Technical Guide

on

Accounting Treatment of Bullion (Gold) Borrowing and Lending Transactions

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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Accounting Standards Board
The Institute of Chartered Accountants of India
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FOREWORD

The Gems and Jewellery sector in India is witnessing major changes in consumer preferences due to its cultural and social background. Moreover, increase in per capita income has led to an increase in sales of jewellery and in the coming years, a mammoth growth is expected. India being the largest exporters of gems and jewellery, this industry is expected to play a vital role in the Indian economy as it contributes a major portion to the total foreign reserves of the country.

In this context, Banking system plays a pivotal role in facilitating the availability of physical gold from international markets as India's demand for gold is far in excess of the local supply. Of course, this market feature necessitates use of highly valuable and, at times volatile, foreign exchange resources of India. The Reserve Bank of India (RBI), monitors and supervises various activities in this area and has issued many specified circulars and papers to provide necessary regulatory framework.

Predominant volume of transactions among three critical constituents in this area of activity viz. Indian Banks, Indian Jewellers and International Suppliers (mostly International Banks) assume the form of borrowing and lending like any currency or security. This distinct feature lends itself to a few special accounting implications and challenges. Therefore, a need was being felt for specific guidance to suggest appropriate and uniform accounting treatment for banks. Accordingly, the Accounting Standards Board of the ICAI has taken an initiative to provide necessary guidance and has decided to come out with this Technical Guide.

I would like to extend my warm wishes to CA. M.P. Vijay Kumar, Chairman, Accounting Standards Board, CA. (Dr.) Sanjeev Singhal, Vice-Chairman, Accounting Standards Board and the members of the Board for their immense contribution towards the publication. I am confident that this technical guide will be extremely useful to all including to the Indian Banking Sector in standardising the accounting practices.

New Delhi
June 29, 2019

CA. Prafulla P. Chhajed
President, ICAI

Preface

In India, gold holds a very important place not only in the cultural environment but also in the economic terms. It is generally observed that marriages in India are not complete without exchange of gold jewellery. India is considered to be the largest consumer of gold in the world on account of the rising middle-class population and increasing income levels.

So as to meet the country's gold requirements, the Indian Banks extend gold loan in its physical form to the Indian Jewellers. The gold so borrowed by the Indian Jewellers act as a direct raw-material for the main purpose of manufacturing of jewellery which can either be sold locally in the domestic market or exported outside India. Thus, we can say that the Indian Banks play a pivotal role in making the raw-material available to the jewellers.

Considering the importance of this sector in the Indian economy and keeping in view, the peculiarities of the transactions that have specialised accounting implications, it was paramount task for ICAI to provide guidance for this sector. Also, it has been noted that currently, the sector do not have uniform accounting system for the entered transactions.

This Technical Guide aims at providing accounting perspective for the Indian Banks who enters into borrowing transactions with the international bullion supplier and extends the borrowed loan to the Indian jewellers.

I am very grateful to our Honourable President, CA. Prafulla P. Chhajed and Vice-President, CA. Atul Kumar Gupta, for providing an opportunity of bringing out this Technical Guide. I would also like to extend my gratitude to CA. Dr. Sanjeev Kumar Singhal, Vice-Chairman, ASB. Further, I would also like to make special mention of the significant contributions made by the Study Group members who actively participated in the discussions and extended their continuous guidance and support in bringing this Technical Guide.

I would like to place on record my deep appreciation of the dedicated efforts put in by CA. Vidhyadhar Kulkarni, Head, Technical Directorate and his team including CA. Parminder Kaur and CA. Anjali Butani.

I hope this Technical Guide will be of enormous use to all the stakeholders and look forward to suggestions to further improve this publication and to keep it updated.

New Delhi
June 27, 2019

CA. M P. Vijay Kumar
Chairman
Accounting Standards Board

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1. Introduction

India's gems and jewellery sector is one of the largest in the world contributing 29 per cent to the global jewellery consumption. The market size of the sector is about US$ 75 billion as of 2018 and is estimated to reach US$ 100 billion by 2025. The sector is home to more than 300,000 gems and jewellery players, contributes about 7 per cent to India's Gross Domestic Product (GDP) and provides employment to over 4.64 million people.

India's gems and jewellery sector contributes about 15 per cent to India's total merchandise exports. The overall net exports of gems and jewellery stood at US$ 32.71 billion during FY18 registering a Compound Annual Growth Rate (CAGR) of 5.83 per cent over FY05; whereas gems and jewellery imports increased at a CAGR of 7.97 per cent from US$ 11.63 billion in FY05 to US$ 31.52 billion in FY18.

India is the largest consumer of gold in the world. Rising middle class population and increasing income levels are the key drivers for the demand of gold and other jewellery in India. Gold demand in India rose 11 per cent year-on-year to 760.40 tonnes during January-December 2018.The Bureau of Indian Standards (BIS) has revised the standard on gold hallmarking in India from January 2018, to include a BIS mark, purity in carat and fitness as well as the unit's identification and the jeweller's identification mark on gold jewellery. The move is aimed at ensuring a quality check on gold jewellery. (Source: India Brand Equity Foundation's (IBEF) April 2019 report on Gems and Jewellery industry).

India imports around 800 tonnes of gold and the imports are normally channeled through the RBI approved banks and nominated agencies. The gold imported is used for meeting the domestic investment demand, jewellery demand both domestic and export. Banks play a very important canalising agency role while meeting the gold metal loan demand of the entire jewellers' fraternity.

Gold imports inflict a drag on the foreign exchange reserves and would impact the volume of external debt. Divergent factors have contributed to the spike in gold imports by India in more recent years. Large gold imports, if unchecked, can potentially threaten the external stability and, therefore, there is an unambiguous need to moderate them. For controlling the same, there is a need to opt for not only demand reduction measures but also supply management measures. On the demand front, the RBI and the Government has always been coming out with gold-backed investment / financial products and on the supply front, bank's role in canalising gold imports is multi-fold and useful. Banking sector as a formal channel has been playing an important role in the gold imports and gold supply catering to the huge demand for gold and their discontinuation though may not materially alter the demand, but possibly can give rise to participation by unauthorised channels. Involvement of banks help in tracking the gold supply sources and users of gold and further the exchequer will continue to garner the assured revenue if imports are routed through the banking channel.

2. Scope and Objective of this Technical Guide

This Technical Guide aims at providing guidance on the accounting of Gold Borrowing by the Nominated Indian Banks from the International Bullion Banks/ Suppliers (IBBS) and Gold Lending by the Nominated Indian Banks to the Indian Jewellers. The Technical Guide specifically deals with the following aspects:

- Detailed Background and Types of the Transactions;
- Legal Arrangements and Salient Features;
- Regulatory Environment;
- Accounting Aspects and
- Illustrations

This Technical Guide prescribes the accounting treatment only for recording the transactions in the books of the Nominated Indian Banks and at this stage do not address the accounting treatment in the books of the Indian Jewellers.

The Accounting Standards generally are not intended to be industry specific but prescribe the accounting principles to be applied for different types of transactions and events across all category of industries. Over a period of time Accounting Standards in India and globally have become very comprehensive and robust to be relevant to the contemporary world. However, continuous growth, economic development, research and innovation lead to a situation necessitating a specific accounting guidance relating a particular set of transactions or industry segment.

This Technical Guide provides an analysis of the transaction from the perspective of the Accounting Standards notified by the Ministry of Corporate Affairs of the Government of India under Companies Accounting Standards Rules, 2006 for companies and Accounting Standards issued by the Institute of Chartered Accountants of India (ICAI) for entities other than companies.

Further, accounting aspects relating to Goods and Service Tax (GST), Excise, Customs and Import Duties and Other Taxes are not within the scope of this Technical Guide.

3. Detailed Background and Types of Transactions

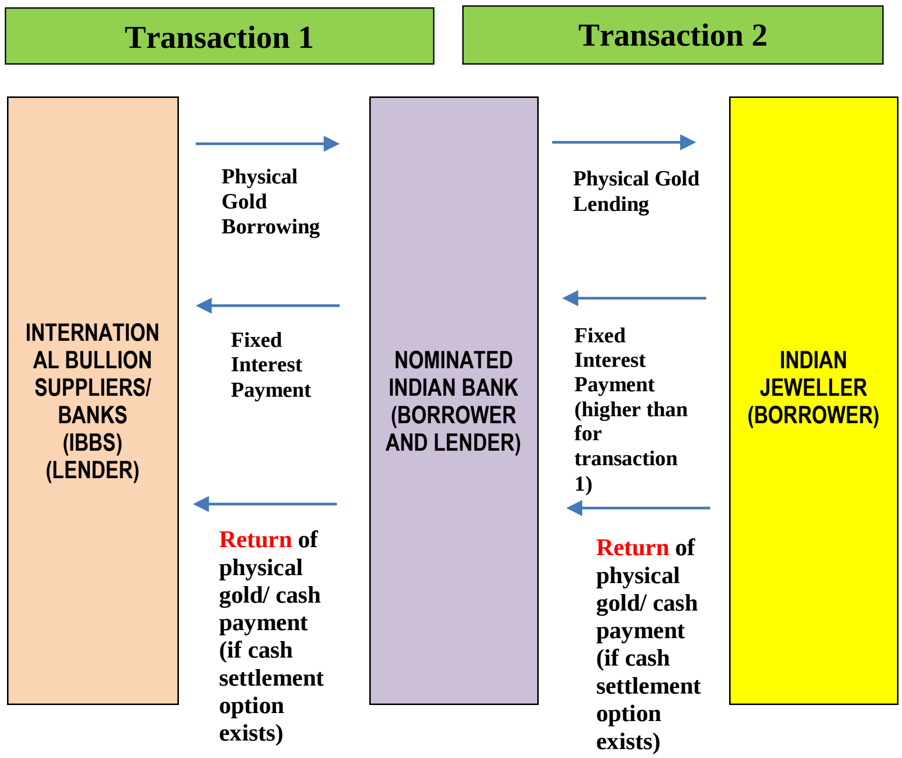
3.1. Detailed Background

In India, the RBI has nominated few Indian banks known as "Nominated Indian Bank" who are permitted to enter into Gold (Metal) Borrowing (GMB) transactions with the International Bullion Banks/ Suppliers (IBBS) and extend the borrowed gold to the Indian Jewellers by entering Gold (Metal) Loan (GML) agreement. These Nominated Indian Banks are authorised to offer GML to the users who are the manufacturers/ exporters of jewellery.

Gold borrowing and lending is a popular mechanism under which a bullion manufacturer and/or exporter such as Jeweller instead of borrowing money to purchase the physical gold, borrows gold in physical form. The physical gold borrowed acts as a direct raw-material for the purpose of manufacturing of jewellery which can either be sold locally in the domestic market or exported outside India. The initial disbursement is always in gold with purity 995 or above and the repayment of the borrowed gold generally happens in Indian Rupee (INR) terms. Regulations permit the contractual arrangements between the lender and borrower to provide an option to the borrower to repay the borrowed gold in physical gold.

The two transactions entered by the Nominated Indian Bank namely with the IBBS (i.e. lender) and the Indian Jeweller (i.e. borrower) have been explained below:

Transactions entered by the Nominated Indian Bank with:
(A) Transaction 1 - International Bullion Bank/Supplier (IBBS)
(B) Transaction 2 - Indian Jeweller



It may be noted that gold is a fungible commodity and also highly liquid in nature. Further, it may be noted that in the above demonstrated transactions there are no cash inflows and outflows at the inception of the GMB and GML.

Typically, the Indian banks that are nominated by the RBI to import gold from IBBS are authorised to offer GML to the users who are jewellery manufacturers/ exporters. Banks do the necessary credit assessment and set credit limits in INR and against the limit set in INR, disburse out the physical gold ensuring that the value of gold in INR terms (as per the prevalent GOLD/INR rate) is within the INR limits. Each of the banks have margining policy in place whereby at the time of disbursement, the necessary volatility margin is considered and earmarked against the INR limit to ensure that the price fluctuations (if any) during the tenor of the GML do not lead to value of gold exceeding the INR limits and in case if it does exceed, the short-fall is replenished by the jeweller by submitting the necessary margins in cash or fixed deposit form.

This lending arrangement helps jewellery manufacturers to plan the repayment of GML in line with the jewellery sales cycle which will vary from jeweller to jeweller depending upon the geographical presence (domestic, international outlets), artisans employed, clientele, branch network, seasonality, unique specialty of jewellery design (e.g. machine made chains or handmade crafting) etc. In GML, jewellers can opt for taking a Flexi Loan wherein, they can opt to pre-pay the GML by fixing the price any time during the tenor of the GML and avail of fresh disbursement which will again be used in the jewellery manufacturing cycle. Also, not only can the customer fix the price and pre-pay, certain jewellers can also fix the price and decide to pay at a future date which is generally very short, say one week or 10 or 15 days. GMLs can be disbursed for maximum period of 180 days for domestic usage and up to 270 days for export usage whereby jewellers get additional 90 days to complete the export commitment post disbursement and 180 days' time to plan for export realisation.

For the purpose of determining carrying value of GMB or GML, the gold in kilograms is first converted to ounces depending upon the purity of gold (Example 1 kg 995 = 31.99 ounces and 1 kg 999 = 32.12 ounces). The value of gold will generally comprise following elements.

(a) Gold / USD rate which is US dollars per ounce

(b) USD / INR rate which is INR amount per USD

(c) Prevalent Customs duty (levied at the time of import of gold and which changes every fortnight as per the Customs Regulations) and

(d) Goods and Service Tax (GST) Rate

3.2. Types of Transactions

Based on review of legal agreements, discussions with bankers/ jewellers and regulatory environment (Reserve Bank of India master circulars/directions), in India, various types of transactions are undertaken for bullion borrowing and lending which are as follows:

<u>From Nominated Indian Banks' perspective:</u>

(i) Gold stock imported and held on consignment basis on behalf of the IBBSs

(ii) Gold (Metal) Borrowing (GMB) by Nominated Indian Banks from IBBSs*

(iii) GMB settlements with IBBSs - Fixed and Unfixed Basis (11 days)

(iv) Gold (Metal) Loans (GML) to Borrowers (i.e. jewellers) by Nominated Indian Banks*

(v) Gold inventory held by the bank out of the gold borrowed from IBBSs *(Indian banks are unlikely to have gold inventory of material quantity and value)*

(vi) Gold Deposits taken by the Nominated Indian Banks under Gold Monetisation Scheme of India**

*Generally, these two transactions occur simultaneously on back to back basis. Also, the Nominated Indian Banks can lend to borrowers (i.e. jewellers) out of the gold deposits accepted under Short Term Gold Deposit Scheme and gold acquired out of gold deposit collected under Medium and Long Term Government Deposit scheme under Gold Monetisation Scheme, 2015 of RBI.

**In order to avoid complexity, these transactions are not covered in this Technical Guide.

From Indian Jewellers' perspective:

(i) Gold Borrowing from the Nominated Indian Banks

4. Legal Arrangements and Salient Features

Following paragraphs highlight some of the key features which are generally noticed in the legal arrangements between the parties.

4.1 Types of Legal Arrangements and Salient Features – Borrowing by Indian Nominated Bank from IBBS

Gold importing arrangement by the Nominated Indian Banks from the IBBS can be of the following two types:

- **On Consignment Basis**
- **On Borrowing Basis**

Consignment Arrangement - Banks import gold from IBBS on consignment basis and then either sell it in the local market to wholesalers on outright basis against INR funded by the clients or do lend gold in physical form to jewellery manufacturers. While offering GML to Indian Jewellers, banks do borrow gold from IBBS and fix the price of gold during the tenor of the borrowing and remit the equivalent US Dollars (USD) to the IBBS. The tenor of the gold borrowings and the prepayment or repayment arrangement is similar to the GML offering explained above. Typically, the IBBS source the gold (metal) in the physical form from the bullion refiners and send it to India through their appointed Logistics Partners (LP). In the said import transaction, Authorised Dealer (AD), Banks, who are authorised by RBI, act as consignee and the IBBS act as consignor. The ownership and the insurable interest in the said gold though shipped, cleared from customs and vaulted at the LP's vault in India remains with the consignor. It is consignee's responsibility to pay the regulatory levies (Customs duty in this case) since the consignee is recorded as importer in the books of Customs Authorities. The ownership of the Gold (Metal) gets transferred to consignee on making full and final payment to the consignor (in case of outright purchase) or upon borrowing of metal by the Nominated Indian Bank. The insurable interest passes from consignor to the consignee when consignee takes the physical delivery of metal either on its own or consignee's customer taking delivery of physical metal (with underlying transaction being either outright sale or gold lending).

Ownership of Consignment –

Full legal, beneficial and equitable title to the consignment stock and any other part thereof remains vested at all the times with the consignor.

a) The title of the consignment stock passes to the consignee only when the price for the said stock is finalised and the consignee makes the complete payment for the same as per the terms agreed by both the parties.

b) Once the title of the consignment stock passes to the consignee, the consignee shall cease to have any liability as a consignee to the consignor in respect to the said consignment stock.

Obligations of Consignee –

The consignee shall procure the relevant licenses for import of the consignment stock (if such licenses are not in place).

a) Consignee should execute and respond to all reasonable requests and deliver any and all instruments that may from time to time be required by law or reasonably requested by the consignor to establish.

b) The consignee is expected to maintain at its principal place of business records reasonably satisfactory to consignor with respect to the consignment stock.

c) The consignee should ensure clearance of customs and take delivery of the consignment stock after its arrival/unloading in India, failing which the consignee shall bear all costs and fees associated with any such delay.

d) The consignee should keep a Gold Account in its books in the name of the consignor and record in such account any consignment stock that has been made available and all transactions entered into under this agreement in respect of such consignment stock.

e) The consignee should keep a Gold Interest Account in its books in the name of the consignor and record in such account all interest accruing under transactions entered into under the agreement.

f) The consignee is expected to make all payments on the due dates thereof and is also responsible for all loss, damage, or disappearance of the consignment stock from any cause whatsoever.

g) If the consignee is not able to take the consignment stock by the end of the consignment period, the consignee is liable to pay all the costs, charges, duties, taxes, and expenses necessary to effect any re-delivery or re-export of the consignment stock to the consignor in accordance with the terms agreed by the parties.

Borrowing Arrangement: In the Borrowing Arrangement by the Nominated Indian Bank from the IBBS, following category of transactions are observed:

- Fixed Term Loan Transactions
- Overdraft Loan Transactions

Fixed Term Loan Transactions - Fixed Term Metal Loans are defined as loans of precious metal with a fixed interest rate and a pre-determined fixed repayment date. Fixed Term Loans bear interest at the fixed rate agreed between the parties that will be fixed for the entire tenor of the loan or varies on a bench-mark such as London Interbank Offered Rate (LIBOR) or Mumbai Interbank Offered Rate (MIBOR). Interest accrues in USD which is computed with reference to the method agreed by the parties for conversion of gold value into USD or in ounces of gold at the rate agreed which is commonly referred to as Offered Lease Rate. The Nominated Indian Bank (i.e. borrower) can repay the gold borrowed and accrued interest in USD equivalent value calculated on repayment date. The USD equivalent is computed based on the settlement amount that would have been payable had the parties entered into a sale transaction on the last day of the loan period or such other price as mutually agreed between the borrower and the lender; the former is generally termed as prevailing spot value two business days prior to the last day of the term of the loan. Generally, Nominated Indian Bank (i.e. borrower) is required to notify the method of repayment (cash/gold) to the IBBS (i.e. lender) at least two business days prior to the repayment date of each Fixed Term Loan.

Overdraft Loan Transactions – In this type of transaction, the Nominated Indian Bank (i.e. borrower) has flexibility to repay the loan at any time. In this case the interest accrues on daily basis and computed on daily outstanding balances. The repayment terms/ options are same as that of Fixed Term Loan.

It may be noted from the above terms that the Nominated Indian Bank has an option to repay the gold loan either in foreign currency viz. USD or in physical gold, which has to be delivered at specified overseas locations at London or Zurich, as per Rules of London Bullion Market Association (LBMA) or London Platinum and Palladium Market (LPPM).

The calculation of interest on the two transactions viz. Fixed Term Loan and Overdraft Loan Transaction is subject to the in-built features of the transaction. The Fixed Term loan, is subjected to fixed interest rate for a fixed period that does not exceed the pre-decided term between the parties to the transaction and is calculated on such rate based on a 360 day year, with interest payable on the last day of the relevant loan period in most of the cases (certain exceptions basis the requirement of IBBS where they demand interest payment at a different frequency). On the other hand, interest on the Overdraft Loan Transaction, is payable quarterly in arrears to the first business day of each calendar quarter and on the date when the overdraft facility is cancelled by the IBBS or generally payable on monthly basis and the interest in ounces is converted to equivalent USD using average Gold AM (morning) or PM (afternoon) FIX rate which is considered as benchmark for conversion of interest amount from ounces to US Dollars (certain exceptions basis the requirement of IBBS where they demand interest payment at a different frequency).

Other important Terms and conditions - The borrower and lender agree that the relationship created by the agreement **is not of a mercantile agency**. The borrower is entering into this transaction as a principal and not as an agent of any other person or entity. USD equivalent computation for repayment of gold borrowed is based on mutually agreed method - it is generally based on the USD/Gold price prevailing spot price two business days prior to the loan maturity date.

4.2 Salient Feature of Legal Arrangements – Lending to the Indian Borrowers (Jewellers) by the Nominated Indian Banks

Lending by the Nominated Indian Bank to the Jewellers is commonly known as Gold (Metal) Loan or GML. In case of GMLs, the Nominated Indian Bank enters into an agreement with the Borrower (i.e. jeweller), who is the manufacturer of the gold jewellery and is in requirement of gold bars for the manufacture of gold jewellery either for domestic use or for exports to countries outside India, and not for other purpose. Below are the salient features of the agreements entered between the Nominated Indian Banks and Jewellers:

- **Grant of Facility and Disbursement -** The Nominated Indian Bank agrees to grant the Borrower (Jeweller) and the Borrower (Jeweller) agrees to avail from the Nominated Indian Bank, disbursements in the form of delivery of gold as a loan facility subject to the terms and conditions agreed to by both the parties. The facility shall be released in Kilograms of gold and for credit limit utilisation and would be reckoned at equivalent to Rupees (INR) as on the date of delivery/release of the gold to the Borrower (Jeweller). Individual GML term is generally based on the prevailing RBI regulations and generally varies between 90 days to 360 days. This maximum tenor is dependent upon the prevailing regulations of RBI.

- **Conditions Precedent to Disbursement -** Before the disbursement of loan by the Nominated Indian Bank, the Borrower (Jeweller) is expected to: (i) Deposit the provisional value of gold as determined by the Bank at its discretion and agreed by the Borrower, as cash margin with the Bank in Term Deposit/ Current Account OR (ii) Furnish unconditional and irrevocable guarantee(s) from a commercial bank of the repute accepted by the Bank in connection with the loan facility. However, the above stated conditions are not required to be satisfied if the GML is taken as part of the working capital limits.

- **Interest Payment -** The Borrower (Jeweller) shall pay to the Nominated Indian Bank interest at monthly intervals or on maturity date on the outstanding loans at the rates specified by the Nominated Indian Bank in the sanction letter approving the respective disbursements under the said facility. The interest shall be calculated on a 360 day year basis at the monthly intervals in gold weight terms and converted to rupees terms at the prevailing conversion rates. The conversion rate is prevailing rate of gold in Indian Rupees (the currency of value) on the relevant date(s) as may be determined by the Nominated Indian Bank from time to time. In some cases, the conversion rate is specifically stated as “London A.M. Rate for Gold/US Dollar (XAU/USD) and RBI reference rate for US Dollar/Indian Rupee (USD/INR) or prevailing market rate/ card rate”.

- **Repayment of Loan Amount -** The Borrower shall repay the loan in rupee terms within the periods specified in the sanction letter issued by the Nominated Indian Bank. Such repayment of the loan shall be made by the Borrower by paying the equivalent price of the gold at the prevailing rate on the date of maturity. Repayment amount shall include the cost of gold, commission, taxes including octroi and other costs, if any, incurred by the Nominated Indian Bank. In some cases, it is expressly stated that the Borrower (Jeweller) shall not be entitled to repay the loan in physical gold. In other cases, it is explicitly mentioned that Borrower (Jeweller) has to purchase the gold from the lending bank i.e. the Nominated Indian Bank, if the Borrower wants to repay the gold borrowed in physical gold instead of Rupee equivalent. In another case, repayment in physically delivery is subject to mutual agreement between the parties. **It may be noted that settlement of gold loan in either Rupee equivalent or by purchasing of gold from the lending bank itself, is primarily intended to ensure purity and quality of the gold lent i.e. same quality/purity gold is returned by the borrower.**
- **Transfer of Legal Title and Risks and Rewards to the borrower -** Risks relating to all gold advanced to the Borrower (Jeweller) will pass to the Borrower upon delivery of the gold at the destination requested by the Borrower, and from such time until repayment or discharge of such drawings in full by the Borrower. The Nominated Indian Bank will assume no risk of loss, theft, detention, deterioration or destruction of or damage to any gold advanced to the Borrower from the Nominated Indian Bank. The title to the said gold will generally pass on from Nominated Indian Bank to the Borrower on either Borrower repaying the Gold (Metal) Loan in full or in some scenarios on delivery.
- It may be noted that the some GML agreements transfer the legal title in the gold lent to the Jewellers to facilitate the legally trouble free use of gold borrowed only.

5. Regulatory Environment

Although India is a large consumer of gold due to its cultural and social background, however, it is heavily dependent upon import of gold to meet its consumers' demands. Import of gold may have severe implications on India's foreign exchange reserves and exchange rate policy and also monetary policy. Therefore, gold lending and borrowing transactions including imports are subject to comprehensive regulatory prescriptions and control by the Banking Sector Regulator viz. the Reserve Bank of India (RBI) and Government of India. These regulations are also subject to regular monitoring and review and amendments, where required. The following circulars have been issued by the RBI in the said context:

a) **Guidelines on Import of Gold by Nominated Banks/ Agencies, Circular dated February 18, 2015** – This circular consist clarifications issued by RBI in consultation with the Government. Also, through this circular, the RBI permitted the Nominated Indian Banks to import gold on consignment basis. The circular also mentions that Star and Premier Trading Houses (STH/PTH) can import gold on Documents against Payment (DP) basis as per entitlement without any end use restrictions.

b) **Master Circular – Loans and Advances – Statutory and Other Restrictions dated July 1, 2015 –** Salient features mentioned in paragraph 2.3.12 – Gold (Metal) Loans of the above circular have been summarised as follows:

   - RBI has nominated certain Banks that can grant Gold (Metal) Loans to exporters of jewellery, domestic jewellery manufacturers.
   - The borrowers can be the customers of the nominated banks or of other scheduled commercial banks. In the case of former, the Gold (Metal) Loans will be within the credit limits or Gold (Metal) Loans sanctioned by the Bank. Whereas in case of the later, the Gold (Metal) Loan shall be secured by Stand-By letter of Credit (SBLC) or Bank Guarantees (BG) by their Banks.
   - GML can be availed of only by gold jewellers who are themselves manufacturers of gold jewellery. The jewellers cannot sell the gold borrowed under GML scheme to any other party for manufacture of jewellery.
   - In case of GML to jewellery exporters, it should not involve any direct or indirect liability of the borrowing entity towards foreign suppliers of gold.
   - The banks may calculate their exposure and compliance with prudential norms daily by converting into INR the gold quantity by crossing London AM fixing for Gold / US Dollar rate with the Rupee- Dollar reference rate announced by RBI.
   - Banks should recognise the overall risks in extending Gold (Metal) Loans as also in extending SBLC / BG. Banks should lay down an appropriate risk management / lending policy in this regard and comply with the recommendations of the Ghosh Committee and other internal requirements relating to acceptance of guarantees of other banks to obviate the possibility of frauds in this area.

c) **Gold Monetisation Scheme, 2015, Master Direction No.DBR.IBD.No.45/23.67.003/2015-16 dated October 22, 2015 as updated March 31, 2016 -** The scheme modifies the existing 'Gold Deposit Scheme' (GDS) and 'Gold (Metal) Loan Scheme (GML), and intends to mobilise gold held by households and institutions of the country and facilitate its use for productive purposes, and in the long run, to reduce country's reliance on the import of gold. The deposit scheme can be divided into schemes viz. Short Term Bank Deposit (STB) and Medium and Long Term Government Deposit (MLTGD).

   - The key features of STB includes – the tenure of the deposit to be as short as 1-3 years, the principal and interest shall be denominated in gold, the interest accrues from the date of conversion of gold deposited into tradable gold bars after refinement or 30 days after the receipt of gold and so on.

   - Similarly key features of MLTGD includes - deposits under this category will be accepted by designated banks on behalf of the Central Government, the deposit will not be reflected in the balance sheet of the designated banks and shall be the liability of Central Government and the designated banks will hold this gold deposit on behalf of Central Government until it is transferred to such person as may be determined by the Central Government, rate of interest to be determined by the Central Government and notified by RBI.

d) **RBI Circular – RBI/ FED/ 2016-17/12 and FED Master Direction No. 17/2016-17 dated January 1, 2016 as updated January 12, 2017 Master Direction – Import of Goods and Services, –** Paragraph C.11 – Import of Gold, of the above referred circular lays down the operating guidelines summarised below:

   - Nominated Banks and Nominated Agencies, as notified by Directorate General of Foreign Trade (DGFT), are permitted to import gold on consignment basis. All sale of gold domestically will, however, be against upfront payment. Nominated banks are free to grant Gold (Metal) loans

However, as per the above RBI circulars/ references, it can be observed that these circulars are generally silent on the accounting aspects of the Gold (Metal) Borrowing (GMB) and Gold (Metal) Lending (GML) transactions undertaken by the Nominated Indian Banks. Hence, it is essential for the Nominated Indian Banks to follow uniform treatment while accounting such transactions.

6. Analysis of Accounting Aspects

The accounting issues pertaining to the gold borrowing and lending by the Nominated Indian Banks are required to be analysed from two main angles viz.

- Recognition of Assets and Liabilities and;
- Measurement of Assets and Liabilities and recognition of measurement changes in the Profit or Loss Account

In order to address the accounting issues referred above, it is important to evaluate which of the Accounting Standards potentially address these kinds of gold borrowing and lending transactions. Following Accounting Standards are considered to be the potential ones:

(i) AS 2, Valuation of Inventories
(ii) AS 13, Accounting for Investments
(iii) AS 19, Leases
(iv) AS 29, Provisions, Contingent Liabilities and Contingent Assets

Apart from the above stated Accounting Standards, the application of the Framework for Preparation and Presentation of Financial Statements (The Framework) has also been considered to evaluate the accounting issues.

6.1. Accounting Analysis - In the books of the Nominated Indian Bank

(A) Gold stock imported on consignment basis and held by the banks

As per RBI instructions vide 'Master Direction – Import of Goods and Services' (RBI/FED/2016-17/12 FED Master Direction No. 17/2016-17 updated on January 12, 2017) certain categories of banks are permitted to import gold on consignment basis. An accounting question arises whether banks shall recognise the physical gold received on consignment basis from IBBS as its asset with a corresponding liability to pay. In this regard, it may be useful to refer to principles of AS 9, Revenue Recognition in respect of consignment sales. AS 9 states that revenue shall not be recognised until the goods are sold to a third party. The key criterion being neither the property nor the significant risks and rewards of ownership of the goods are transferred from the consignor to the consignee. Further, the gold imported on consignment basis by the bank does not meet the definition of an asset under the Framework elaborated in subsequent paragraphs.

(B) Gold borrowed by Nominated Indian Bank from IBBS

So as to address the accounting issues, an analysis of the transaction is done basis the below listed potential applicable Accounting Standards:

(i) AS 2, Valuation of Inventories

As per paragraph 3.1 of this standard, inventory is defined as under:

Inventories are assets:

- held for sale in the ordinary course of business;
- in the process of production for such sale; or
- in the form of materials or supplies to be consumed in the production process or in the rendering of services.

In case of bank, the gold borrowed is not held for sale in the ordinary course of business as the transaction with borrower does not clearly represent a sale because the significant risks and rewards of ownership of the gold are not considered to have been transferred to the borrower as discussed in the later section of this Technical Guide. The gold borrowed is neither in the process of production for sale, nor is it materials or supplies that the entity will consume in production or in rendering services. Therefore, the gold borrowed would not meet the definition of inventory stated above and hence this transaction cannot be covered by the above standard.

(ii) AS 13, Accounting for Investments

This AS specifically excludes banks from the scope of the standard.

(iii) AS 19, Leases

As per paragraph 3.1 of this standard, lease is defined as:

- an agreement whereby the lessor conveys to the lessee in return for payment or series of payment the right to use an asset for an agreed period of time.

In some transactions like the present gold borrowing from IBBS, further analysis and guidance is needed to determine whether a transaction contains a lease. In this regard since the definition of lease and other principles are similar under AS 19 and Ind AS 17, it is useful to refer Indian Accounting Standard (Ind AS) 17, Leases, for addition guidance provided therein[1]. Ind AS 17has an additional guidance in particular whether the arrangement depends on the use of a specific asset or assets. Accordingly, considering the fungible nature of gold, the borrower's ability to return another piece of gold of same quality, settlement alternatives etc. the transaction does not meet the criteria of "use of specific asset(s)" and therefore, not a lease.

(iv) AS 29, Provisions, Contingent Liabilities and Contingent Assets

This standard assumes importance when one has to analyse whether the borrowers' (or bank when it borrows from the international market) obligation to deliver back the gold to the lender is within the scope of AS 29. This standard defines a provision as "a liability which can be measured only by using a substantial degree of estimation". Since the contract between the bank and lender does not contain any uncertainty about the timing or quantity of gold to be delivered, there is no need for substantial degree of estimation. Further, AS 29 addresses the question of how provisions can be distinguished from other liabilities such as trade payables and accruals and states that trade payables are not provisions because they are liabilities that have been formally agreed with the lender. Therefore, the gold borrowing transaction of the Nominated Indian Bank is not a provision subject to AS 29.

The Framework for Preparation and Presentation of Financial Statements (The Framework)

In the absence of any specific AS addressing any type of transaction, it is necessary to develop a specific accounting policy keeping in mind the descriptions in Paragraph 1 (a) of the Framework as reproduced below. The part relevant in the present context is highlighted in bold and italic.

> "assist preparers of financial statements in applying Accounting Standards and ***in dealing with topics that have yet to form the subject of an Accounting Standard"***

While developing accounting policies, it is important to bear in the following important aspects of the Framework:

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[1] Ind AS 116, Leases, which has replaced Ind AS 17 also provides guidance on this concept.

a) **<u>Underlying Assumptions- Accrual basis –</u>**

In order to meet their objectives, financial statements are prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognised when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions.

b) **<u>Qualitative Characteristics of Financial Statements – Understandability, Relevance, Reliability, Faithful Representation, Substance over Form, Neutrality , Prudence, Completeness, True and Fair View</u>**

The demand for accounting information by investors, lenders, creditors, etc., creates fundamental qualitative characteristics that are desirable in accounting information. Principal qualitative characteristics include:

- <u>Understandability</u> – An essential quality of the information provided in financial statements is that it is readily understandable by users. For this purpose, users are assumed to have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, information about complex matters that should be included in the financial statements because of its relevance to the economic decision-making needs of users should not be excluded merely on the grounds that it may be too difficult for certain users to understand.
- <u>Relevance</u> - To be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations.
- <u>Reliability</u> - To be useful, information must also be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to

represent faithfully that which it either purports to represent or could reasonably be expected to represent.

- Faithful Representation - To be reliable, information must represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent..
- Substance over Form - If information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with that which is apparent from their legal or contrived form.
- Neutrality - To be reliable, the information contained in financial statements must be neutral, that is, free from bias. Financial statements are not neutral if, by the selection or presentation of information, they influence the making of a decision or judgement in order to achieve a predetermined result or outcome.
- Prudence - Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.
- Completeness - To be reliable, the information in financial statements must be complete within the bounds of materiality and cost. An omission can cause information to be false or misleading and thus unreliable and deficient in terms of its relevance.
- True and Fair View – Financial statements are expected to provide true and fair view of the financial position, performance and cash flows of the entity.

c) Definition of elements of financial statements – Asset, Liability, income, Expense.

For the purposes of this Technical Guide, the following terms are used with the meanings specified in the Framework for the Preparation and Presentation of Financial Statements

- An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

- A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
- Income – The definition of income encompasses both revenue and gains. Revenue arises in the course of the ordinary activities of an entity and is referred to by a variety of different names including sales, fees, interest, dividends, royalties and rent.
- Expenses - The definition of expenses encompasses losses as well as those expenses that arise in the course of the ordinary activities of the entity. Expenses that arise in the course of the ordinary activities of the entity include, for example, cost of sales, wages and depreciation. They usually take the form of an outflow or depletion of assets such as cash and cash equivalents, inventory, property, plant and equipment.
- Gains - represent other items that meet the definition of income and may, or may not, arise in the course of the ordinary activities of an entity. Gains represent increases in economic benefits and as such are no different in nature from revenue.
- Losses - represent other items that meet the definition of expenses and may, or may not, arise in the course of the ordinary activities of the entity. Losses represent decreases in economic benefits and as such they are no different in nature from other expenses.
- Exchange Differences – It is the difference resulting from reporting the same numbers of units of a foreign currency in the reporting currency at different exchange rates.

Based on the analysis of the GMB and GML transactions in practice, regulatory prescriptions and the spirit of the legal arrangements between the parties to the transaction, it is considered as a transaction in the nature of financing arrangement in substance. Accordingly, considering the nature and substance of the transaction from a Nominated Indian Bank's perspective, the accounting in this Technical Guide is prescribed as appropriate for a Financing Transaction. Further, in the absence of any AS addressing this kind of unique transaction, the accounting prescriptions herein are derived from the Framework applicable in the context of AS.

Recognition of the elements of Financial Statements

In respect of recognition of asset and liability for gold borrowing by Nominated Indian Bank, following accounting policy is considered appropriate:

A. an asset representing the gold received from IBBS (lender) as "Gold (Metal) Stock-Borrowed".

B. a liability representing the contractual obligation to return the gold to the lender as 'Gold (Metal) Borrowing'.

The gold borrowed by the bank meets the definition of an asset as reproduced above

The reason being, the Nominated Indian Bank obtains control of the gold when it receives it from IBBS (lender). There are no restrictions on the borrower's use of the gold from the date on which it receives the gold. The Bank obtains the commodity for the purpose of generating profits by lending it to another entity by charging interest/fees. Therefore, future economic benefits will flow to the bank when it lends the gold to its borrowers.

Further, the obligation to deliver gold back to lender at the end of the contract term meets the definition of a liability under paragraph 49(b) of the Framework for Preparation and Presentation of Financial Statements (The Framework) reproduced below.

"(b) A liability is a present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits."

This is because (i) the obligation arises as a result of the borrowing transaction with Lender; and (ii) the obligation exists regardless of what the bank entity does with the commodity during the contract term.

Measurement of Asset and Liability

The next question is how to measure the asset and liability recognised for gold borrowed by the Nominated Indian Banks from IBBS. The measurement requirements can be divided into two parts viz. initial measurement and subsequent measurement. As noted in the previous section, there is no specific Accounting Standard which addresses accounting aspect of this transaction. While the Framework gives various types of measurement bases, but there is very limited guidance about selection of measurement bases to different type of situations. Therefore, measurement bases should be developed bearing in mind the following fundamental underlying assumptions and qualitative characteristics of financial statements as explained in the above paragraphs namely:

a. Accrual accounting
b. Understanding
c. Relevance
d. Reliability
e. Faithful Representation
f. Substance over from
g. Neutrality
h. Prudence
i. Completeness
j. True and Fair View

Initial Recognition and Measurement

At the time of borrowing of gold, the Nominated Indian Bank has to recognise a liability for the borrowed gold from the IBBS and an asset.

The liability and asset should be recorded in USD terms with an amount equivalent to the prevailing spot value on the date of borrowing. Computation of measurement are given in the illustration section (Refer Appendix).

Subsequent Measurement of the Gold *Borrowing*

After initial measurement, the liability has to be measured by applying the gold price and USD /INR exchange prevailing on that date. The reason being the bank is exposed to the changes in gold price until the gold is returned, which results in changes in the carrying amount of bank's liability. Any changes in the carrying amounts arising due to subsequent measurement should be recognised in the Profit and Loss account. The changes in the carrying amount of the borrowing comprises of the following two elements.

(a) the movement in gold price and

(b) the movement in US$/ INR exchange rate.

The change in the carrying amount due to gold prices movement results into gains or losses. In accordance with the provisions of the Framework as mentioned in paragraph 6 above, gain/loss are in the nature of income/expense. Accordingly, the change in the carrying amount due to movement in gold price as mentioned in (a) above shall be recognised in the statement of profit and loss. The changes in the carrying amount due to movement in foreign exchange rate as mentioned in (b) above are covered under AS 11, The Effects of Changes in Foreign Exchange Rate and, accordingly, shall be recognised as foreign exchange differences in statement of profit and loss.

It has generally been observed that the Nominated Indian Banks while borrowing the gold from IBBS, simultaneously lends the same quantity of gold to the Indian Jewellers. Hence, the Metal Stock – Borrowing and Lending account will have a Nil balance.

While subsequently measuring the liability for the borrowed gold, the Nominated Indian Bank, must take into consideration the change on account of the two components (mentioned above).

Interest expense on Gold Borrowing

At each reporting date, the Nominated Indian Bank shall also recognise the interest expense charged by the IBBS in the Statement of Profit and Loss. Interest expense is in terms of gold quantity at the agreed rate of interest, generally a rate called as 'Offered Lease Rate'.

Please refer Illustration 1 in the Appendix Part.

(C) Gold (Metal) Loans (GML) extended by the Nominated Indian Bank to Borrowers (i.e. Jewellers)

The accounting issues in the books of the Nominated Indian Banks are required to be analysed from two main angles viz.

a) What is the type of transaction?

   i. Is it sale?

   ii. Is it a lease?

   iii. Is it a loan?

b) Measurement of assets and liabilities and recognition of measurement changes in the statement of profit or loss.

In order the address the above accounting issues, the nature of the transaction has been evaluated against following Accounting Standards:

(i) AS 9, Revenue Recognition

(ii) AS 19, Lease

Apart from the stated AS, the application of the Framework for Preparation and Presentation of Financial Statements (The Framework) has also been considered to evaluate the accounting issues.

Transaction Analysis

(i) **AS 9, Revenue Recognition –** We consider the following facts/ circumstances, to understand whether the transaction can be accounted as sale transaction from the date of lending of gold to the borrower:

- Borrower (Jeweller) of the Nominated Indian Bank who is borrowing the gold has the option to use the asset freely without restrictions; however, control over the gold with regard to risk and reward of ownership are not yet transferred to the borrower as the sale price of gold will be fixed at the future date.
- Borrower (Jeweller) borrows the gold primarily for use in its manufacturing operations and, therefore, there are practical constraints for the borrower to return the physical gold and instead may settle the borrowing in cash only.
- Contractual feature that the settlement/repayment is based on the price prevailing at a future date i.e. the settlement/repayment date, can be viewed as embedded derivative in the host contract i.e. of financial liability.

However, considering the underlying substance, structure and intent of the transaction, together with important aspect of “control” over gold i.e. significant risks and rewards of ownership of the asset are not transferred to the Borrower (Jeweller) until the repayment date (because sale price or settlement price is not fixed at the time of gold lending). Also, the Borrower (Jeweller) has no legal title over the gold borrowed. Therefore, it is not appropriate to account this transaction as sale at the time of initial lending of gold. Secondly, there are concerns whether the settlement based on unknown future price meets the definition of derivative and measurement of fair value. It may also be noted that the Nominated Indian Bank treats it as sale for Indian Indirect Tax Laws and also pay Customs Duty on the gold borrowed from the IBBS. However, this tax treatment does not change the underlying nature of the transaction form lending and borrowing for general purpose financial statements. It is well known fact the general purpose accounting treatment under GAAP may differ from the one applied under Tax laws.

(ii) **AS 19, Leases:** Paragraph 3.1 of this standard, defines lease as – an agreement whereby the lessor conveys to the lessee in return for payment or series of payment the right to use an asset for an agreed period of time.

In some transactions like the present Gold lending, further analysis and guidance is needed to determine whether a transaction contains a lease. In this regard since the definition of lease and other principles are similar under AS 19 and Ind AS 17, it is useful to refer Indian Accounting Standard (Ind AS) 17, Leases, for addition guidance provided therein[2]. Ind AS 17 has additional guidance in particular whether the arrangement depends on the use of a specific asset or assets. Accordingly, considering the nature of fungible nature of the gold, borrower's ability to return another piece of gold of same quality, settlement alternatives etc., the transaction does not meet the criteria of 'use of specific asset(s)' and therefore, not a lease.

The Framework for Preparation and Presentation of Financial Statements (The Framework)

In the absence of any specific AS addressing this type transaction, it is necessary to develop a specific accounting policy keeping in mind the following important aspects of the Framework explained in the above paragraphs:

- Accrual basis of accounting
- Understandability
- Reliability
- Faithful Representation
- Substance over Form

[2] Ind AS 116, Leases, which has replaced Ind AS 17 also provides guidance on this concept.

- Neutrality
- Prudence
- Completeness
- True and Fair View

<u>How to account for this transaction?</u>

In view of the fact that the transaction is neither a lease nor sale covered by AS 19 and AS 9 respectively, there is no specific Accounting Standard which addresses the accounting aspect of this transaction. In the absence of a specific Accounting Standard, the transaction needs to be recognised in the financial statements considering the provisions of the Framework. In relation to another important accounting aspect viz. Measurement, the Framework gives various types of measurement bases, but there is very limited guidance about selection of measurement bases to different type of situations. Therefore, measurement bases should be developed bearing in mind the following fundamental underlying assumptions and qualitative characteristics of General Purpose Financial Statements as explained in the above paragraphs namely:

- Accrual accounting
- Understanding
- Relevance
- Reliability
- Faithful Representation
- Substance over from
- Neutrality
- Prudence
- Completeness
- True and Fair View

Initial Recognition and Measurement

At the time lending of gold, the Nominated Indian Bank has to an recognise as asset i.e. Gold (Metal) Loan for the amount of gold lent to its customers with a corresponding credit to Gold (Metal) Stock account. The right to receive the gold back or equivalent INR of physical quantity of gold from the Borrower (Indian Jeweller) is an asset for the Nominated Indian Bank.

The loan extended to the Indian Jewellers should be recorded in USD terms with an amount equivalent to the prevailing spot value of gold on the date of lending. Computation of amounts is given in the Illustration section (Refer Appendix).

Subsequent Measurement of the Gold (Metal) Loan

After initial recognition, the carrying amount of the Gold (Metal) Loan should be measured using the prevailing gold price and USD /INR exchange prevailing on that date. The reason being the bank is exposed to the changes in gold price until the gold is returned by the Jeweller. This results in changes in the carrying amount of bank's asset i.e. GML. Any changes in the carrying amounts arising due to subsequent measurement should be recognised in the Statement of Profit and Loss account. The changes in the carrying amount of the borrowing comprises of the following two elements.

(a) the movement in gold price and

(b) the movement in US$/ INR exchange rate.

The change in the carrying amount due to gold prices movement results into gains or losses. In accordance with the provision of the Framework as mentioned in paragraph 6 above, gain/loss are in the nature of income/expense. Accordingly, the change in the carrying amount due to movement in gold price as mentioned in (a) above shall be recorded in the statement of profit and loss. The changes in the carrying amount due to movement in foreign exchange rate as mentioned in (b) above is covered under AS 11, The Effects of Changes in Foreign Exchange Rate and, accordingly, shall be recorded as foreign exchange differences in statement of profit and loss.

Interest income on Gold (Metal) Loan

At each reporting date, the Nominated Indian Bank shall also recognise the Interest Income charged to its customer in the Statement of Profit and Loss account. Interest income generally accrues in terms of quantity of gold at the agreed rate of interest, generally based on an agreed rate called as 'Offered Lease Rate'.

Please refer Illustration 2 in the Appendix Part.

Appendix

Illustration 1 – Gold (Metal) Borrowing (GMB) by Nominated Indian Bank from International Bullion Bank/ Supplier (IBBS)

Transaction Details: Transaction spreads over the two accounting periods

Date of Borrowing	January 1, 2019
Borrowing Tenor & Repayment date	6 months & June 30, 2019
Gold Quantity Borrowed	100Oz [1 Ounce (1 Oz) = 28.3495 gms]
Prevailing Gold Price LBMA– on 01/01/2019	US$ 1,200/Oz
US$/INR RBI Reference Rate – on 01/01/2019	INR 65/US$1
Prevailing Gold Price LBMA – on 31/03/2019	US$ 1,300/Oz
US$/INR RBI Reference Rate – on 31/03/2019	INR 68/US$1
Prevailing Gold Price LBMA – on 30/06/2019	US$ 1,400/Oz
US$/INR RBI Reference Rate – on 30/06/2019	INR 70/US$1
Interest Rate (Offered Lease Rate)	5% pa. (Simple Interest considered)
Repayment	It can be in US$ equivalent or in Physical Gold

CALCULATION OF BORROWING AMOUNT OF THE NOMINATED INDIAN BANK			
DATE	**PARTICULARS**	**Foreign Currency ($)**	**Local currency (₹)**
Accounting at the time of initial Borrowing – January 1, 2019			
01.01.2019	Gold (Metal) Borrowing Amount	120,000	7,800,000
	(100 Ounces * USD 1,200 * INR 65)		

Accounting at the Year-End – March 31, 2019			
31.03.2019	Revalued amount of Gold (Metal) Borrowing	131,625	8,950,500
	[(100+1.25 Ounces) * USD 1,300 * INR 68]		
31.03.2019	Components of Revaluation i.e. difference in INR value of borrowed Gold (Metal) from January 01, 2019 to March 31, 2019 and interest calculation for the said period:		1,150,500 [(A)+(B)+(C)]
	(A) Gold Price Difference		650,000
	[100 Ounces * (US$ 1,300-1,200) * INR 65]		
	(B) Foreign Exchange Rate Difference		390,000
	[100 Ounces * US$ 1,300 * (INR 68-INR 65)]		
	(C) Interest		110,500
	100 Ounces * 5% * 3/12 (for three months) = 1.25 grams of interest		
	[1.25 grams * USD 1,300 * INR 68]		
Accounting at the Maturity Date of the Borrowing–June 30, 2019			
30.06.2019	Revalued amount of Gold (Metal) Borrowing	143,500	10,045,000
	[(100+1.25+1.25 Ounces) * USD 1,400 * INR 70]		
30.06.2019	Components of Revaluation i.e. difference in INR value of borrowed Gold (Metal) from April 1, 2019 to June 30, 2019 and interest calculation for the said period:		1,094,500 [(A)+(B)+(C)]
	(A) Gold Price Difference		688,500
	[101.25 Ounces * (US$ 1,400- 1,300) * INR 68]		

	(B) Foreign Exchange Rate Difference		283,500
	[101.25 Ounces * US$ 1,400 * (INR 70-INR 68)]		
	(C) Interest		122,500
	100 Ounces * 5% * 3/12 (for three months) = 1.25 grams of interest		
	[1.25 grams * USD 1,400 * INR 70]		

TRANSACTION CONSIDERED AS FINANCING TRANSACTION					
BOOKS OF NOMINATED INDIAN BANK					
JOURNAL ENTRIES FOR THE BORROWING TRANSACTION WITH IBBS					
SR. NO	**DATE**	**PARTICULARS**	**PL/ BS#**	**DEBIT AMOUNT (₹)**	**CREDIT AMOUNT (₹)**
Accounting at the time of initial Borrowing – January 1, 2019					
1.	01.01.2019	Gold (Metal) Stock A/c	BS	7,800,000	
		To Gold (Metal) Borrowing A/c	BS		7,800,000
		(Being physical Gold (Metal) Stock borrowed from the International Supplier)			
Accounting at the Year-End – March 31, 2019					
2.	31.03.2019	Interest Expense A/c	PL	110,500	
		To Accrued Interest Payable A/c	BS		110,500
		(Being interest expense on the amount of Gold (Metal) borrowing accrued for the period January to March 2019)			
3*.	31.03.2019	Accrued Interest	BS	110,500	

		Payable A/c			
		To Gold (Metal) Borrowing A/c	BS		110,500
		(Being interest accrued for the period January to March 2019 transferred to the Gold (Metal) Borrowing account)			
** It is assumed that interest payable is capitalised to the Gold (Metal) Borrowing account on quarterly basis.*					
4.	31.03.2019	Gold Price Difference A/c	PL	650,000	
		Foreign Exchange Rate Difference A/c	PL	390,000	
		To Gold (Metal) Borrowing A/c	BS		1,040,000
		(Being loss on account of changes in gold price and foreign currency recognised for the period January to March 2019)			
5.	31.03.2019	Profit and Loss A/c	PL	110,500	
		To Interest Expense A/c	PL		110,500
		(Being interest expense for the period January to March 2019 charged to the Profit & Loss account)			
6.	31.03.2019	Profit and Loss A/c	PL	1,040,000	
		To Gold Price Difference A/c	PL		650,000
		To Foreign Exchange Rate Difference A/c	PL		390,000
		(Being gold price difference & foreign exchange rate difference for the period January to March 2019 charged to the Profit and Loss account)			

Accounting at the Maturity Date of the Borrowing–June 30, 2019					
7.	30.06.2019	Interest Expense A/c	PL	122,500	
		To Accrued Interest Payable A/c	BS		122,500
		(Being interest expense on the amount of Gold (Metal) Borrowing accrued for the period April to June 2019)			
8*.	30.06.2019	Accrued Interest Payable A/c	BS	122,500	
		To Gold (Metal) Borrowing A/c	BS		122,500
		(Being interest accrued for the period April to June 2019 transferred to the Gold (Metal) Borrowing account)			
** It is assumed that interest payable is capitalised to the Gold (Metal) Borrowing account on quarterly basis.*					
9.	30.06.2019	Gold Price Difference A/c	PL	688,500	
		Foreign Exchange Rate Difference A/c	PL	283,500	
		To Gold (Metal) Borrowing A/c	BS		972,000
		(Being loss on account of changes in gold price and foreign currency recognised for the period April to June 2019)			
10.	30.06.2019	Profit and Loss A/c	PL	122,500	
		To Interest Expense A/c	PL		122,500
		(Being interest expense for the period April to June 2019 charged to the Profit & Loss account)			
11.	30.06.2019	Profit and Loss A/c	PL	972,000	

		To Gold Price Difference A/c	PL		688,500
		To Foreign Exchange Rate Difference A/c	PL		283,500
		(Being gold price difference & foreign exchange rate difference for the period April to June 2019 charged to the Profit and Loss account)			
12.	30.06.2019	Gold (Metal) Borrowing A/c	BS	10,045,000	
		To Nostro Bank A/c	BS		10,045,000
		(Being settlement of physical gold borrowed from the International Supplier)			

 # PL refers to the Statement of Profit and Loss and BS refers to Balance Sheet

Illustration 2 - Gold (Metal) Loan (GML) extended to the Indian Jeweller by the Nominated Indian Bank

Transaction Details: Transaction spreads over the two accounting periods

Date of Loan	January 1, 2019
Loan Tenor & Repayment date	6 months & June 30, 2019
Gold Quantity Lent	100Oz [1 Ounce (1 Oz) = 28.3495 gms]
Prevailing Gold Price LBMA– on 01/01/2019	US$ 1,200/Oz
US$/INR RBI Reference Rate – on 01/01/2019	INR 65/US$1
Prevailing Gold Price LBMA– on 31/03/2019	US$ 1,300/Oz
US$/INR RBI Reference Rate – on 31/03/2019	INR 68/US$1
Interest Rate	8% pa. (Simple Interest considered)
Prevailing Gold Price LBMA– on 30/06/2019	US$ 1,400/Oz
US$/INR RBI Reference Rate – on	INR 70/US$1

30/06/2019	
Repayment	It is generally in INR equivalent or if the borrower wants to repay in Physical Gold, it has to purchase gold from the lending bank only.

CALCULATION OF LENDING AMOUNT TO BE EXTENDED BY THE NOMINATED INDIAN BANK TO INDIAN BORROWER (JEWELLER)			
DATE	**PARTICULARS**	**Foreign Currency ($)**	**Local currency (₹)**
Accounting at the time of initial Lending – January 1, 2019			
01.01.2019	Gold (Metal) Loan Amount	120,000	7,800,000
	(100 Ounces * USD 1,200 * INR 65)		
Accounting at the Year-End – March 31, 2019			
31.03.2019	Revalued amount of Gold (Metal) Loan	132,600	9,016,800
	[(100+2.00 Ounces)* USD 1,300 * INR 68]		
31.03.2019	Components of Revaluation i.e. difference in INR value of Gold (Metal) Loan from January 1, 2019 to March 31,2019 and interest calculation for the said period:		1,216,800 [(A)+(B)+(C)]
	(A) Gold Price Difference		650,000
	[100 Ounces * (US$ 1,300-1,200) * INR 65]		
	(B) Foreign Exchange Rate Difference		390,000
	[100 Ounces * US$ 1,300 * (INR 68-INR 65)]		
	(C) Interest		176,800
	100 Ounces * 8% * 3/12 (for three months) = 2.00 grams of interest		

	[2.00 grams * USD 1,300 * INR 68]		
Accounting at the Maturity Date of the Lending transaction –June 30, 2019			
30.06.2019	Revalued amount of Gold (Metal) Loan	145,600	10,192,000
	[(100+2.00+2.00 Ounces) * USD 1,400 * INR 70]		
30.06.2019	Components of Revaluation i.e. difference in INR value of Gold (Metal) Loan from April 1, 2019 to June 30, 2019 and interest calculation for the said period:		1,175,200 [(A)+(B)+(C)]
	(A) Gold Price Difference		693,600
	[102 Ounces * (US$ 1,400-1,300) * INR 68]		
	(B) Foreign Exchange Rate Difference		285,600
	[102 Ounces * US$ 1,400 * (INR 70-INR 68)]		
*	(C) Interest		196,000
	100 Ounces * 8% * 3/12 (for three months) = 2.00 grams of interest		
	[2.00 grams * USD 1,400 * INR 70]		

TRANSACTION CONSIDERED AS FINANCING TRANSACTION					
BOOKS OF NOMINATED INDIAN BANK					
JOURNAL ENTRIES FOR THE LENDING TRANSACTION WITH INDIAN BORROWER i.e. JEWELLER					
SR. NO	**DATE**	**PARTICULARS**	**PL/ BS#**	**DEBIT AMOUNT ₹**	**CREDIT AMOUNT ₹**
Accounting at the time of initial Lending – January 1, 2019					
1.	01.01.2019	Gold (Metal) Lending A/c	BS	7,800,000	
		To Gold (Metal) Stock A/c	BS		7,800,000
		(Being physical Gold (Metal) Stock lent to the Indian Borrower i.e. jeweler)			
Accounting at the Year-End – March 31, 2019					
2.	31.03.2019	Accrued Interest Receivable A/c	BS	176,800	
		To Interest Income A/c	PL		176,800
		(Being interest income on the amount of Gold (Metal) Stock lent to the Borrower i.e. Jeweller accrued for the period January to March 2019)			
3*.	31.03.2019	Gold (Metal) Lending A/c	BS	176,800	
		To Accrued Interest Receivable A/c	BS		176,800
		(Being interest accrued for the period January to March 2019 transferred to the Gold (Metal) Lending account)			
** It is assumed that interest receivable is capitalised to the Gold (Metal) Lending account on quarterly basis.*					
4.	31.03.2019	Gold (Metal) Lending A/c	BS	1,040,000	
		To Gold Price Difference A/c	PL		650,000

		To Foreign Exchange Rate Difference A/c	PL		390,000
		(Being profit on account of changes in gold price and foreign currency recognised for the period January to March 2019)			
5.	31.03.2019	Interest Income A/c	PL	176,800	
		To Profit and Loss A/c	PL		176,800
		(Being interest income for the period January to March 2019 transferred to the Profit & Loss account)			
6.	31.03.2019	Gold Price Difference A/c	PL	650,000	
		Foreign Exchange Rate Difference A/c	PL	390,000	
		To Profit and Loss A/c	PL		1,040,000
		(Being gold price difference & foreign exchange rate difference for the period January to March 2019 transferred to the Profit and Loss account)			
Accounting at the Maturity Date of the Lending transaction –June 30, 2019					
7.	30.06.2019	Accrued Interest Receivable A/c	BS	196,000	
		To Interest Income A/c	PL		196,000
		(Being interest income on the amount of Gold (Metal) Stock lent to the Borrower i.e. jeweler accrued for the period April to June 2019)			
8*.	30.06.2019	Gold (Metal) Lending A/c	BS	196,000	
		To Accrued Interest Receivable A/c	BS		196,000
		(Being interest income accrued for the period April to June 2019 transferred to the Gold (Metal) Lending account)			

** It is assumed that interest receivable is capitalised to the Gold (Metal) Lending account on quarterly basis.*					
9.	30.06.2019	Gold (Metal) Lending A/c	BS	979,200	
		To Gold Price Difference A/c	PL		693,600
		To Foreign Exchange Rate Difference A/c	PL		285,600
		(Being income on account of changes in gold price and foreign currency recognised for the period April to June 2019)			
10.	30.06.2019	Interest Income A/c	PL	196,000	
		To Profit and Loss A/c	PL		196,000
		(Being interest income for the period April to June 2019 transferred to the Profit & Loss account)			
11.	30.06.2019	Gold Price Difference A/c	PL	693,600	
		Foreign Exchange Rate Difference A/c	PL	285,600	
		To Profit and Loss A/c	PL		979,200
		(Being gold price difference & foreign exchange rate difference for the period April to June 2019 transferred to the Profit and Loss account)			
12.	30.06.2019	Customer Current A/c	BS	10,192,000	
		To Gold (Metal) Lending A/c	BS		10,192,000
		(Being settlement of physical gold lent to the Borrower i.e. Jeweller)			

 # PL refers to the Statement of Profit and Loss and BS refers to Balance Sheet

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