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SOVEREIGN GOLD BOND

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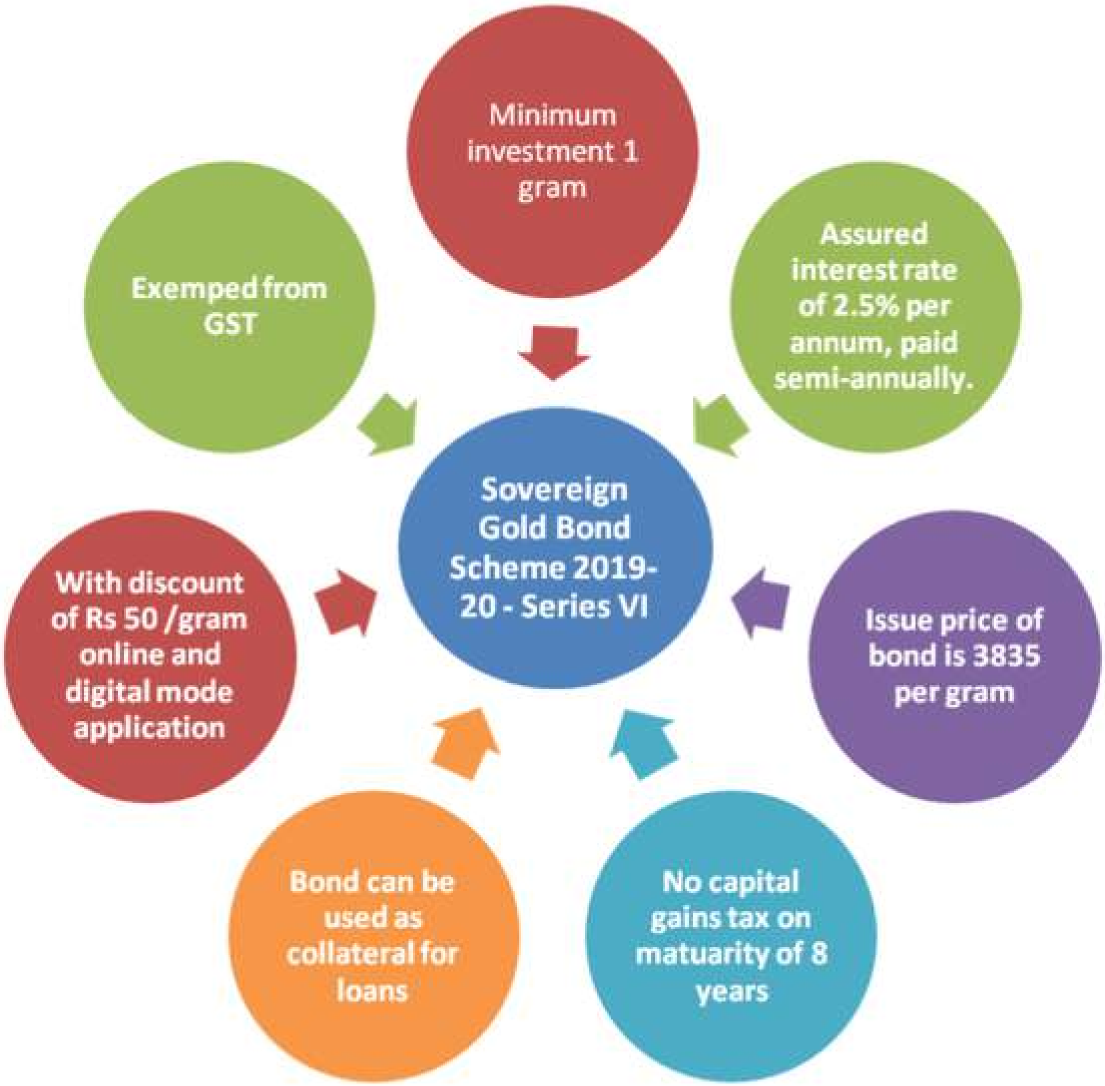
Sovereign Gold Bond Scheme 2019-20 - Series VI

Gold has seen a significant rally (around 21 per cent) so far this year. Considering this rally and festive mood of people, the government of India on Monday launched the sixth tranche of Sovereign Gold Bond (SGB) for 2019-20 in order to cash the sentiment as the most people prefer to buy gold on the occasion of auspicious time of "Dhanteras & Diwali". The Sovereign Gold Bond Scheme 2019-20-Series VI will close for subscription on Dhanteras, that is, 25 October.

Sovereign Gold Bond is a fixed-term bond issued by the Reserve Bank of India, which represents the exact weight of gold purchased by the investor for a period till the maturity of the security. The SGB scheme was launched in November 2015 with an objective to reduce the demand for physical gold and shift a part of the domestic savings, used for purchase of gold, into financial savings and thereby keep a check on imports.

	Date of Application	Issue date	Issue price
Series VI	October 21-25, 2019	October 30, 2019	3835 /gram with discount of Rs 50 /gram online and digital mode application



Features:

- SGBs are government securities, issued by Reserve Bank on behalf of Government of India. They are substitutes for holding physical gold.
- The bonds will be sold through offices or branches of Nationalised Banks, Scheduled Private Banks, Scheduled Foreign Banks, designated Post Offices, Stock Holding Corporation of India Ltd. (SHCIL) and the authorised stock exchanges(BSE & NSE) either directly or through their agents.
- Payment for the Bonds will be through cash payment (up to a maximum of Rs. 20,000) or demand draft or cheque or electronic banking.
- The customers will be issued Certificate of Holding on the date of issuance of the SGB.
- The scheme differs from ETFs and physical gold buying, as it offers an interest rate of 2.5 per cent per annum, which will be credited semi-annually to the bank account of the investor and the last interest will be payable on maturity along with the principal.
- The Bonds are issued in denominations of one gram of gold and in multiples thereof. Minimum investment in the Bond is one gram a maximum limit of subscription of 4 kg for individuals, 4 kg for Hindu Undivided Family (HUF) and 20 kg for trusts and similar entities notified by the government from time to time per fiscal year (April – March).
- The price of the bond will be fixed on the basis of the closing price of gold of 999 purity published by the India Bullion and Jewellers Association Limited for the week preceding the subscription period, i.e. April 11-13, 2018. The issue price of the gold bonds will be 50 per gram less than the nominal value to those investors applying online and the payment against the application is made through digital mode.
- On maturity, the redemption proceeds will be equivalent to the prevailing market value of grams of gold originally invested in Indian Rupees.
- The tenure of the bond will be for a period of eight years with an exit option in 5th, 6th and 7th year to be exercised on the interest payment dates.
- The bond will be tradable on the exchanges within a fortnight of the issuance, on a date to be notified by the RBI, if held in demat form.

Advantages:

- The bond can be used as collateral for availing loans. The loan- to-value ratio is to be set equal to ordinary gold loan mandated by the Reserve Bank from time to time.
- In case the SGBs are encashed by an individual on expiry of 8 years, no capital gains tax is payable. But in case the SGBs are sold before the maturity date on the exchanges, then this exemption is not applicable and the interest is taxable.
- There is no cost of holding physical gold in terms of locker.
- There is a sovereign guarantee to get back the gold at the market price at the time of maturity.
- Sovereign Gold Bonds are benchmarked against 999 purity gold. It offers the comfort on purity of the gold owned and the satisfaction of not having to shell out heavy making charges which accrue on physical gold purchases.
- Sovereign Gold Bonds provide two ways of returns. First regular interest of (2.50% p.a) on invested capital every six months and the second in the form of capital gains at the time of redemption in case the price at the time of redemption is higher.
- The Bonds will be eligible for Statutory Liquidity Ratio purposes.
- The indexation benefits will be provided to long-term capital gains arising to any person on transfer of bond.

Comparison of Physical gold, Gold ETF and Sovereign Gold Bonds

Points	Physical Gold	Gold ETF	Sovereign Gold Bond
Returns	Lower than actual return on gold	Lower than actual return on gold	Higher than actual return on gold
Safety	Risk of handling physical gold	High	High
Purity of Gold	Purity of Gold always remains a question	High as it is in Electronic Form	High as it is in Electronic Form
Capital Gain	Long term capital gain applicable after 3 year	Long term capital gain applicable after 3 year	Long term capital gain applicable after 3 year. (No Capital gain tax if hold till maturity)
Collateral against Loan	Yes	No	Yes
Tradability / Exit Route	Conditional	Tradable on Exchange	Tradable on Exchange. Redemption- 5th year onwards with GoI
Storage Cost	High	Very Low	Very Low

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