No. 12 (RE-99) 1997-2002 dated 4th June, 1999 issued by Ministry of Commerce allowing a bank authorised by RBI to export gold scrap for refining and import in the form of standard gold bars.
(c) Notification No. 97/99 – CUSTOMS dated 21st July, 1999 issued by Ministry of Finance, exempting banks from import duty on gold brought into the country in exchange of scrap gold to be exported.
(d) Notification No.S.O. 670 (E) dated 19th August issued by Ministry of Food and Consumer Affairs exempting authorised banks entering into forward contracts in gold from the purview of the Forward Contract Regulation Act, 1952.
(e) Exemption of interest earned on gold deposit bonds from Income tax vide amendment to Section 10(15)(vi) of Income-Tax Act by Finance Act, 1999.
(f) Exemption of value of assets deposited in the scheme from Wealth Tax under Section 2(ea) of Wealth Tax Act, as amended by Finance Act, 1999.
Exemption from capital gains made on the bonds through trading or at redemption from Capital Gains Tax under Section 2(14)(vi) of Income Tax Act, as amended by Finance Act, 1999.

Enabling circulars issued by RBI

3. In order to facilitate the operation of the scheme, Reserve Bank of India has allowed banks:
(i) to hedge their price risk in OTC markets/international exchanges vide ECD A.D (M.A.Series) Circular No.28 dated October 5, 1999

(ii) Exemption from maintenance of CRR on gold deposits, except for the prescribed overall minimum of 3 %, vide DBOD Circular……

In the light of the above, **guidelines for operation of the Scheme** are as under:

Eligibility of banks

4. Banks which have been authorised by RBI to deal in gold and have the required infrastructure for managing the scheme, expertise/experience in gold business and proper risk

management systems may launch the Scheme. While the broad framework of the Scheme is set out below, each bank may devise a scheme in accordance with its own assessment of the market and build in features within the framework set out by these guidelines. To ensure wide reach for the scheme, banks which fulfil the above criteria but have limited branch network, may appoint other banks which have the necessary infrastructure for collection, storage and transportation of gold as collection agents only.

Framework of the Scheme
Basic Features

5. **Instrument –** Banks may either issue a passbook/statement of account or a certificate/bond to the depositors for deposit of gold, which will be transferable by endorsement and delivery.

6. **Acceptance of Deposits** - Gold (bars, coins, jewellery, etc.) will be accepted in scrap form only. There will be a preliminary assay to ascertain gold content/caratage in jewellery by a non-destructive technique such as X-Ray/karatmeter followed by a fool-proof method like fire assay. The depositor may be given the option to withdraw the tender depending on the results of the preliminary assay. If the option to withdraw is exercised, banks may consider levying a nominal charge to defray the cost of preliminary assay. For assaying, banks may enter into arrangements with existing units, or use the assaying infrastructure being jointly set up by the designated banks.

7. **Entities eligible to subscribe –** Resident Indians (Individuals, HUF, Trusts, Companies) may invest in the scheme. **Joint tenders** may be accepted and more than one certificate issued in the case of joint holders.

8. **Issue of passbook/certificate –** The banks should ensure to issue the passbook or certificate for deposit of gold to the depositor **within** 90 days from the date of receipt of gold. The passbook/certificate will indicate, inter alia, the name of the depositor/s, quantum of gold deposit in grams, the date of deposit, the date of maturity and the interest payable on the deposit.

9. **Nomination facility** may be allowed on the lines of the other usual rupee deposit schemes.

10. There will be an initial **lock-in period** which may be decided by the banks.

11. Individual banks will be free to fix the **interest rates** in tune with their own costing considerations. Interest will be payable in cash at fixed intervals or at maturity as decided by the bank.

12. The deposits may be made available within a **maturity** range from three to seven years. Delivery at maturity will be in standard gold bar form of .995 fineness or in rupees equivalent to the price of gold as on that date at the option of the depositor, to be exercised at the time of application or once during the tenure of the bonds.

13. **Premature payment/encashment** in cash equivalent to the price of gold as on the date of encashment or in gold would be allowed after the initial lock-in period. Banks may decide the penalty/swap cost to be levied on such withdrawals depending on the period for which the deposit has run.

14. **Rupee loans** may be given against collateral of gold deposits.

15. The operation of the Scheme will be **open-ended**, available on tap until further notice.

Processing of the mobilised gold

16. Export/import of gold scrap/refined gold collected by banks under the gold deposit scheme and exemption from Customs duty for export of scrap and reimport of refined gold is allowed to banks vide Government notifications as stated above. Banks have approval to make payment in foreign exchange for refining charges, including, for example, cost of insurance, transportation, etc. subject to Exchange Control regulations.

Deployment of mobilised gold

17. Banks may deploy gold mobilised under the scheme as under :

i. Gold loans to domestic jewellery industry
ii. Gold loans to jewellery exporters
iii. Outright sale of gold domestically
iv. Sale of gold to other nominated banks.

Deployment as stated at (i) is permitted in respect of gold mobilised under the above scheme only. Banks may also grant such loans against the guarantee of other banks to enable customers of other banks to avail of such metal loans. Deployment as stated at (iii) and (iv) above are subject to compliance with gold open position limits approved by RBI. For approval of their open position limits in gold, banks may approach Department of Banking Operations and Development.

Risk management

18. Banks would be required to put in place suitable risk management mechanisms to hedge the price risk arising out of gold price movements. Banks have been permitted to enter into forward contracts in India for buying and selling of gold with only those banks which are authorised by RBI to import gold. Banks have been also allowed to access the International Exchanges, London Bullion Market Association or make use of Over-the-counter contracts to hedge exposures to bullion prices subject to the guidelines issued by the Exchange Control department.

Accounting, Internal Control, and Disclosure

19 Banks would need to put in place suitable accounting systems, internal control and audit mechanisms and disclosure norms to cover all its operations in respect of gold including the Gold Deposit Scheme.

Valuation

Banks are required to convert the liabilities and assets denominated in terms of gold into rupees for the purpose of compliance with reserve requirements/capital prescription requirements/balance sheet translation requirements. The conversion of gold into rupee may be done by crossing the London AM fixing for Gold/USD rate with the Rupee-dollar reference rate announced by RBI. The prevalent custom duty for import of gold will be added to the above value to arrive at the final value of gold.

Reserve requirements

21. Nominated banks will be exempted from maintaining CRR on liabilities under gold deposits mobilised in India. However, in view of multiple prescriptions banks have to maintain a minimum CRR of 3.0 per cent on total net demand and time liabilities (including zero CRR liabilities).

With regard to SLR, since there is an uniform prescription of 25.0 per cent on the total net demand and time liabilities which is the statutory minimum, the nominated banks have to maintain SLR of 25.0 per cent on liabilities under gold deposit scheme.

Tax Exemptions

22. The tax regime is as stated at paragraph 2 (e), (f), and (g).

Details of the scheme designed, date from which it will be operational, and the branches from which it will be operated, may be advised by the banks proposing to introduce a gold deposit scheme to RBI for obtaining its approval. The concerned bank may apply to the Chief General Manager, Department of Banking Operations and Development, Reserve Bank of India, Centre I, World Trade Centre, Cuffe Parade, Mumbai 400005 for approval of the scheme which it will introduce on receipt of the authorisation from RBI.