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Coverage –

UK clearing house plans to offer cheaper loans to jewellers

Suresh P. Iyengar

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Jewellers and bullion traders will have access to cash at a low interest rate against gold if an initiative by the Bombay Bullion Association and London-based independent clearing house LCH.Clearnet Group materialises.

Mr Prithviraj Kothari, President, BBA, said LCH.Clearnet, which serves major international exchanges and platforms, was looking at offering short-term loans against gold by setting up a warehouse for precious metals in India.

Typically, a jeweller can stock his gold inventory in the vaults of LCH.Clearnet to be hired or set up in India and



avail himself of loans at Libor (London interbank offered rate) plus one or two per cent. This may translate into five or six per cent in India, he said.

At present, banks charge about 10-14 per cent on loans

against gold. "Gold is a dollar-denominated metal and we have always demanded that the interest rate be linked to international lending rates," Mr Kothari said.

Top officials of LCH.Clear-

net including Mr Alberto Pravettoni, Managing Director and Group Strategy and Commercial Services; Mr David Farrar, Director, Metals and Commodities; and Mr Rory O'Brien, Director; met BBA board members on Friday to discuss the way ahead.

Sources said the team also met officials of SEBI and the Forward Markets Commission on guidelines to be followed for setting up its venture in India.

LCH.Clearnet executes settlements for the London Metal Exchange, NYSE, Euronet, London Stock Exchange, Bourse de Luxembourg and many over-the-counter trades.

Drawing a parallel between banks' lending against warehouse receipts, Mr Kothari said

if things go according to plan, it would boost bullion trade in the country by at least five times. For instance, if gold prices fall from \$1,300 to \$1,200 an ounce, bullion traders can park their physical gold holding with LCH.Clearnet to raise money for their immediate needs and repay in less than a week. This is better than the current practice of bank finance which is cumbersome and time-consuming.

Ruling out the possibility of a joint venture between BBA and LCH.Clearnet Mr Kothari said: "We would help out even if an Indian company is interested in a similar venture. According to my understanding, it would need a capital base of Rs 100-200 crore."