Regulatory Framework for

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Gold Tokenization India and Sale of Tokens

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Legal Opinion cum Research Paper

REGULATORY FRAMEWORK FOR GOLD TOKENIZATION IN INDIA

Background of the Legal Opinion

Tech Legal has been instructed to examine and provide this legal opinion on the permissibility of tokenisation of physical gold under the regulatory framework of the International Financial Services Centres Authority (hereinafter referred to as "**IFSCA**") and the subsequent issuance and sale of such gold-backed tokens, particularly in relation to their availability to the general public, including persons resident in India. This opinion is based on the applicable laws, regulations, circulars, and regulatory guidance in force as of the date of this opinion.

REGULATORY FRAMEWORK CONSIDERED

In preparing this opinion, we have examined, *inter alia*, the following regulations:

i. International Financial Services Centres Authority Act, 2019;

ii. IFSCA (Bullion Market) Regulations;

iii. IFSCA (TechFin and Ancillary Services) Regulations;

iv. Consultation papers and guidance issued by IFSCA on tokenisation of real-world assets;

v. Foreign Exchange Management Act, 1999 ("FEMA");

vi. Reserve Bank of India ("RBI") regulations;

vii. Securities and Exchange Board of India ("SEBI") advisories on digital gold; and

viii. General principles of Indian financial and securities law.

IFSCA AND GIFT CITY: The Hub for Tokenization

The International Financial Services Centres Authority ("**IFSCA**") in GIFT City is the primary body creating a formal framework for Tokenized Real-World Assets, including gold. IFSCA has positioned GIFT City as India's premier gateway for tokenizing Real-World Assets ("**RWA**"). Gold tokenisation is legally permissible under the IFSCA framework in GIFT City, provided that the physical gold is acquired and stored with an IFSCA-regulated custodian and the issuance is conducted by a licensed IFSC entity. However, offering such tokenised gold instruments to the general public resident in India is currently constrained by FEMA, RBI, and SEBI regulations. Accordingly, any public-facing issuance must be restricted to non-resident or permitted investors and structured as a regulated, non-retail offering unless and until a specific retail framework is notified.

PERMISSIBILITY OF GOLD TOKENIZATION IN INDIA

It is our considered opinion that tokenisation of physical gold is legally permissible within GIFT City ("IFSC") under the IFSCA regulatory framework, subject to compliance with prescribed conditions. IFSCA, acting under the powers conferred by the IFSCA Act, 2019, has established a regulated bullion market ecosystem, which permits purchase of physical gold by IFSC entities, storage of such gold with IFSCA-regulated vaulting and custody providers, and deployment of distributed ledger technology (DLT) for representation of ownership or beneficial interest in such gold. Further, the introduction of TechFin and Ancillary Services Regulations, 2025 (hereinafter "**TechFin**) and ancillary service regulations indicates IFSCA's recognition of blockchain-based infrastructure, including tokenisation, when undertaken by regulated entities and within approved use cases. Accordingly, gold tokenisation *per se* is lawful under the IFSCA regime, provided, physical gold is actually acquired, the gold is fully backed on a 1:1 basis, custody is maintained with an authorised vault/custodian in the IFSC, and token issuance is undertaken by an entity licensed or permitted by IFSCA.

NATURE OF TOKENIZED INSTRUMENT

A gold token issued under such a structure would legally constitute a digitally represented claim or entitlement to a specified quantity of physical gold (e.g., 1 token = 1 gram of gold), rather than an unbacked crypto-asset.

STEPS TO START A GOLD TOKENIZATION PROJECT IN INDIA (PRACTICAL ROADMAP)

Step 1: Decide on the Token Issuance Structure

  i.   Our advice to our client, at the onset, was to clearly define, in writing, the exact legal character of the proposed token and to deliberately exclude any feature that could trigger regulatory overlap with unregulated crypto-assets, retail digital gold products, or payment instruments.

  ii.   The offering must be positioned as a regulated, asset-backed financial product issued within the IFSC ecosystem rather than as a consumer-facing crypto offering.

  iii. In practical terms, this involves formally documenting that each token represents a direct and fully backed beneficial interest in a specific quantity of physical gold (*for example, one token equalling one gram of gold*), that such gold is actually purchased and stored with an IFSCA-approved custodian, and that tokens are issued only after custody confirmation. The documentation should also clearly state that the issuance is restricted to permitted, non-retail investors, excludes persons resident in India unless expressly allowed by law.

  iv.   Features such as anonymous wallets, public exchange listings, or unrestricted peer-to-peer transfers must be expressly ruled out.

  v.   Equally important is the articulation of what the product is not. The concept note should expressly clarify that the token is not a currency, not a payment instrument, not a speculative crypto-asset, and not an unregulated digital gold scheme marketed to retail users. By locking these boundaries at the outset and capturing them in a concise legal concept note, the client shall create regulatory certainty,

align internal stakeholders, and provide IFSCA with a clear, defensible narrative that the project is compliant by design rather than an attempt to retrofit regulation onto an existing crypto model. Summary:

    a) Token represents beneficial interest in physical gold;

    b) 1 token = fixed quantity (e.g., 1 gram);

    c) Issuance is non-retail, non-Indian resident;

    d) Trading is permissioned only;

    e) Redemption is allowed but controlled;

    f) No Indian retail, no public crypto exchanges.

STEP 2: Incorporate an IFSC Entity (SPV or Trust) in GIFT City (India)

i. Incorporation of an IFSC Entity involves establishing a legally recognised presence within GIFT City through which the gold tokenisation activity will be conducted.

ii. Since IFSCA regulates entities operating in the International Financial Services Centre and not offshore or onshore Indian entities by default, the client being token issuer must be an IFSC-registered entity incorporated under the Indian Companies Act, 2013 and subsequently registered with GIFT City.

iii. This entity will serve as the primary point of regulatory accountability for the issuance, custody coordination, trading, and compliance obligations associated with the gold tokens.

iv. The entity's constitutional documents and stated objects should expressly include activities such as digital asset infrastructure, tokenisation of real-world assets, and operation of permissioned DLT platforms, while avoiding overly broad crypto-related language.

v. Board resolutions should be passed authorising the proposed tokenisation project and appointing responsible officers for regulatory liaison, compliance, and risk management.

vi. By clearly anchoring the project within a properly constituted IFSC entity from the outset, the structure aligns the tokenisation initiative squarely within IFSCA's

jurisdiction and avoids ambiguity around regulatory ownership or oversight. Client needs an entity in GIFT City that will act as:

a) Token issuer;

b) Incorporate an IFSC registered private limited company or IFSC LLP;

c) IFSC incorporation; and

d) Board resolution approving tokenisation activity.

Step 3: Choosing the Correct Regulatory Entry Route

i. Considering that the project involves the tokenisation of physical gold and the issuance of gold-backed tokens to institutional investors and permitted individual investors, the IFSC entity must be positioned not merely as a technology provider but as a regulated participant in the bullion and digital asset ecosystem.

ii. Among the available options, registration as a TechFin or Ancillary Services provider under the IFSCA framework is presently the most practical and regulator-aligned entry route for the client considering their project is focused on tokenisation and trading infrastructure rather than direct bullion dealing.

iii. This route is particularly suitable where the IFSC entity is responsible for designing, operating, and maintaining the permissioned DLT platform, smart contracts, and trading mechanisms, while the acquisition, storage, and custody of physical gold are outsourced to IFSCA-approved vaulting and custodial institutions.

Step 4: Lining Up the Custody and Vaulting Partner

i. This is a non-negotiable element of any compliant gold tokenisation structure under the IFSCA framework. Since the legal validity of the tokens is directly dependent on the existence and safekeeping of the underlying physical gold, the client must engage an IFSCA-approved bullion vault or custodian at the outset.

ii. The custodian will be responsible for the secure storage of the physical gold within the IFSC ecosystem and for providing independent confirmation that the

gold corresponding to the issued tokens has been duly received and segregated.

iii. At this stage, the client must enter into a formal Custody Agreement with the vaulting partner, clearly defining custody obligations, segregation of assets, access and release conditions, insurance coverage, and liability standards.

iv. In parallel, an audit and reconciliation protocol must be agreed, setting out the frequency and methodology for reconciling physical gold holdings with the number of tokens issued and outstanding, along with rights of inspection and third-party audits.

v. The tangible outputs of this step include an executed custody MOU or term sheet and a written custodian confirmation letter, which together serve as critical documentary evidence for IFSCA that the tokenisation model is fully asset-backed and operationally sound.

   a. Engage an IFSCA-approved bullion vault;

   b. Execute Custody Agreement;

   c. Audit & reconciliation protocol;

   d. Executed custody MOU / term sheet;

   e. Custodian confirmation letter.

STEP 5: Prepare the DLT Architecture & Controls

i. In Step 5, the client shifts from legal theory to Technical Governance. The IFSCA (especially under the 2025 RWA Framework) expects a "Compliance-by-Design" approach. Client must prove that the technology is a servant to the law, not a bypass. The client must specify a Permissioned DLT (like Hyperledger Fabric or a private Polygon/Ethereum sidechain).

Step 6 Smart Contract Deployment (Gold Tokenisation)

i. At the smart-contract layer, the gold token must be deployed on a permissioned or regulator-friendly blockchain, where participation is restricted to approved nodes, wallets, and counterparties.

ii. This ensures that token issuance and transfers remain fully controllable, auditable, and compliant with IFSCA's supervisory expectations.

iii. Public, permissionless deployment without controls is not allowed unless specifically approved under the IFSCA sandbox. The smart contract must be designed so that minting of tokens is strictly conditional upon confirmed receipt of physical gold in an IFSCA-approved vault.

iv. Tokens can be created only when an authorised issuer wallet submits a mint request supported by off-chain vault confirmation and internal reconciliation. This prevents over-issuance and ensures a one-to-one backing between tokens in circulation and physical gold held in custody.

v. Similarly, the contract must enforce mandatory burning of tokens upon redemption. When a token holder exercises a redemption request, whether for physical delivery or cash settlement the corresponding tokens are irrevocably destroyed on-chain before gold is released or sold. This guarantees that redeemed gold cannot continue to be represented by circulating tokens and maintains continuous parity between gold reserves and outstanding tokens.

vi. For regulatory and risk-management purposes, the smart contract must include pause and freeze capabilities. These allow the issuer, acting under internal governance policies or regulatory instruction, to temporarily halt minting, transfers, or redemptions, or to freeze specific wallets in cases of suspected fraud, sanctions exposure, AML breaches, or systemic risk.

vii. Such controls are viewed as essential by regulators and do not undermine asset backing, provided they are transparently disclosed. Finally, the contract must maintain a complete and immutable audit trail. Every mint, transfer, burn, pause, unpause, and administrative action must be time-stamped, traceable, and permanently recorded on-chain.

viii. This auditability enables continuous reconciliation between on-chain token supply and off-chain gold holdings, supports independent audits, and allows IFSCA, auditors, and stakeholders to verify compliance, reserve backing, and transaction integrity at all times.

a) Permissioned blockchain preferred;

b) Mint only against gold receipt;

c) Burn on redemption;

d) Pause / freeze capability;

e) Full audit trail.

Step 7: Investor Eligibility and KYC

i. The next step is to establish a robust compliance architecture that determines who is permitted to participate in the gold tokenisation ecosystem and under what conditions.

ii. Given the regulatory sensitivities around digital assets and cross-border offerings, the client must clearly define the categories of eligible investors, typically limited to institutional investors and permitted individual investors, while expressly excluding persons resident in India unless otherwise permitted by applicable law.

iii. In parallel, the framework must specify the jurisdictions from which investors may be onboarded, incorporating jurisdictional risk assessments, sanctions screening, and geo-fencing measures to prevent participation from restricted or high-risk regions.

iv. This step also requires the design of a structured onboarding flow that integrates identity verification, beneficial ownership checks, and source-of-funds verification in line with IFSC and global anti money laundering ("**AML**") standards.

v. Clear AML triggers must be documented, including transaction thresholds, unusual trading patterns, rapid transfers, or redemption anomalies that would warrant enhanced due diligence or reporting.

vi. Further, the framework must provide for ongoing monitoring, periodic KYC refresh, transaction surveillance, and record-keeping obligations throughout the investor lifecycle. The key outputs of this step are a formally adopted AML/KYC Framework compliant with IFSCA requirements, both of which are essential for regulatory approval, risk management, and long-term scalability of the tokenisation platform.

Step 8: Tokens sold through controlled, private, KYC-gated distribution.

i. As of date, the India International Bullion Exchange IFSC Limited ("**IIBX**") cannot (yet) list blockchain gold tokens, therefore the only option for the client is regulated distribution.

ii. In the absence of listing on an IFSC-recognised exchange, gold tokens may be distributed only through a private, controlled issuance model by the IFSC-incorporated issuer.

iii. Under this structure, tokens are sold directly to pre-approved, non-resident and eligible investors pursuant to contractual subscription arrangements, and not through any public offer, online marketplace, or open trading platform.

iv. Each investor is onboarded only after completion of comprehensive KYC, AML, sanctions, and source-of-funds checks, and their blockchain wallet is expressly whitelisted in the token smart contract.

v. Token minting and transfer occurs only after receipt of subscription funds and confirmation of corresponding physical gold held in an IFSCA-approved vault. The smart contract enforces strict transfer restrictions, permitting movement of tokens solely between whitelisted wallets, and includes pause and freeze rights to ensure regulatory compliance.

vi. This approach ensures that the issuance remains a private placement-style distribution, mitigates retail and market-misconduct risks, and aligns with IFSCA's expectations for non-exchange tokenised asset offerings.

TAX AND ACCOUNTING

Tax & Accounting

From a taxation and accounting perspective, gold tokens issued by an IFSC entity and fully backed by physical gold are treated as a digital representation of ownership or entitlement to the underlying commodity, rather than as virtual digital assets or cryptocurrencies. The issuance of such tokens does not constitute a taxable event, and the underlying gold continues

to be recognised on the issuer's books in accordance with applicable accounting standards. Token holders are regarded as investors in gold, and any gains arising from transfer or redemption are taxable in accordance with general capital gains principles applicable to commodities, subject to treaty benefits and jurisdictional tax laws. The applicable tax and accounting treatment remains dependent on transaction structure, investor residency, and future regulatory guidance.

CONCLUSION

Based on the foregoing analysis of the applicable legal and regulatory framework, it is our considered opinion that tokenisation of physical gold is legally permissible within the International Financial Services Centre at GIFT City, provided the structure is implemented strictly in accordance with the IFSCA Act, applicable IFSCA regulations, FEMA, and allied laws. A gold token issued under such a framework constitutes a digitally represented, asset-backed entitlement to physical gold, and not an unregulated crypto-asset, currency, or payment instrument, provided that the gold is fully acquired, held on a one-to-one basis with an IFSCA-approved custodian, and subject to continuous audit and reconciliation. However, under the current Indian regulatory regime, such tokenised gold instruments cannot be offered to or marketed at persons resident in India, nor can they be sold as a retail product within the domestic Indian market. Accordingly, any issuance and sale of gold tokens must be structured as an offshore, controlled distribution limited to non-resident and permitted investors, supported by robust KYC, AML, geo-blocking, and smart-contract level transfer restrictions. In the absence of an IFSCA-recognised exchange listing framework for blockchain-native gold tokens, distribution must occur through private, KYC-gated issuance, and not through public platforms or unrestricted secondary trading.

Subject to these conditions and ongoing regulatory compliance, the proposed gold tokenisation structure is legally tenable under Indian law as applicable to IFSC entities. Future expansion to wider distribution or exchange-based trading may be considered only upon

issuance of express regulatory guidance or approval by IFSCA. This opinion is limited to the laws in force as of the date hereof and does not constitute investment, tax, or commercial advice.

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