Dear Sir/Madam

Lending against Gold

Please refer to paragraph 98 of the Monetary Policy Statement 2013-14 announced on May 3, 2013 on lending against gold, proposing to restrict the facility of advances against the security of gold coins per customer to gold coins weighing up to 50 gms.

2. As per extant instructions contained in our circular DBOD.Leg.BC.95/ C.124 (P) - 78 dated July 22, 1978, RRBs should not grant any advance against gold bullion. RRBs are, however, currently permitted to grant advances against gold ornaments and jewellery subject to Board approved policies in terms of our circular DBOD.No.BC.138/21.01.023/94 dated November 22, 1994. Advances may also be granted against specially minted gold coins sold by banks which may not be in the nature of “bullion” or “primary gold”. However, as pointed out in the monetary policy statement, there is a risk that some of these coins would be weighing much more, thereby circumventing the Reserve Bank’s guidelines regarding restriction on grant of advance against gold bullion. Accordingly, it is advised that while granting advance against the security of specially minted gold coins sold by banks, RRBs should ensure that the weight of the coin(s) does not exceed 50 grams per customer and the amount of loan to any customer against gold ornaments, gold jewellery and gold coins (weighing up to 50 grams) should be within the Board approved limit.

3. In this context, we have also been receiving references from certain banks asking whether advance against units of gold Exchange Traded Funds (ETF) and gold Mutual Funds is
permitted. As these products are backed by bullion/primary gold, it is clarified that the restriction on grant of loan against “gold bullion” stipulated in terms of our circular dated July 22, 1978 referred to at para 2 above, will also be applicable to grant of advance against units of gold ETFs and units of gold Mutual Funds.

4. All other instructions issued in this regard will remain unchanged.

Yours faithfully,

(A. Udgata)
Principal Chief General Manager