भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

# Consultation Paper on review of valuation of physical gold and silver held by gold and silver Exchange Traded Funds (ETFs)

## A. Objective

The objective of this consultation paper is to seek comments/ views from the public on the proposal for review of valuation of physical gold and silver in cases of gold and silver Exchange Traded Funds (ETFs). The proposed change is expected to bring uniformity in the valuation process of gold and silver throughout the mutual fund industry, for investments made by the gold and silver ETFs and more closely align their valuation with domestic prices of gold and silver.

## B. Background

1. The SEBI (Mutual Funds) Regulations, 1996 ("MF Regulations") and the current regulatory framework for MFs *inter-alia* provide for the valuation guidelines for gold and silver held by gold ETFs and silver ETFs respectively.
2. The clauses 3A and 3B of the Eighth schedule read with Regulations 25(19) and 47 of the MF Regulations, *inter alia* mandate as under:
   - **2.1.** Gold held by any gold ETF scheme has to be valued at the AM fixing price of the London Bullion Market Association (LBMA) in US dollars per troy ounce, for gold having a fineness of 995.0 parts per thousand;
   - **2.2.** Silver held by a silver ETF scheme shall be valued at the AM fixing price of LBMA in US dollars per troy ounce for silver having a fineness of 999.0 parts per thousand.
3. As per the current practice, the LBMA price is adjusted for conversion to metric measure as per standard conversion rates and conversion of US dollars into Indian rupees as per the RBI reference rate. Further, customs duty and other applicable taxes and levies are also factored in for arriving at the final valuation.
4. Apart from the above, the price is further adjusted to the Indian bullion prices, which are often either at a premium or discount to the LBMA prices based on the domestic demand and supply.
5. Hence, as per the extant requirement, LBMA AM Fixing price is used as a starting point, and is eventually matched to the domestic price by applying necessary conversions and appropriate notional premium/ discount as described above.

6. While the physical gold/ silver held by gold and silver ETFs are valued as per the aforesaid process, the Exchange Traded Commodity Derivatives (ETCDs) on gold/ silver held by MF schemes are valued as per the closing price of Futures in the domestic commodity exchange of the respective ETCDs.
7. In view of the above, a need is felt to standardize the valuation methodology for gold and silver across the mutual fund industry, in order to ensure consistency and eliminate discrepancies in the valuation of these commodities.

## C. Current issues faced by AMCs w.r.t valuation of gold/ silver

### 1. Duplication of effort for valuing physical gold/ silver held by MF schemes

1.1. The prevailing valuation methodology initiates with the LBMA AM Fixing price as the base reference and subsequently adjusts it to reflect the domestic market price i.e., the spot price on domestic exchanges through the application of relevant currency conversions and applying necessary adjustments and appropriate notional premium.

*An illustrative example explaining the conversion of LBMA price to the domestic price post applying necessary conversions and appropriate notional premium/ discount is as under:*

| Illustrative Example when domestic spot price is at premium | |
|---|---|
| **Gold Price calculation** | |
| Price of Gold ($)/oz (as per LBMA) | **2,812** |
| Price of Gold in US Dollar per 10 grams (10 grams = 1 oz * 0.3199) ($) | 2812*0.3199= **899.56** |
| Currency Exchange Rate (USD/INR) | **86.64** |
| Price of Gold (Rs. per 10 grams) LBMA converted into Rs. | 899.56*86.64= **77,937.77** |
| Customs Duty (per 10grams) (6%) (Rs.) | 77937.77*6%= **4,676.27** |
| Total Price of Gold (per 10 grams) (Rs.) | 77937.77+ 4676.27= **82,614.04** |
| Spot price of gold in the domestic exchange (per 10 grams) (Rs.) | **81,798** |
| Discount (Rs.) (based on domestic demand/supply) | 82614.04- 81798= **816.04** |
| Total Landed Price of Gold per 10 grams (Rs.) | 82614.04-816.04= **81,798** |
| Total Landed Price of Gold per 1 grams (Rs.) | 81798/10= **8,179.8** |

In the aforesaid example, the valuation process starts with the LBMA price of 2,812 USD/oz and after applying the necessary currency conversion and adjustments, the adjusted LBMA price comes out to be Rs. 82,614.04 per 10 grams of gold. This price is compared with the domestic spot price of gold i.e. Rs. 81,798 per 10 grams of gold. Then the differential amount i.e. Rs. 816.04 is applied to the adjusted LBMA price to arrive at the domestic price of Rs. 81,798 per 10 grams of gold.

1.2. Presently, different AMCs use different sources of domestic benchmark to apply necessary premium/ discount, which leads to non- uniformity of the valuation practice for gold and silver across the MF industry. Further, in the absence of any regulatory direction, AMCs use their discretion to apply premium/ discount resulting in differences in valuation of gold/ silver. For e.g. different AMCs apply premium / discount at different frequencies i.e. on daily basis/ alternate days' basis/ monthly basis etc. This leads to differential valuation of gold/ silver, leading to variance in the performance of the ETFs of different AMCs based on the same commodity.

1.3. While ETCDs on gold/ silver held by schemes are valued at the future price in the domestic exchanges, the physical gold/ silver is valued on the basis of LBMA price, subject to other necessary conversion/ changes to arrive at the domestic price. Therefore, if any gold/ silver ETF invests in both physical gold/ silver and ETCDs, two different sources are used for valuation of the same asset class in that scheme.

1.4. In view of the above, it has been represented by the concerned stakeholders that alternatively, spot prices as determined by the domestic exchanges may be considered to be directly used to value the gold or silver.

## D. Issues for public consultation

Considering the issues faced by the industry due to the non- uniformity in the valuation of gold and silver, proposal for adopting a uniform valuation practice for gold/ silver in which the MF schemes invest, is as under: -

1. **<u>Consideration of spot price published by the domestic commodity exchanges for valuation of gold and silver</u>**

1.1. There are various service providers/ index providers in India such as jeweller associations, commodities exchanges etc., which publish spot price of commodities including gold and silver under the domestic market condition. The commodity exchanges usually poll the spot prices of gold and silver on a daily basis and this price is used as reference price for physical market transaction in gold/ silver within India.

1.2. The current valuation practice of gold and silver, as discussed in detail at paragraphs B (2)- B (5) above, entails usage of the LBMA AM price, and eventually adjusting the same to the domestic prices i.e. the spot prices published by the Indian commodity exchanges.

1.3. Therefore, for arriving at the NAV of gold or silver ETF, an AMC has to further account for currency rate, taxes and other duties to the LBMA prices. The additional step in the Indian context is to gauge the premium/ discount to the LBMA prices.

1.4. In view of the various steps currently involved in the determination of the final valuation of gold / silver in the gold and silver ETFs, there may be merit in using the polled spot prices published by the domestic exchanges, instead of the LBMA price, as the reference. This change may aid in doing away with subjective adjustment of the premium/ discount, as these spot prices are polled from the domestic participants and are reflective of the domestic demand and supply.

1.5. Further as the domestic commodity exchanges are subject to transparency requirements and other compliances under the regulatory framework as mandated by SEBI, using the spot price published by such regulated entities for valuation of gold and silver shall lead to a valuation reflective of the domestic market conditions and also ensure uniformity in the valuation practices across the MF industry.

1.6. It is therefore proposed that instead of using LBMA price as a starting point for valuation, it may be mandated that AMCs directly use the spot prices published by the domestic commodity exchanges to value the gold / silver.

This will aid in reduction in duplication of efforts and also represent the market prices of gold and silver as per the domestic demand and supply scenarios.

***<u>Consultation No. 1</u>***

***Please consider the proposal at paragraph D (1) above w.r.t using the spot price published by a SEBI regulated Indian commodity exchange for the valuation of gold and silver in which the MF schemes invest and provide your comments with sufficient rationale.***

***<u>Consultation No. 2</u>***

***Please provide your comments with sufficient rationale regarding what should be the domestic benchmark that may be used for valuation of gold and silver, instead of LBMA pricing.***

**2. <u>Polling process for calculation of spot prices in case of both gold and silver</u>**

2.1. Presently, the process followed for determination of the spot prices of commodities in the domestic scenario is as under:

2.1.1. Prices are polled from a poll panel comprising representatives from the value chain of physical market viz. importers, exporters, traders, processors, commission agents etc. and are published during specified times by the commodity exchanges.

2.1.2. The spot price is determined from polled prices using various methodologies such as Trimmed Mean Methodology wherein mean is computed after discarding those falling outside pre- determined price limits on either side. The trimmed mean (interquartile means) approach involves calculation of mean after discarding lowest and highest quartiles (25%) of the scores, thus excluding biased prices.

2.1.3. After polling, prices quoted by polling participants are entered in the system. The system then computes the spot price for the day. On completion of the polling process, final spot price is disseminated through the exchange's websites.

2.2. As the polled price for the spot market of commodities needs to be adequately transparent to provide the valuation of gold and silver in the domestic demand and supply scenario, it is proposed that the detailed polling mechanism conducted by the domestic regulated entities *inter alia* including the methodology of polling and the policies for the fair conduct of polling etc. should be made publicly available.

2.3. The polling mechanism conducted by commodity exchanges should comply with paragraph 1.3 of chapter 1 of SEBI Master Circular for commodity derivative segment which mentions that the stock exchanges are required to *inter alia*

2.3.1. *have a well laid down and documented policy for the spot price polling mechanism*

2.3.2. *display the spot price polling mechanism adopted for every contract on its website along with specified details.*

2.3.3. *disclose the details w.r.t individual spot price polling participants on its website etc.*

2.4. The polling process should comply with the spot price polling mechanism prescribed in the SEBI Master Circular for commodity derivative segment, which *inter alia* contains provisions such as endeavour in increasing the sample size for polling, monthly review of polled prices to identify the participants habitually polling unrealistic prices, providing separate feedback window for receiving complaints etc.

***<u>Consultation No. 3</u>***

***Please consider the principles of polling for the spot price calculation at paragraph D (2) above and provide your comments with supporting rationale whether any additional regulatory requirement is needed in order to ensure transparency in the process of arriving the spot price.***

## E. Public Comments on this Consultation Paper

1. Public comments are invited for the aforesaid proposals and the comments/ suggestions should be submitted by any of the following modes latest by August 6, 2025: -

   1.1. **Online web-based form**

   1.1.1. The comments may be submitted through the following link: https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes

   1.1.2. The instructions to submit comments on the consultation paper are as under:

   1.1.2.1. Before initiating the process, please read the instructions given on top left of the web form as "Instructions".

   1.1.2.2. Select the consultation paper you want to comment upon from the dropdown under the tab – "Consultation Paper" after entering the requisite information in the form.

   1.1.2.3. All fields in the form are mandatory;

   1.1.2.4. Email Id and phone number cannot be used more than once for providing comments on a particular consultation paper.

   1.1.2.5. If you represent any organization other than the types mentioned under dropdown in "Organization Type", please select "Others" and mention the type, which suits you best. Similarly, if you do not represent any organization, you may select "Others" and mention "Not Applicable" in the text box.

   1.1.2.6. There will be a dropdown of Proposals in the form. Please select the proposals one- by-one and for each of the proposal, please record your level of agreement with the selected proposal. Please note that submission of agreement level is mandatory.

   1.1.2.7. If you want to provide your comments for the selected proposal, please select "Yes" from the dropdown under "Do you want to comment on the proposal" and use the text boxes provided for the same.

1.1.2.8. After recording your response to the proposal, click on "Submit" button. System will save your response to the selected proposal and prompt you to record your response for the next proposal. Please follow this procedure for all the proposals given in the dropdown.

1.1.2.9. If you do not want to react on any proposal, please select that proposal from the dropdown and click on "Skip this proposal" and move to the next proposal.

1.1.2.10. After recording your response to all the proposals, you may see your draft response to all of proposals by clicking on "Check your response before submitting" just before submitting response to the last proposal in the dropdown. A pdf copy of the response can also be downloaded from the link given in right bottom of the web page.

1.1.2.11. The final comments shall be submitted only after recording your response on all of the proposals in the consultation paper.

1.1.3. In case of any technical issue in submitting your comments through web based public comments form, you may contact the following through email with a subject "Consultation Paper on review of valuation of physical gold and silver held by gold and silver Exchange Traded Funds (ETFs)".

i. Mr. Lakshaya Chawla, Deputy General Manger(lakshayac@sebi.gov.in)
ii. Mr. Bimal Prasad Panda, Manager (bimalp@sebi.gov.in)
iii. Ms. Kritika, Assistant Manager (kritika@sebi.gov.in)

**Issued on: July 16, 2025**

********************