SEBI lays down operating norms for silver exchange traded funds

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Markets regulator Sebi on Wednesday came out with operating norms for silver exchange traded fund (ETF), a move that will make it convenient for investors to have an exposure to such commodity in a transparent manner.

Under the norms, the regulator has specified guidelines on investment objectives of silver ETFs, valuation, determination of net asset value (NAV), tracking error as well as tracking difference and disclosure requirements.

Currently, Indian mutual funds are allowed to launch ETFs tracking gold.

In a circular, Sebi said silver ETFs will have to invest at least 95 per cent of net asset in silver and silver-related instrument.

Further, Exchange Traded Commodity Derivatives (ETCDs) having silver as the underlying will be considered as silver-related instrument for silver ETFs.

Investment in ETCDs having silver as the underlying by silver ETFs will be subject to certain conditions. The exposure to ETCDs having silver as the underlying will not exceed 10 per cent of net asset value of the scheme.

However, this limit will 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.

"Before investing in ETCDs 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 AMC and trustees," Sebi said.

The policy will be reviewed by the board of asset management company (AMC) and trustees at least once a year.

The cumulative gross exposure of silver ETFs will not exceed 100 per cent of the net assets of the scheme. According to Sebi, the physical silver will be of standard 30 kg bars with fineness of 99.9 per cent purity conforming to London Bullion Market Association (LBMA) Good Delivery Standard.

"With Sebi laying regulations for silver ETFs, it will become very convenient for investors to have exposure to silver as a commodity in a transparent manner, in addition to their exposure to Gold." Hemen Bhatia, Deputy Head - ETF, Nippon Life India Asset Management Ltd, said.

The NAV of silver ETFs will be disclosed on daily basis on the website of the AMC. Further, the indicative NAVs will be disclosed on stock exchange platforms, where the units of these ETFs are listed, on continuous basis during the trading hours.

With regard to benchmark for silver ETF scheme, Sebi said such scheme will be benchmarked against the price of silver based on LBMA Silver daily spot fixing.

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The units of silver ETFs will be listed on the recognized stock exchange and the AMC will appoint authorized participants (APs) or Market Makers (MMs) to provide liquidity for such units in secondary market on an ongoing basis.

"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)," Sebi said.

With respect to tracking error, the regulator said that the tracking error -- 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-- will not exceed 2 per cent.

The disclosure regarding the same will be made on monthly basis on the website of the AMC.

In case of unavoidable circumstances, the tracking error exceeds 2 per cent, then approval of board of AMC and trustees should be taken and the same will be prominently be disclosed on the AMC's website.

Along with the disclosure of tracking error, silver ETF schemes will also disclose the tracking difference-- 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 years, 5 years, 10 years and since the date of allotment of units.

To enable the investors take an informed decision, the SID of silver ETFs will disclose about market risk due to volatility in silver prices, liquidity risks in physical or derivative markets impairing the ability of the fund to buy and sell silver, risks associated with handling, storing and safekeeping of physical silver.

For commodity based funds such as gold ETFs, silver ETFs and other funds participating in commodities market, Sebi said a dedicated fund manager with relevant skill and experience in commodities market including commodity derivatives market will be appointed to manage the fund.

However, Sebi has clarified that dedicated fund manager(s) for each commodity based fund is not mandatory. The regulator said that physical verification of silver underlying the silver ETF units will be carried out by the statutory auditor of mutual fund and will report the same to trustees on half-yearly basis.

The confirmation on physical verification of silver will also form part of half-yearly report by trustees to Sebi. The norms pertaining to silver ETFs will become effective from December 9.

Also, Sebi said gold ETFs will additionally comply with the norms related to disclosure of NAV, disclosure in the SID, dedicated fund manager as specified for silver ETFs. The existing gold ETFs will comply with these provisions within a period of 3 months.

On November 9, the Securities and Exchange Board of India (Sebi) amended rules to introduce silver exchange traded funds.

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