

M/s Rajarathnam's Jewels

Authority for Advance Ruling — Karnataka

Advance Ruling No. KAR ADRG 16 / 2018 Dated 27th July 2018

Dated **27.07.2018**

Q Questions Before the Authority

- Whether mere deposit of diamond with safe vaults acknowledged by Electronic Vault Receipts (EVR) would be treated as supply for the purpose of levy of GST?
- Whether conversion of EVR (representing receipt for diamonds deposited) into e-Units (securities) would be treated as supply liable to GST?
- Whether e-Units would be treated as securities and thereby transaction in e-Units would remain out of scope of the levy under GST?
- Whether the derivative contracts in e-Unit and settlement thereof would be treated as transaction in securities and thereby would remain out of scope of the levy under GST?
- Whether conversion of e-Units into diamonds would be treated as supply liable to GST?

F Facts

The applicant, a partnership firm in retail jewelry, proposed to trade in diamond derivative contracts on the Indian Commodity Exchange Limited (ICEX). The operational process involves depositing physical diamonds into exchange-accredited vaults to obtain Electronic Vault Receipts (EVRs), converting EVRs into electronic units (e-Units), trading derivative contracts in e-Units, and eventually converting e-Units back into physical diamonds. Advance ruling was sought to clarify GST applicability across each leg of this transactional chain.

H Ruling

Mere deposit of diamond with safe vaults for EVR	Does not constitute supply of diamonds	No transfer of title or consideration occurs at this stage
Conversion of EVR into e-Units	Constitutes a supply of diamonds liable to tax	Title is transferred in exchange for consideration in the form of e-Units
Treatment of e-Units as securities	e-Units are securities and outside the scope of GST	Covered under Section 2(101) of CGST Act read with SCRA
Derivative contracts in e-Units and settlement	Treated as transactions in securities, outside GST scope	Applies where settlement involves only e-Units without physical delivery of diamonds
Conversion of e-Units into physical diamonds	Constitutes a supply of diamonds liable to tax	Exchange supplies physical diamonds against surrender of e-Units

The AAR held that depositing physical diamonds in safe vaults for EVRs is not a supply as it is merely bailment without transfer of title or consideration. However, conversion of EVRs into e-Units, as well as reconversion of

e-Units back into physical diamonds, constitute taxable supplies of goods (diamonds) for consideration. Pure trading and settlement of derivative contracts in e-Units qualify as transactions in securities and remain outside the scope of GST.

R Reasoning

The authority reasoned that mere vaulting creates a bailment relationship with no transfer of title or consideration under Section 7 of the CGST Act. In contrast, converting EVRs to e-Units (or vice versa) involves surrender of title to specific physical goods in exchange for fungible units, constituting non-monetary consideration under Section 2(31). Furthermore, pursuant to Section 2(101) of the CGST Act and Sections 2(h), 2(ac), and 2(bc) of the Securities Contracts (Regulation) Act, 1956 read with Notification S.O. 3068(E) dated 27.09.2016, e-Units based on notified commodities like diamonds qualify as **commodity derivatives and securities**, excluding pure derivative transactions from the definition of goods and services.

P Provisions Relied On

Section 7 of the CGST Act, 2017

Section 2(31) of the CGST Act, 2017

Section 2(52) of the CGST Act, 2017

Section 2(101) of the CGST Act, 2017

Section 2(102) of the CGST Act, 2017

Section 2(h) of the Securities Contracts (Regulation) Act, 1956

Section 2(ac) of the Securities Contracts (Regulation) Act, 1956

Section 2(bc) of the Securities Contracts (Regulation) Act, 1956

Notification No. 1/2017-Central Tax (Rate) dated 27.06.2017

Notification F.No. 17/2/2016-CD / S.O. 3068(E) dated 27.09.2016

! For the Practitioner

This ruling clarifies that **pure financial trading in commodity derivatives is outside GST**, but entry into and exit from the derivative platform involving physical delivery attracts GST. Practitioners advising commodity exchange traders can rely on this order to ensure GST compliance at the point of converting physical stock into electronic units and vice versa.

Source

Summary prepared from the published order, which is a scanned document. It is a reading aid and not the authority: where the two differ, the order governs. Verify every provision against the original before relying on it.

Original order: www.gstcouncil.gov.in -> krntk_16_2018_rj.pdf

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