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ASIRVAD MICRO FINANCE LIMITED-GOLD AUCTION POLICY



INTRODUCTION

The Reserve Bank of India vide Master Direction DNBR. PD. 008/03.10.119/2016-17 dated 01 September 2016 (updated from time to time) titled “Master Direction - Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016” has advised NBFCs to put in place an Auction Policy duly approved by the Board of Directors. This Auction Policy will be the governing process/ instructions for conducting the gold auction in the organization.

AUCTION PROCEDURES

a) Public Auction

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

b) Organization Structure for Auction Proceedings

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

c) Auction in the Normal Course (after completion of tenure of the loan)

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 completed within 3 months of completion of the tenure of the loan.

Discretionary powers to defer auction in accounts where at least 75% of the interest due has been paid shall be vested with the MD on the recommendations of the Head-Operations.

An auction can be deferred at the request made by the customers on reasonable ground, such proposals for deferment of auction submitted by FZMs/RMs shall be recommended by Head-Operations and approved by MD.

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d) Selection and Approval of Auction Centers

Initially the auction shall be conducted, preferably in the same branch or any other branch, where the scope for larger bidder participation and obtention of higher bid amt is possible/higher, subject to the Taluk limit of Branch where the loan is disbursed. If the branch level auction is failed, according to the Management discretion subsequent auction can be conducted at district level (pooled auction) in line with the regulatory & statutory norms/ directions and internal guidelines of the Company.

e) Authorization for Auction of Gold

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 MD for approval. The Auction Department shall ensure that the list is accurate, complete and in compliance with the approved Auction Policy.

f) Mode and Periodicity for Sending Notices, Intimation to the Borrower and Public

Normal Gold	Process
Pre-Auction Intimation Notice	A notice (Auction Letter) in the local language in an approved format, shall be sent to all “Auctionable” pledges furnishing the 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.

If the AD card is not received within a reasonable period, the Auction Dept. shall apply to the post office and obtain a certificate of delivery to the addressee from the post office. Alternatively, if the AD card is not available 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.

MD shall be empowered to approve modifications to the above guidelines for Auction from time to time on the recommendations of the Head-Operations keeping in view, inter alia, the regulatory directives, legal position and the Fair Practice Code adopted by the Company.

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All types of gold	Process
Public Notification/ Advertisement	Auction list will be displayed respective branches and 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 in line with the applicable rules, regulations and RBI guidelines issued from time to time.

g) Creation of Auction Lots & Fixation of Reserve Price

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 with recommendations for fixation of the reserve / floor price for each auction shall be done by the Head of the Auction Dept taking into consideration the regulatory directions in place, recommended by the Head-Operations, and shall be approved by the MD. To attract bidders and to successfully complete the auction the reserve price may be fixed at about 5 % below the prevailing market price. While conducting the auction Auctioneer shall ensure compliance over the standard procedures laid down by the company in auction documentation, bidder participation process, bid confirmation, gold release etc. All the auction related process shall be authenticated by the Board Approved Auctioneer and the same shall be audited periodically.

h) Due diligence on Participants & collection of 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 hall. The usual documents taken for customer account KYC compliance is to be accepted.

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

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

The mode (cash or banking channels) of receipt of bid amount shall be decided by the management from time to time taking into consideration the market conditions and Anti Money Laundering (AML) risks involved.

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 the auction itself. Successful bidders should be given a letter in a pre-approved format along with the terms and conditions. The balance shall be payable within 5 working days from the date of auction. If the full amount is not received within the stipulated time the bid shall be treated as cancelled. The same gold is auctioned to another bidder and a minimum penalty of 3% till auction settlement date will charge from the default bidder, penalty must be deducted from the default bidder's EMD & advance amount. Only the balance amount will be refunded.

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.

j) Auction under Exceptional Circumstances

1. 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 trend is identified that the realizable value of gold will be less than the outstanding loan amount, such accounts shall be taken up for auction even before the completion of the tenure of the loan in accordance with the directions laid down by the management from time to time.

MD shall be empowered to approve modifications to the points mentioned in points C - Auction in normal course and point J 1- Auction due to depletion in value of security, from time to time on the recommendations of the Head-Operations 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.

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2. 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 place or after completion of the tenure of the loan.

- i. Proper notice/intimation shall be served upon the borrower as mentioned in point j (3).
- 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 initially estimated loss is above the limits fixed by the Management, appraisal shall be done by the internal expert or Company can obtain the service of external expert according to the nature/ size of the purity deviation/loss. 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. MD shall be empowered to grant extended time for repayment to the borrower on a case-to-case basis on the recommendations of the Head Operations.
- 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 MD on recommendations of Head-Operations.

3. Notice to borrowers identified in j (1) – Depletion in Security Value and j (2) – Spurious/Low Quality Gold.

Nature of incident	Initial Intimation Process and Content	Final Letter and Content
Depletion in Security Value	A notice in local language should be sent to the borrower within 15	Nil

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	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.	
Spurious/Low Quality: Identified at the branch or before completion of the tenure of the loan	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).	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.
Spurious/Low Quality: Identified at the auction center or after completion of the tenure of the loan.	Pre-Auction Intimation Notice for normal gold as mentioned in point number “ f” is already done.	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: <ul style="list-style-type: none"> • Completion of tenure of the loan. • That auction notice had already been sent after

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		<p>completion of the tenure of the loan.</p> <ul style="list-style-type: none"> • 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 place prior to auction and was found to be of inferior quality. • That the Company is proceeding with auction as already intimated.
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4. 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:

- i. 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 or other reasons as the case may be. This shall be certified by the Company's official in charge of overseeing the Auction.
- ii. Such gold ornaments shall be taken up for melting, either inhouse or through a reliable outside agency, in the same lots as taken up for auction. Internal Auditor or other official as decided by the Management from time to time shall remain present during the melting activity who will also verify accordingly in a register to be maintained for the purpose.

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- iii. The melted bars shall then be assayed for purity and put up for auction in such form with a fresh reserve price fixed.
- iv. Compliance with the above steps shall be periodically subject to internal audit at intervals not exceeding 1 calendar quarter.

k) 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.

Once auction of the pledged gold is completed in line with the norms of the Policy, and after receiving the bid amount, the relevant lot is settled with the successful bidder. Thereafter, the surplus from the said auction, if any, is first adjusted to the said Customer's old loss and existing dues. The remaining surplus is to be refunded to the Customer in the following manner.

- 1) If the Customer has already updated his/her bank details, the surplus to be refunded through NEFT.
- 2) Auction surplus amounts up to Rs.1000/- can be refunded to the Customer directly from the branch through cash up to 15days from the date of data generation as regards auction surplus payable. An SMS is also to be sent to those Customers intimating the relevant details. Such cash payment can also be done for cases where cheque for surplus has been issued and returned unclaimed and in cheque expired case.
- 3) If the said amount is not released through cash or the bank details are not updated within 15 days, Company shall issue account payee cheque favoring the concerned Customer. An intimation through SMS is also be given to those customers.
- 4) If the said cheque is returned unclaimed / cheque date expired cases, the Company shall send an SMS again to the Customer for updating his /her bank details.
- 5) If any delay is caused by Company in paying the auction surplus amount to its customers, beyond 45 days, the company shall pay interest on such auction surplus amount at the rate of 7% per annum for such delayed period.

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 Head-Operations and MD for approval.

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

l) 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 empaneled by the Company with the approval of the Board of Directors. A standard, legally vetted agreement covering terms of service should be entered into with all the empaneled Auctioneers.

m) 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, there shall be an arm’s length relationship in all transactions during the auction including with group companies and related entities.

n) 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 Department.

o) Security, Insurance

Necessary steps shall be taken to ensure the security of gold in all auctions including pooled auction conducted at district centers. Wherever the movement of collateral is needed, additional coverage on insurance will be ensured by the Company.
