

THE ORACLE

MANGALURU BRANCH (SIRC) E-NEWSLETTER



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CHAIRMAN'S MESSAGE



CA. Prashanth Pai K.

Chairman- ICAI Mangaluru Branch

Dear Esteemed Members,

Warm greetings to all of you!

As we step into the month of November, a time of reflection and renewal, I extend my heartfelt thanks for your continued support and active participation in our branch activities.

The past month of October was understandably a quiet period for our event calendar, primarily due to the pressing tax audit deadlines that demanded our professional focus. I hope you all navigated this busy season successfully.

Despite the professional commitments, we were pleased to host a session on 9th October, featuring two insightful presentations. We began with CA Abhishek Murali, who enlightened us on the crucial intersection of 'Tax Audit and Succession Planning under the Hindu Succession Act'. This was followed by an engaging session by CA Jomon K George on 'Companies Act Revisited'. My sincere gratitude to both speakers for their valuable contributions.

Looking ahead, November promises to be a month of vibrant learning and outreach. We have lined up several programs to enhance your professional expertise:

On 6th November, we will conduct a Half-Day Program on Skill Enrichment under the aegis of the Professional Skill Enrichment Board of ICAI. We are honoured to have Mr. Subash Bangera as our resource person for this event.

On 22nd November, we have arranged a vital seminar on 'Annual Return under GST and Invoice Management System'. This program will feature esteemed experts CA Akshay M Hiregange and CA Nitesh Nayak.

On 27th November, our branch will actively participate in the ICAI Mega Career Counselling Program. It is heartening to share that 5 schools/colleges have already consented to be a part of this initiative, with more expected to join. This is a wonderful opportunity to guide the next generation.

Furthermore, we are excited to announce that we are planning a seminar on International Taxation and the launch of the AI Level 2 Certification Course soon. The dates for these will be communicated shortly.

I encourage each one of you to participate in these programs in large numbers. Your involvement is what makes our branch a dynamic and knowledgeable community.

Let me conclude with a Sanskrit verse that resonates with our pursuit of continuous learning:

"आ नो भद्राः क्रतवो यन्तु विश्वतः"
(Aa no bhadraah kratavo yantu vishwatah)

Meaning: "Let noble thoughts come to us from every direction."

May we always remain open to knowledge and wisdom from all sources, continually enriching ourselves and our profession.

With best wishes,

CA Prashanth Pai K.
Chairman



From the Editor's Desk

Dear Esteemed Members,
Warm greetings from the Mangaluru Branch of SIRC of ICAI!

October brings with it a spirit of renewal and celebration. As the festive season unfolds with Navaratri, Dussehra, and Deepavali, it reminds us that perseverance, truth, and integrity ultimately triumph over all challenges — values that resonate deeply with our profession.

The month also follows an intense period of statutory deadlines, with the extended due date for filing Income Tax Returns and Tax Audit Reports providing a crucial window for professionals to ensure accuracy and completeness. Even as we breathe a collective sigh of relief after the filing season, it's an ideal time to revisit our work processes, reflect on learnings from the previous quarter, and plan for the months ahead.

On the national front, India continues to display strong economic resilience, supported by robust tax revenues, steady capital inflows, and growing optimism in the business environment. The festive season has further stimulated consumption and demand across sectors — a positive sign of sustained economic momentum.

For our members, this month's E-Bulletin once again showcases insightful articles contributed by our own fraternity. The range of topics reflects both technical proficiency and thought leadership that define Chartered Accountants as trusted advisors in every sphere of finance and governance. I extend heartfelt appreciation to all contributors and encourage more members to pen their thoughts and experiences for forthcoming editions.

As we celebrate this season of light and prosperity, may the glow of Deepavali illuminate not just our homes but also our professional journeys — guiding us toward continued excellence, ethical practice, and meaningful growth.

Wishing you and your families a joyous and prosperous Deepavali!

Warm regards,
CA. B Krishnananda Pai
Editor – E-Bulletin
Mangaluru Branch of SIRC of ICAI

GOLD PRICES: ALL THAT GLITTERS IS NOT GOOD

Executive Overview

Gold has stormed to successive record highs in 2024–2025, driven by a potent mix of central-bank accumulation, safe-haven flows, revived Western ETF demand, and persistent geopolitical and macroeconomic uncertainty. Yet, as any seasoned banker or chartered accountant will caution, all that glitters is not necessarily good — or sustainable. This paper examines the factors behind the price rise, evaluates how durable each driver is, presents scenario-based price paths, and interrogates the argument that gold is (or is not) ‘universal money’. It also compiles recent country-wise demand trends and the latest central bank reserve positions, and offers case studies and numerical illustrations to translate market narratives into balance-sheet-level implications.



Rahul Sharma

FCA, MBA(Fin.), LL.b., CAIIB

Chartered Accountant & Banker

Perspective matters. The current cycle is unusual in that prices rose even as real yields oscillated and global growth data softened only unevenly; the key incremental demand came from official sector purchases and from investors seeking insurance against tail risks that are hard to hedge with fiat assets. That also means price is now more sensitive to policy and geopolitics than to mine supply or jewellery volumes. These nuances are crucial for bank treasuries, corporate treasurers, and wealth managers calibrating hedges, collateral, and liquidity buffers.

What is driving gold higher in 2024–2025?

- Central-bank accumulation at multi-decade highs. Since 2022, official sector net purchases have exceeded 1,000 tonnes per year. Through H1-2025, central banks remained net buyers (notably Poland, China, India, and several EM peers). Motivations include diversification away from the U.S. dollar, sanction-resilience, and liquidity management under stress.
- Revival of Western ETF and OTC investment. After two cautious years, 2025 saw renewed inflows into gold-backed ETFs and strong OTC participation. Higher prices paradoxically attracted momentum-sensitive allocations; asset-allocation committees treated gold as ‘disaster insurance’ with low correlation to risk assets during stress windows.
- Macro hedging against policy and geopolitical risk. Concerns around global debt sustainability, potential fiscal showdowns, and fragmented geopolitics amplified demand for safe assets. Gold benefited relative to long-duration sovereign bonds during inflation-uncertain regimes.
- Currency diversification and EM retail behaviors. Weak local currencies and negative real deposit rates in some EMs (e.g., Türkiye in 2023–2024) encouraged households to hold bars/coins. In India and parts of ASEAN, households exchanged old jewellery or pledged gold for liquidity while still remaining net holders.
- Supply inelasticity at current horizons. Mine supply responds slowly (multi-year capex cycles, permitting) and recycling has been more muted than prior rallies. That inelastic near-term supply amplifies price responses to incremental demand.

Numerical Illustration A: Flow-of-Funds Sensitivity

A rough ‘flow-pressure’ heuristic often used by bullion desks is that, over short windows, an exogenous 100–150t net demand shock (e.g., from central banks or ETFs) can shift the equilibrium price band by 3–5% when market liquidity is thin. If net official purchases run at ~150–200t per quarter, and ETF inflows add another 150–200t, the combined impulse could plausibly sustain 6–10% price elevation over a quarter, other drivers held constant. This is not a valuation model; it illustrates how concentrated buyers transmit into price when mine supply is fixed near-term.

Will the rally last or reverse? A durability matrix

Each driver's persistence differs. The table below ranks durability over a 12–24-month horizon and flags reversal risks.

Driver	12–24M Durability (Low/Med/High)	Key Reversal Risks
Central-bank buying	High	Policy pivot; sanctions easing;
ETF/OTC investment	Medium	Stronger USD/real yields; risk-on
Macro/geopolitical hedging	Medium-High	Risk de-escalation; credible fiscal
EM retail demand	Medium	Local currency stabilisation; import
Supply tightness	Medium	Recycling revival at high prices; mine

Anticipated Prices: Scenario-Based Paths (12–24 months)

Rather than point estimates, we present three scenarios with indicative USD/oz bands. These are illustrative—not investment advice—and should be updated as macro variables evolve:

- **Base Case (Probability 45%):** Real yields oscillate but remain contained; central banks keep net buying; ETF inflows moderate. Indicative band: USD 3,600–4,600 over the next 12 months, with mean near USD 4,050.
- **Bull Case (Probability 30%):** Geopolitical tension or fiscal stress triggers safe-haven scramble; central banks continue sizeable purchases; USD softens. Indicative band: USD 4,600–5,400, tail spikes to ~USD 5,800 cannot be ruled out during episodes of market stress.
- **Bear Case (Probability 25%):** Disinflation progresses, USD strengthens, policy credibility improves; ETF outflows and profit-taking pressure prices; some CBs pause. Indicative band: USD 2,900–3,600, with strong support expected near the upper-2000s given official-sector bids.

Numerical Illustration B: Real-Yield and Dollar Sensitivities

Empirically, a 50–75bps rise in U.S. 10-year TIPS yields, if sustained for a quarter, has often coincided with a 5–10% gold pullback (directional, not causal). Conversely, a 5% decline in the Dollar Index (DXY) over a quarter has frequently aligned with a 7–12% rise in gold. These elasticities are time-varying; during official-buying regimes, yield sensitivity weakens while flow sensitivity strengthens.

Country-Wise Demand Dynamics in Recent Quarters

- **India:** Jewellery volumes softened at record prices, but value of purchases rose. Households increasingly exchanged old jewellery or used gold as collateral (notably via gold loans) to unlock liquidity while retaining long-term exposure. RBI's gold share in FX reserves has climbed sharply alongside valuation gains. Festivals continue to anchor seasonal demand despite price sticker-shock.
- **China:** Bar and coin purchases strengthened as savers sought safety given property-market uncertainty and modest deposit yields. Jewellery demand was mixed, with premium-brand pieces resilient but mass-market segments price-sensitive.
- **Türkiye:** Despite policy normalisation, the habit of using gold as a savings substitute persisted from the high-inflation period; policy constraints and import rules periodically redirected demand toward recycled flows and official coins.
- **Middle East (GCC):** High oil income and expatriate remittances supported steady jewellery demand; however, higher prices pushed consumers to lighter weights and 18–21k segments.
- **U.S. & Europe:** After outflows in 2022–2023, ETF demand revived in 2025 as asset allocators rebuilt hedges; retail bar/coin demand varied by country depending on tax and dealer spreads.

Central-Bank Gold Reserves: Who Holds What (mid-2025 snapshot)

Gold remains a strategic reserve asset. As of mid-2025, the United States, Germany, Italy, and France remain the four largest holders. China has continued to report additions since late-2023; Poland has accelerated purchases to exceed ~500 tonnes; India stands near ~880 tonnes. Figures below are rounded snapshots (tonnes) for reference and should be read alongside official disclosures.

Rank	Country	Official Gold (tonnes, ~Jun 2025)
1	United States	8,133
2	Germany	≈3,352
3	Italy	≈2,452
4	France	≈2,437
5	Russia	≈2,330
6	China (PBoC)	≈2,250–2,300
7	Switzerland	≈1,040
8	Japan	≈846
9	India (RBI)	≈880
10	Netherlands	≈612

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Case Studies: Policy, Portfolios, and Households

Case Study 1 — Poland: A Strategic Accumulator

Poland's National Bank (NBP) has been one of the most aggressive buyers since 2023, lifting reserves to ~515t by mid-2025. Rationale: bolster financial resilience, support zloty credibility, and diversify reserve composition. From a portfolio perspective, if Poland's FX reserves are ~USD 200bn with gold at ~515t (valued near USD 4,200/oz), gold's share by value can approach ~20–25% depending on the valuation date. The policy signal has spillovers: regional peers have revisited their own strategic allocations, contributing to a demonstration effect.

Case Study 2 — India: Household Alchemy and RBI Calibration

India's household gold stock—estimated in the multi-thousand-tonne range—interacts uniquely with macro cycles. At record rupee prices, jewellery volumes dip but value remains resilient as consumers shift to lighter designs or exchange old ornaments. RBI has added to gold in recent years; even when purchases slowed in 2025, the valuation uplift pushed the gold share in FX reserves to the highest in decades. Banking channels see secondary effects: gold loans provide liquidity without distress sales, stabilising consumption and MSME working capital. For a bank branch in Jaipur or Coimbatore, pledge-to-value ratios and margining practices must adapt quickly when spot prices gap higher.

Case Study 3 — China: Retail Bars as a Confidence Barometer

With property markets under pressure, Chinese households increased purchases of small bars and coins. Domestic dealers reported tightness in popular bar sizes during price spikes. The People's Bank of China continued to disclose incremental gold additions through 2024–early 2025, signalling a preference for reserve diversification. This dual retail–official bid helped anchor dips and contributed to higher regional premia during episodes of global volatility.

Case Study 4 — Türkiye: From Inflation Hedge to Policy Normalisation

In the high-inflation years 2022–2023, Türkiye's households and corporates leaned heavily on gold as a store of value. Policy normalisation in 2024–2025 moderated some flows, but the structural role of gold in financial savings persists. The central bank's reported holdings have been affected by technical adjustments, complicating simple time-series reads, yet the underlying lesson remains: when local currency trust is strained, gold demand becomes a macro-stabilising buffer for households.

Is Gold 'Universal Money' Today?

- Legal-tender status vs. monetary asset: Gold is not legal tender in most jurisdictions; however, it is universally recognised as a monetary asset. Central banks treat it as reserves, Basel III recognises allocated gold as a high-quality collateral asset in certain contexts, and gold can serve as margin collateral in derivatives markets.
- Settlement and convertibility: Gold is globally fungible, physically and via London OTC clearing and COMEX futures delivery. Settlement lags and logistics costs mean it is not 'frictionless money' for everyday transactions but is effective as a cross-border reserve and collateral instrument.
- Price volatility and opportunity cost: Gold's volatility is lower than many commodities but higher than investment-grade government bonds. As policy anchors stabilise, the opportunity cost of holding non-yielding assets rises. Thus gold is better framed as strategic insurance than everyday currency.
- Digital rails and tokenisation: Emerging tokenised gold platforms on permissioned/regulated ledgers improve divisibility and settlement speed. These innovations make gold more 'money-like' for wholesale finance, though regulatory perimeter and custody risks remain.

Risk Management: Implications for Bank Treasuries and Corporates

- Hedging discipline: Use structured hedges around festival/import windows; for exporters with INR receivables and USD costs, calibrate gold price exposure alongside FX hedges.
- Collateral and lending: Re-mark gold-backed collateral daily in high-vol regimes; revisit LTVs and margin calls to avoid procyclicality for retail borrowers.
- Liquidity buffers: Consider a strategic gold allocation in treasury ALM as a tail-risk diversifier, size-constrained by risk appetite and liquidity needs.
- Accounting treatment: Monitor fair-value gains/losses and hedge accounting effectiveness; document designation and ineffectiveness rigorously for audit trails.
- Operational resilience: Vet custody chains, bar lists, and allocated vs. unallocated exposure; stress test settlement delays during market squeezes.

Numerical Illustration C: Bank Treasury — Stress-Test Snippet

Assume a treasury holds 5 tonnes equivalent via fully allocated accounts ($\approx 160,753$ oz). At USD 4,200/oz and USD/INR 84, gross mark-to-market is $\approx$ INR 56,6xx crore. A 12% drawdown (bear-case shock) reduces MV by $\approx$ INR 6,8xx crore; if funded via short-term USD repo at SOFR+75 bps, carry remains near-flat; however, margining and haircuts on reallocations could force liquidity usage. Embedding this in ICAAP/ILAAP buffers clarifies true risk tolerance

Country-Wise Summary: Demand & Reserves (Recent)

- India: Value demand resilient; jewellery tonnage softer at record INR prices; RBI around ~ 880 t; gold's share of FX reserves at multi-decade high.
- China: Strong bar/coin retail; continued official additions disclosed through early-2025.
- Poland: Largest net official buyer YTD 2025; reserves ~ 515 t after rapid accumulation.
- U.S./Germany/Italy/France: Top holders unchanged; policy stance neutral on volumes; valuation drove share of reserves higher.
- Middle East/Türkiye: Retail demand and cultural affinity keep flows steady; policy changes modulate imports.

What Could Trigger a Turnaround in Prices?

- A credible multi-year fiscal consolidation path in major advanced economies, lifting real yields and USD.
- Geopolitical de-escalation that normalises risk premia and tempers safe-haven demand.
- Sustained ETF outflows as allocators rebalance or switch to high-yield cash/bonds.
- Recycling surge and producer hedging if prices remain elevated, adding supply at the margin.
- Central banks pausing or modestly net-selling to raise hard-currency liquidity during domestic stress.

Practical Guidance for Indian Practitioners

- For banks: calibrate gold-loan LTVs (e.g., $\leq 75\%$) dynamically; build intraday price-shock buffers; codify pledgor-level concentration caps.
- For corporates: where gold is an input (jewellery), pre-agree vendor-managed inventory and rolling hedges; use collar structures judiciously around peak seasons.
- For wealth/family offices: position gold as strategic insurance (3–10% strategic weight, depending on risk budget); do not lever the allocation.
- For auditors: ensure fair-value hierarchy (Level 1/2) is consistently evidenced; verify bar lists and custody attestations.

Conclusion

Gold's renaissance has clear foundations—official accumulation, revived investment flows, and elevated macro-political risk. These are durable but not immutable. The right stance for risk managers is neither euphoria nor dismissal: it is disciplined scenario analysis, liquidity awareness, and governance that treats gold as strategic insurance rather than a speculative core holding. In that sense, 'all that glitters is not good' is a reminder to separate price momentum from long-term prudence.

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THE MONTH GONE BY OCTOBER 2025

TAX AUDIT AND SUCCESSION PLANNING UNDER THE HINDU SUCCESSION ACT BY CA ABHISHEK MURALI



THE MONTH GONE BY OCTOBER 2025

COMPANIES ACT REVISITED BY CA JOMON K GEORGE



EDITORIAL BOARD



CA. Prashanth Pai K



CA. B Krishnananda Pai

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Feedback on this e-bulletin can be sent to the editorial team at mangaluru@icai.org .

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