



Keertana Finserv Private Limited

Gold Auction Policy

SUMMARY OF POLICY:

<b>Policy Name</b>	<b>Auction Policy</b>
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<b>Owner / Contact</b>	<b>Compliance Department</b>
<b>Approver</b>	<b>Board of Directors</b>

**Version Control**

<b>Version</b>	<b>Date</b>	<b>Description</b>	<b>Description of Changes</b>
2.0	13-03-2024	REVIEW	Reviewed the Policy to ensure that it is in line with the RBI Scale Based Regulations

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**Version 2 ( March 13,2024) – Reviewed by**

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Board of Directors in the Board Meeting held on September 27, 2023

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## Introduction:

The Reserve Bank of India vide its Master Direction no. DNBR.PD.008/03.10.119/2016-17 on Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016 updated as on May 31, 2022, advised NBFCs to put in place an Auction Process duly approved by the Board of Directors.

This Policy is intended to be in conformity with **Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023**, as amended (“**Master Direction**”) on the date of its adoption. However, if due to subsequent modifications in the Directions, a provision of this Policy or any part thereof becomes inconsistent with the Master Direction, the Master Directions as modified by the regulatory authority shall prevail.

This policy is applicable to all the branches of the Company.

## Auction Procedure:

### Public Auction

The term “Auction” used in the policy shall mean realization of the security through Public Auction only.

### Organisation Structure for Auction Proceedings

The Company shall have a set process in conducting the Auction wherein the person/s designated by the MD or the person authorized by the Board shall collect the ornaments and the auction process will be conducted. Managing Director (MD)/Chief Executive Officer or the person authorized by the Board shall supervise the auction process including identification of staff to conduct audit, finalisation of bid etc.,

### Auction Process:

Auction process must be commenced in respect of all accounts on completion of the tenure of the loan on which interest due has not been serviced in FULL or where the account has not been settled. Auction will be completed within 30days of completion of the tenure of the loan.

Discretionary powers to defer auction shall be vested with the MD/CEO/the person authorized by the Board of the company, on the recommendations of the AVP and VP and upon perusal of the merits of the case.

An auction can be deferred at the request made by the customers on reasonable grounds, such proposals for deferment of auction submitted by Branch Manager/AVP and approved by MD/CEO.

### Selection and Approval of Auction Centres, Safe Custody, Security arrangements

- Auction Centre shall be finalized in line with the regulatory norms/ directions and internal guidelines of the company which shall follow RBI/statutory norms.
- The auction should be conducted in the same town or taluka in which the branch that has extended the loan is located. Provided if the said auction fails, the company will pool gold jewellery from different branches in a district and auction it at any location within the district, subject to the fact the company shall ensure that all other requirements of the extant directions regarding Auction (Prior Notice, Reserve Price, Arms-Length Relationship, disclosures, etc)
- Physical transfer of gold from various branches to the regional auction centres/offices shall be carried out in line with the regulatory/internal norms/directions which shall be subject to modification from time to time.

### Authorisation for Auction of Gold

- Before 10<sup>th</sup> of every month, loans matured by previous month end and still having outstanding are identified and the list of loans is circulated to Branches for follow up with the Borrowers to clear the loan.

- Rigorous follow up is done with each and every Borrower by Branch Team and HO Collection Team to close the loan or at least make a partial payment to get the loan eligible for repledge.
- Auction Notice is issued on 15<sup>th</sup>/16<sup>th</sup> to Borrowers whose loans are still having outstanding, and the LTV is above the permissible level;
- Identification of Loans to issue Auction Notice is automated. By inputting two data points 1. Maturity date 2. Loan to Value percentage (LTV %), details of Loans/Borrowers to whom auction notice is to be issued is generated.
- Each Branch will have the list of Borrowers to whom auction notices shall be issued and the Ops Manager prints the auction notices and send them through Registered Post with Acknowledgement Due.
- As a proof of dispatch, tracking number is updated on GLMS portal. To further strengthen the process screenshot of the tracking details can be stored in GLMS portal.
- Auction Notice will have First and Second Auction dates, place and time of auction.

#### **Appointment of auctioneer**

The auction may be conducted by internal team of employees specifically assigned with this task. Officials in such a team should have the requisite skills to act as auctioneers. The officials in the team shall travel to the respective auction locations to conduct the auctions.

#### **Role of auctioneer**

The auctioneer will act as a facilitator to enable smooth functioning of auctioning process by performing the below role:

- The auctioneer is responsible for the conduct of the auction fairly and transparently.
- The auctioneer to ensure that the bidder submits duly filled-in application forms and earnest money deposit according to auction terms.
- The auctioneer will encourage competitive bidding and ensure that the bid value is not below the rate of gold published by India Bullion and Jewellers Association Limited on the date of the auction.

The auctioneer will take proper and reasonable measures to ensure that bidders do not collude in any manner in the auction process

#### **Reserve Price and Reporting to the borrower**

While auctioning the gold, the company should declare a reserve price for the pledged ornaments. The reserve price for the pledged ornaments should not be less than 85% of the previous 30-day average closing price of 22 carat gold as declared by The Bombay Bullion Association Ltd. (BBA) or the historical spot gold price data publicly disseminated by a commodity exchange regulated by the Forward Markets Commission and value of the jewellery of lower purity in terms of carats should be proportionately reduced.

It will be mandatory on the part of the company to provide full details of the value fetched in the auction and the outstanding dues adjusted and any amount over and above the loan outstanding should be payable to the borrower.

### Mode and Periodicity for Sending Notices, Intimation to the Borrower

Letter Type	Normal Gold
Intimation Cum Auction Letter	A notice in the local language, along with English translation, in an approved format, shall be sent to all "Auctionable" pledges furnishing date and venue of auction at least 10 days before the proposed date of auction by registered post AD requesting the borrower to immediately pay the full dues failing which the security would be liable to be put on auction, without further notice, for recovery of the dues.

- Additionally, each Borrower is called and informed about the auction date and they are motivated to clear the loan or atleast pay partial amount so that the loan comes under permissible level to repledge.
- MD/CEO of the company shall be empowered to approve modifications to the above guidelines for Auction from time to time on the recommendations of Branch Managers or any other officer of the company keeping in view, inter alia, the regulatory directives, legal position and Fair Practice Code adopted by the Company

### Public Notification/Advertisement

Public notification of auction/advertisement/display of information and other related procedures shall be in line with the applicable rules, regulations and RBI guidelines issued from time to time. The auction shall be announced to the public by issue of advertisements in at least two newspapers, one in vernacular and another in national daily newspaper.

### Convenient Auction Lots, Fixation of Reserve Price, Security, Insurance

Pledges taken up for Auction must be segregated into appropriate / convenient lots to facilitate disposal based on various parameters such as assessed purity, quantity of gold, expected participation of bidders, prevailing market prices etc.

The proposal for fixation of reserve price for each auction shall be done by auctioneer in charge of the auction, taking into consideration the regulatory directions in place, approved by the MD & CEO of the company.

### Due diligence on Participants, Earnest Money Deposit (EMD)

Proper and acceptable documents for identification of the participants in an auction should be obtained before permitting them into the auction premises. The usual documents taken for customer account KYC compliance is to be accepted.

A reasonable amount of Earnest Money Deposit should be insisted upon from every participant on such date as maybe decided by the management from time to time.

### Mode of Payment by Successful Bidders & Delivery of Gold to Successful Bidders

The mode of receipt of bid amounts shall be decided by the management from time to time taking into consideration the market conditions and AML risks involved.

Auctioneer will share the following details to bidders 1. Amount receivable against auction loans 2. Purity and net weight of ornaments to be auctioned 3. Amount to be realized through Auction  
Auction shall not be finalized till auctioneer receives minimum of three bids. There is a negotiation with the highest bidder on further increase of bid if the difference between IA assessment and his bid is more than 1%. Negotiations will be continued till the bid amount is 1% lower than the IA assessment.

A minimum percentage of the bid amount as decided by the management from time to time. including the EMD lying with the Auctioneer shall be insisted upon from the successful bidders on the date of auction itself.

Delivery of gold to successful bidders should be made only after confirmation of full receipt of payment or realization of cheque / draft along with taxes due. Proper acknowledgement by the bidder for receipt of gold, in a format duly approved, with the signature duly verified by an officer of the Company should be ensured.

Loans to bidders against such auctioned gold shall be not permitted.

#### **Auction under Exceptional Circumstances**

i. Auction Due to Depletion in Security Value (auction before completion of tenure of the loan):

Management shall regularly monitor the realizable value of gold and in any instance where the realizable value of gold is less than the actual value, such accounts may be taken up for auction even before the completion of the tenure of the loan and/or in accordance with the directions laid down by the management from time to time.

MD/CEO shall be empowered to approve modifications to the points mentioned in points numbered 3- (Auction in normal course) and point 14 (i)- (Auction due to depletion in value of security) from time to time based on internal recommendations keeping in view, inter alia, the regulatory directives, legal position and the Fair Practice Code adopted by the Company. Such modifications shall be reported to the Board in the next meeting for information.

ii. Auction of Gold Ornaments Identified as Spurious / Low Quality

Accounts in which pledge of spurious / low quality gold ornaments have been detected after disbursement may be taken up for auction even before the completion of the tenure of the loan, from date of pledge subject to the under mentioned compliances.

The said procedures shall also be followed for spurious/low quality accounts/pledges, identified at the auction centre/venue or after completion of the tenure of the loan:

- Proper notice/intimation shall be served upon the borrower
- Before serving the above notice the purity of the gold ornaments shall be re-verified internally through a competent officer / auditor. Melt test (assaying) of a small portion of the pledged gold may be resorted to for re-confirming the purity or in the "difficult- to-assess" cases



- The MD shall be empowered to grant extended time for repayment to the borrower on a case-to-case basis on the recommendations of Branch Manager or any other competent officer of the company.
- The reserve price for such spurious / low quality ornaments must be fixed keeping in view the reconfirmed assessed purity and the RBI directions issued from time to time. Expert internal / external opinion should be obtained to arrive at a realistic reserve price.
- Auction of normal/spurious or low-quality gold ornaments shall not be taken up when police or criminal case has been filed against the borrower or when there is any other legal impediment. Suitable internal guidelines regarding filing of police cases should be formulated and approved by the MD.

**Notice to borrowers identified in 'Depletion in Security Value' and 'Spurious/LowQuality Gold'**

Letter Type	Depletion in Security Value	Spurious/Low Quality: <i>Identified at the branch or before completion of the tenure of the loan</i>	Spurious/Low Quality: <i>Identified at the auction centre or after completion of the tenure of the loan</i>
	<p>A notice in local language should be sent to the borrower within 15 days of identification of loss in the account by registered AD calling upon the borrower to settle the loan within a maximum of 2 weeks from the date of receipt of such notice or replenish the security with additional gold failing which the company may dispose the gold through auction without any further notice.</p>	<p>A notice in local language should be sent to the borrower within 15 days of detection as spurious /low quality by registered AD calling upon the borrower to settle the loan within a maximum of 30 days from the date of such notice. The registered AD notice should refer to the rights conferred on the Company to dispose of the security by virtue of the undertaking of the borrower in the loan application form and clauses in the loan sanction letter (pawn ticket).</p>	<p>A notice in local language should be sent to the borrower within 5 days of detection as spurious/low quality by registered AD. The registered notice should clearly provide reference to the following details, inter alia:</p> <ol style="list-style-type: none"> <li>1. Completion of tenure of the loan.</li> <li>2. That auction notice had already been sent after completion of the tenure of the loan.</li> <li>3. That the Company had undertaken only a preliminary verification of the gold at the time of disbursing the loan and as per the right conferred on the Company as per the terms and conditions of the loan, to further check the purity/weight of the gold internally or by experts at any time, the purity of the gold was reverified at the auction center prior to auction and was found to be of inferior quality.</li> <li>4. That the Company is</li> </ol>

			proceeding with auction as already intimated.
Final Letter	NIL	In the case where the account remains unsettled after the issue of the above notice an notice furnishing the date and venue of auction shall be served on the borrower at least 14 days before the proposed date of auction.	

**Re-auction of Gold Ornaments Not Successfully Auctioned (Normal Gold/Spurious or Low-Quality Gold)**

If the gold ornaments find no bidders at the reserve price the course of action as under should be adopted:

- The Auctioneer shall submit in writing that no bid was made at the reserve price fixed due to the poor quality of gold or difficulty in assessing the correct purity.
- The company may have suitable caveats to protect against disputes during redemption, but the certified purity shall be applied both for determining the maximum permissible loan and the reserve price for auction.
- Such gold ornaments shall be taken up for melting, either in-house or through a reliable outside agency, in the same lots as taken up for auction. Auctioneer shall remain present during the melting activity along with the Internal Auditor of the Company
- The melted bars shall then be assayed for purity and put up for auction in such form with a fresh reserve price fixed.
- Compliance with the above steps shall be periodically subject to internal audit at intervals not exceeding 1 calendar quarter.
- The auctioneer can pool gold jewellery from different branches in a district and auction it at any location within the district subject to the approval of the internal auditor. The internal auditor shall approve such pooling only when the following criteria is satisfied- that the previous actions were unsuccessful and the requirement of prior notice, reserve price, arms-length relationship, disclosures, etc are met.

**Refund of Surplus, Recovery of Shortfall**

Appropriate accounting entries should be put through in the customer loan accounts within 15 working days after the full receipt of auction proceeds. Surplus, if any, arising in individual accounts should be refunded to the customer either through crossed account payee cheque or electronic transfer. However, a rightful lien on such surplus may be retained, subject to proper notice, in case the borrower has other unsettled liabilities to the Company.

Legal action for recovery of shortfall in individual accounts may be considered where required and justified after a cost-benefit analysis is done and put up to the MD/CEO for approval.

Customers whose pledges have been put to auction and where the company had suffered a loss the respective customer IDs may be monitored closely for subsequent lending.

As auction is done on aggregate basis, excess amount is divided by the total number of grams and the excess amount per gram is calculated and it is multiplied with the No of Grams that a Borrower has and the amount is transferred to Borrower's account.

#### **Bidding for Gold by Company / Related Entities, Maintaining Arm's Length Relationship**

The Company or any of its related entities shall not participate in the Auctions. Further, Transparent auction procedure in case of non-repayment with adequate prior notice to the borrower. There shall be no conflict of interest and the auction process must ensure that there shall be an arm's length relationship in all transactions during the auction including with group companies and related entities.

#### **Maintenance of registers / records**

All registers and records mandatorily required under law and as per instructions issued by the Company shall be properly maintained and updated under the safe custody of a designated senior official and subject to periodical internal audit. Suitable instructions should be issued in this regard. Compliance shall be ensured by the Internal Audit team and HO Management team.

#### **Disclosures**

- The Loan Agreement shall disclose details regarding auction procedure.
- The Company must disclose in their annual reports the details of the auctions conducted during the financial year including the number of loan accounts, outstanding amounts, value fetched and whether any of its sister concerns participated in the auction.