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AUCTION

POLICY

Introduction

The Reserve Bank of India vide their circular **DNBS.CC.PD.No.266 /03.10.01/2011-12** dated 26th March 2012 has advised all NBFCs to formulate an auction policy duly approved by the Board of Directors. This auction policy shall administrate the auction procedures of the Company.

Scope

This policy is formulated with the objective of providing guidance to the Company and its officials regarding the auction of security in accordance with the directions of Reserve Bank of India. The Policy also aims to bring a uniform practices in the Company with regard to the conducting of auctions of securities by the Company. Further this policy shall be applicable to all the branches of the Company, Head Office and other place of business of the Company.

Definitions

“**Auction**” means realisation of security through public auction only.

Organisation Structure

The Company shall have a dedicated Auction Department at the Head Office (Auction Department) to initiate, supervise and monitor the auction procedure including adherence to the approved policy. The Department will function under the overall control of Head of Internal Audit.

Auction in the Normal Course

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. The auction must be commenced within 3 months of completion of the tenure of the loan or such other times as the Management may deem fit in this regard. Discretionary powers to defer auction in accounts where at least 75% of the interest due has been paid shall be vested with the Head of Internal Audit of the company. The Board of Directors of the Company reserves the right to defer the auction on account of pandemic situations and any other unforeseen circumstances.

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 be in compliance with RBI/statutory norms.

The auction should be conducted in the same town or taluk 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.) are met.

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

- a) Gold Pledged shall be auctioned only through auctioneers approved by the Board.
- b) Once the accounts have been identified and listed for auction by the Auction Department the proposal, in a structured format, shall be put up to the Head of Internal Audit for approval. After the approval by Head of Internal Audit the same shall be put upto the Board for approval.
- c) The Auction Department shall ensure that list is accurate, complete and in compliance with the approved Auction Policy.

RESERVE PRICE AND REPORTING TO THE BORROWER

- a) 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.
- b) It shall 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	Particulars
Reminder Letter (3 months)	A notice in vernacular language shall be sent to the client who has made default in payment of interest for a period of 3 months based on the intimation received from Auction Department stating that the client has made a default in payment of interest for a period of 3 months. Notice shall be given within 10 days from the completion of 3 months.
Reminder Letter (6 months)	A notice in vernacular language shall be sent to the client who has made default in payment of interest for a period of 6 months based on the intimation received from Auction Department, stating that the client has made a default in the payment of interest for a period of 6 months and directing the client to pay the same to avoid further proceedings. Notice shall be despatched within 10 days from the completion of 6 months.
Reminder Letter (9 months)	A notice in vernacular language shall be sent to the client who has made default in payment of interest for a period of 9 months based on the intimation received from Auction Department, stating that the client has made a default in the payment of interest for a period of 9 months and directing the client to pay the same to avoid auction proceedings. Notice shall be despatched within 10 days from the completion of 9 months.
Intimation cum Auction Letter (12 months)	A notice in the local language in an approved format, shall be sent to the client who has made default in payment of interest for a period of 12 months by registered post. Notice shall be despatched within 10 days from the completion of 12 months or such other period as approved by the Managing Director.
Auction Letter by advocate	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 14 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.

Auction Department shall obtain proof of delivery to the addressee from the post office (post tracking status printout). Alternatively, the auction notice may be served on the borrower personally

by an employee of the Company and signature of the borrower obtained in the duplicate copy of the notice.

Managing Director of the company shall be empowered to approve modifications to the above guidelines for Auction from time to time on the recommendations of Head of Internal Audit 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 at least 14 days before the auction date.

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 the Head of the Auction Department taking into consideration the regulatory directions in place, approved by the Board of Directors 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. However it is preferred to obtain GST registration certificate from the participants. There shall be at least 3 bidders to conduct the auction.

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. The EMD cannot be adjusted with the bid amount in any circumstances. The EMD shall be refunded to the participants except the successful bidder within 2 working days from the auction date. The EMD of the successful bidder shall be released only after the confirmation of bid amount by the bidder. The EMD of the successful bidder shall be forfeited to the extent of the 50%, if the bidder fails to pay the bid amount within the stipulated time.

The EMD shall be interest free.

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

The mode of receipt of bid amounts shall be in the form of Bank Transfer to the separate Bank account of the Company opened for auction purpose, taking into consideration the market conditions and AML risks involved.

The bid amount shall be payable within 3 working days (excluding bank holidays) from the date of auction. If the full amount is not received within the stipulated time, the bid shall be treated as cancelled and a penalty of 5% of bid amount or loss incurred by the company due to rate fluctuation whichever is higher shall be levied and intimated.

Delivery of gold to successful bidders should be made only after confirmation of full receipt of payment 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):

Auction department 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.

Managing Director shall be empowered to approve modifications to the points mentioned in points Auction in normal course and Auction due to depletion in value of security from time to time on the basis of internal recommendations keeping in view, interalia, 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 subsequent to 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:

- i. Proper notice/intimation shall be served upon the borrower.
- ii. Before serving the above notice the purity of the gold ornaments shall be re-verified internally through a competent officer / auditor. When the amount of initial estimated loss is Rs 1.00 lakh (Rupees one lakh) or above the services of an external expert appraiser shall be obtained before serving the above notice. 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.
- iii. The Managing Director shall be empowered to grant extended time for repayment to the borrower on a case to case basis on the recommendations of Head of Internal Audit or any other competent officer of the company.
- iv. 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.
- v. 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 Managing Director.

Notice to borrowers identified in ‘Depletion in Security Value’ and ‘Spurious/Low Quality Gold’ instances:

Letter Type	Depletion in Security Value	Spurious/Low Quality: Identified at the branch or before completion of the tenure of the loan	Spurious/Low Quality: Identified at the auction centre or after completion of the tenure of the loan2
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Intimation Letter	A notice in local language should be sent to the borrower within 15 days of identification of loss in the account by registered post 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.	A notice in local language should be sent to the borrower within 15 days of detection as spurious / low quality by registered post calling upon the borrower to settle the loan within a maximum of 30 days from the date of such notice. The 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).	A notice in local language should be sent to the borrower within 5 days of detection as spurious/low quality. The registered notice should clearly provide reference to the following details, inter alia: Completion of tenure of the loan. That auction notice had already been sent after completion of the tenure of the loan. 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 re verified at the auction centre prior to auction and was found to be of inferior quality. That the Company is 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 auction 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:

- a) 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. This shall be certified by the Company's official in charge of overseeing the Auction.
- b) 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.
- c) 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/ his representative shall remain present during the melting activity along with a competent Internal Auditor of the Company who will certify accordingly in a register to be maintained for the purpose.
- d) The melted bars shall then be assayed for purity and put up for auction in such form with a fresh reserve price fixed.
- e) Compliance with the above steps shall be periodically subject to internal audit at intervals not exceeding 1 calendar quarter.

Refund of Surplus, Recovery of Shortfall

Appropriate accounting entries should be put through in the customer loan accounts.

Surplus, if any, arising in individual accounts should be refunded to the customer within such time as may be directed by the regulatory authorities from time to time, 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 General Manager for approval.

Customers whose pledges have been put to auction and where the company had suffered a loss the respective customer ids may be blocked based on the directions provided by the management from time to time.

Panel of Auctioneers, Commission Rates, Role & Responsibility

In line with the FPC guidelines, Public Auction of the pledged security shall be carried out only through Auctioneers empanelled by the Company with the approval of the Board of Directors. A standard, legally vetted agreement should be entered into with all the empanelled Auctioneers.

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 Head of the Auction Dept. The following are the important registers to be maintained for auction:

1. Auction Attendance Register
2. Auction Bid register
3. Auction Invoice register
4. Auction Stock Register
5. Auction gold delivery register

Disclosures

- a. The Loan Agreement shall disclose details regarding auction procedure.
- b. 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.