



CIRCULAR

SEBI/HO/IMD/DF2/CIR/P/2021/668

November 24, 2021

All Recognized Stock Exchanges/
All Custodians/
All Mutual Funds (MFs)/
All Asset Management Companies (AMCs)/
All Trustee Companies/ Board of Trustees of Mutual Funds/
Association of Mutual Funds in India (AMFI)

Sir / Madam,

Subject: Norms for Silver Exchange Traded Funds (Silver ETFs) and Gold Exchange Traded Funds (Gold ETFs).

- A. In order to have regulatory mechanism for Silver Exchange Traded Funds (Silver ETFs), amendments to SEBI (Mutual Funds) Regulations, 1996 (hereinafter called as “MF Regulations”) have been notified vide Gazette notification no. [SEBI/LAD-NRO/GN/2021/56 dated November 9, 2021](#). These amendments to MF Regulations shall come into force on 30th day from the date of their publication in the Official Gazette.
- B. With respect to Silver ETFs, the following operating norms have been specified:
1. **Investment Objective:** To generate returns that are in line with the performance of physical silver in domestic prices, subject to tracking error.
 2. **Investments:**
 - 2.1. A Silver ETF Scheme shall invest at least 95% of the net assets of the scheme in:
 - 2.1.1. Silver and
 - 2.1.2. Silver related instruments. Exchange Traded Commodity Derivatives (ETCDs) having silver as the underlying shall be considered as ‘silver related instrument’



for Silver ETFs. Investment in ETCs having silver as the underlying by Silver ETFs will be subject to following conditions:

- i. The exposure to ETCs having silver as the underlying shall not exceed 10% of net asset value of the scheme. However, the above limit of 10% shall not be applicable to Silver ETFs where the intention is to take delivery of the physical silver and not to roll over its position to next contract cycle.
 - ii. Before investing in ETCs having silver as the underlying, mutual funds shall put in place a written policy with regard to such investment with due approval from the Board of the AMC and the Trustees. The policy shall be reviewed by the Board of AMC and Trustees at least once a year.
 - iii. The cumulative gross exposure of Silver ETFs shall not exceed 100% of the net assets of the scheme.
- 2.2. The physical silver shall be of standard 30 kg bars with fineness of 999 parts per thousand (or 99.9% purity) confirming to London Bullion Market Association (LBMA) Good Delivery Standards.
3. **Valuation:** Silver shall be valued based on the methodology provided in paragraph 3B of Eighth Schedule to MF Regulations.
4. **Determination of Net Asset Value (NAV):**
- 4.1. The NAV of units of Silver ETF Scheme shall be calculated up to four decimal points as shown below:

$$\text{NAV (in INR terms)} = \frac{\text{Market or Fair Value of Scheme's investments} + \text{Current Assets} - \text{Current Liabilities and Provision}}{\text{Number of units outstanding under the Scheme on the Valuation Date}}$$

5. **Total Expense Ratio (TER):** The TER applicable for Silver ETF schemes shall be same as the TER applicable for ETFs in terms of Regulation 52 of MF Regulations.



6. **Disclosure of NAV:** The NAV of Silver ETFs shall be disclosed on daily basis on the website of the AMC. Further, the indicative NAVs of Silver ETFs shall be disclosed on Stock Exchange platforms, where the units of these ETFs are listed, on continuous basis during the trading hours.
7. **Benchmark for Silver ETF Scheme:** Silver ETF Scheme(s) shall be benchmarked against the price of silver (based on LBMA Silver daily spot fixing price).
8. **Liquidity:**
 - 8.1. Units of Silver ETFs shall be listed on the recognized Stock Exchange(s).
 - 8.2. The AMC shall appoint Authorized Participants (APs)/ Market Makers (MMs) to provide liquidity for the units of Silver ETFs in secondary market on an ongoing basis.
 - 8.3. APs/ MMs and large investors may directly buy/sell units with the Mutual Fund in creation unit size. The AMC shall disclose the details about the creation unit size of Silver ETF in Scheme Information Document (SID).
9. **Tracking Error & Tracking Difference:**
 - 9.1. The tracking error i.e. the annualised standard deviation of the difference in daily returns between physical silver and the NAV of Silver ETF based on past one year rolling over data (For ETFs in existence for a period of less than one year, annualized standard deviation shall be calculated based on available data) shall not exceed 2%. The disclosure regarding the same shall be made on monthly basis on the website of the AMC.
 - 9.2. In case of unavoidable circumstances in the nature of force majeure which are beyond the control of the AMCs, the tracking error may exceed 2%, for which approval of Board of AMC and Trustees shall be taken and the same shall prominently be disclosed on the website of the AMC.
 - 9.3. Along with the disclosure of tracking error, Silver ETF schemes shall also disclose the tracking difference i.e. the difference of returns between physical silver and the Silver ETF, on the website of the AMC on monthly basis for tenures 1 year, 3 year, 5 year, 10 year and since the date of allotment of units.



10. Disclosures: To enable the investors to take an informed decision, the SID of Silver ETFs shall, *inter-alia*, disclose the following:

- 10.1. Tracking error and tracking difference,
- 10.2. Market risk due to volatility in silver prices,
- 10.3. Liquidity risks in physical or derivative markets impairing the ability of the fund to buy and sell silver,
- 10.4. Risks associated with handling, storing and safekeeping of physical silver;
- 10.5. Applicable tax provisions.

11. Dedicated Fund Manager: For commodity based funds such as Gold ETFs, Silver ETFs and other funds participating in commodities market, a dedicated fund manager with relevant skill and experience in commodities market including commodity derivatives market shall be appointed to manage the fund. However, it is clarified that dedicated fund manager(s) for each Commodity based fund is not mandatory.

12. Half Yearly Trustee Report:

- 12.1. Physical verification of silver underlying the Silver ETF units shall be carried out by the statutory auditor of mutual fund and shall report the same to trustees on half yearly basis.
- 12.2. The confirmation on physical verification of silver as stated above shall also form part of half yearly report by trustees to SEBI.

C. Additional Norms for Gold ETFs: Gold ETFs shall additionally comply with the norms as stated at sub-para 6, 9, 10 and 11 of paragraph B above as specified for Silver ETFs.

D. Applicability:

1. The provisions of paragraphs B & C shall come into force from the effective date of the amendments to MF Regulations as mentioned in paragraph A above.



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Securities and Exchange Board of India

2. The existing Gold ETFs shall comply with the provisions of paragraph C within a period of 3 months from the date of the circular.
- E.** This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

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