



## Sovereign Gold Bond 2020-21 – Series X

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**11-Jan-2020**

# Sovereign Gold Bond – Series X

## Prologue:

Government of India, in consultation with the Reserve Bank of India, has decided to issue Sovereign Gold Bonds (SGB), 2020-21 Series X. Applications for the bonds will be accepted between **January 11, 2021 and January 15, 2021**. The Certificate of Bond(s) will be issued on **January 19, 2021**.

The issue price of the Sovereign Gold Bond for this Series has been fixed at **Rs. 5,054 (Rupees four thousand and fifty-four only) per gram** of gold for those who subscribe online and pay through digital mode and **Rs. 5,104 (Rupees five thousand one hundred and four only) per gram** for others.

## Forthcoming Issues in FY 20-21:

|   | Tranche            | Date of Subscription        | Date of Issuance |
|---|--------------------|-----------------------------|------------------|
| 2 | 2020-21 Series XI  | Feb 01, 2021 - Feb 05, 2021 | Feb 09, 2021     |
| 3 | 2020-21 Series XII | Mar 01, 2021 - Mar 05, 2021 | Mar 09, 2021     |

## Details of all the tranche issues in FY20 & FY21:

| Series      | Month     | Issue price/gram | No. of units (grams) |
|-------------|-----------|------------------|----------------------|
| FY20 - I    | Jun 2019  | Rs. 3146 - 3196  | 4,59,789             |
| FY20 - II   | Jul 2019  | Rs. 3393 - 3443  | 5,35,947             |
| FY20 - III  | Aug 2019  | Rs. 3449 - 3499  | 10,24,837            |
| FY20 - IV   | Sept 2019 | Rs. 3840 - 3890  | 6,27,892             |
| FY20 - V    | Oct 2019  | Rs. 3738 - 3788  | 4,55,776             |
| FY20 - VI   | Oct 2019  | Rs. 3785 - 3835  | 6,93,210             |
| FY20 - VII  | Dec 2019  | Rs. 3745 - 3795  | 6,48,304             |
| FY20 - VIII | Jan 2020  | Rs. 3966 - 4016  | 5,22,119             |
| FY20 - IX   | Feb 2020  | Rs. 4020 - 4070  | 4,05,957             |
| FY20 - X    | Mar 2020  | Rs. 4210 - 4260  | 7,57,338             |
| FY21 - I    | Apr 2020  | Rs. 4589 - 4639  | 17,72,874            |
| FY21 - II   | May 2020  | Rs. 4540 - 4590  | 25,44,294            |
| FY21 - III  | June 2020 | Rs. 4627 - 4677  | 23,88,328            |
| FY21 - IV   | July 2020 | Rs. 4802 - 4852  | 41,30,820            |
| FY21 - V    | Aug 2020  | Rs. 5284 - 5334  | 63,49,781            |
| FY21 - VI   | Sept 2020 | Rs. 5067 - 5117  | 31,90,133            |
| FY21 - VII  | Oct 2020  | Rs. 5001 - 5051  | 18,59,518            |
| FY 21 - IX  | Nov 2020  | Rs. 5127 - 5177  | 15,73,457            |
| FY 21 - X   | Dec 2020  | Rs. 4,950 - 5000 | 28,69,886            |

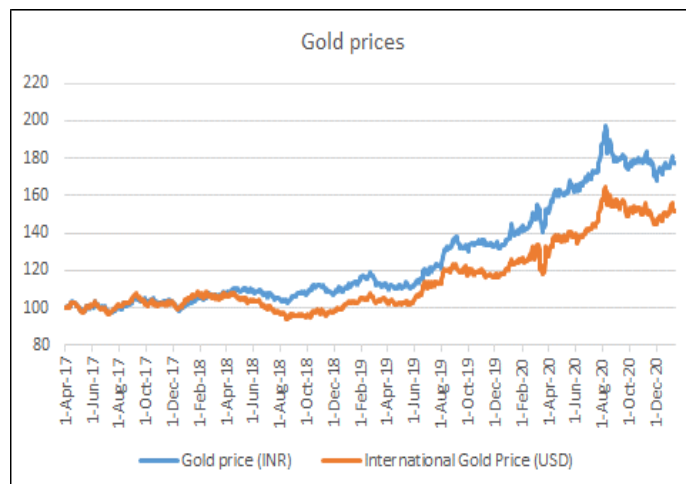
**Offering gold bonds at a discount of Rs 50/gm for online/digital payment:** Nominal value of per unit of bond is fixed basis the simple average of closing price of 999 purity gold published by India Bullion and Jewelers Associations Ltd. (IBJA) for last 3 business days of the week preceding the subscription period (Jan 06 – Jan 08). The current tranche is priced at **Rs 5,104 per gram**. Government of India, in consultation with the Reserve Bank of India, has decided to offer a discount of Rs 50 per gram on the nominal value of the Sovereign Gold Bond those who subscribe online and pay through digital mode.

## Gold Outlook:

Gold prices have witnessed a downward trend post August 2020 and have remained range bound in December, where it traded in a range of ~ \$1850-\$1900 per ounce. Gold prices have fallen in the previous week on the back of strengthened U.S. dollar and elevated level of U.S. treasury yields. New variant of coronavirus infection also aided support to the gold prices. For calendar year 2020, gold has delivered 25.27% returns in dollar terms. For first week of calendar year 2021, gold has delivered -0.26% returns in dollar terms.

Gold prices traded with a positive bias almost for the entire previous year amid mounting concerns over the global economic slowdown, heightened geo-political tensions, historically low and negative interest rates. Fresh lockdown across Europe amid second wave of infections as well as rising inflationary expectations amidst unprecedented levels of stimulus measures launched by central banks around the globe may continue to support supported the gold prices.

Investment in gold should be more of an asset allocation and diversification strategy (5-10% of portfolio) due to its low correlation with other asset classes.



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## Key benefits:

- The issue price that is fixed at Rs. 50 less than the nominal value for per gram for digital applications is beneficial for investors. This helps investors to get slightly higher returns than that of the gold price in the spot market.
- Sovereign Gold Bonds deliver two streams of returns. One in the form of regular interest of (2.50% p.a.) on invested capital every six months and the other in the form of capital gains at the time of redemption in case the price at the time of redemption is higher.
- Bonds are freely tradable on stock exchanges within a fortnight of the issuance on a date notified by the RBI.
- The bonds will be available both in demat and paper form.
- In Union budget 2016, Finance Minister exempted capital gains tax on redemption on such bonds (under normal case, LTCG tax is levied 20% with indexation on gain). Indexation benefits will be provided to long term capital gains arising to any person on transfer of bond.

## Basic Details:

- Interest Rate: The Sovereign Gold Bonds offer an interest rate of 2.50% per annum payable semi-annually. Interest will be credited semi-annually to the bank account of the investor.
- Eligible Investors: The Bonds will be restricted for sale to resident Indian entities including Resident Individuals, HUFs, Trusts, Universities, Charitable Institutions and minors applying (through their guardian).
- Minimum application criteria: 1 unit (i.e. 1 gram of gold).
- Maximum application limit: Not be more than 4kg for individuals/HUFs and 20kgs for trusts per fiscal year (April-March).
- Tenor: The tenor of the Bond will be for a period of 8 years with exit option after the 5th year of the date of issue and such redemptions shall be made on the next interest payment dates.
- Redemption price: The sovereign gold bonds will be redeemed for cash at the end of the investment tenure. Redemption will take place at the prevailing gold price (based on simple average of closing price of gold of 999 purity of previous 3 business days from the date of redemption, published by the IBA), giving the investor the value of the bond plus capital appreciation/depreciation from increase/fall in gold price.
- Premature redemption: From 5th year, investors can approach the concerned bank/Post Office/agent thirty days before the coupon payment date. Request for premature redemption can only be entertained if the investor approaches the concerned bank/post office at least one day before the coupon payment date.
- Liquidity: Liquidity is available from secondary markets as these bonds are mandated to be listed on BSE and NSE. However, the liquidity of the past issues are quite low and restricted only to few tranches. Most of the past series of SGBs are trading at a discount to the gold prices due to lack of liquidity and depth in the market.
- Nomination facility: Yes. Nomination and its cancellation shall be made in Form 'D' and Form 'E', respectively.
- Loan against Bonds: Available. The loan-to-value (LTV) ratio is to be set equal to ordinary gold loan mandated by the Reserve Bank from time to time.
- Transfer: The Bonds shall be transferable by execution of an Instrument of transfer as in Form 'F'.
- Taxation: Interest on the Bonds shall be taxable as per the provisions of the Income-tax Act, 1961. Capital gains tax treatment (except in case of redemption) will be the same as that for physical gold (20% tax after indexation benefit if held for three years). TDS is not applicable on the bond interest/redemption proceeds.

The redemption of these sovereign gold bonds by an individual will be exempt from capital gains tax. Long-term capital gains to any person on transfer of sovereign gold bonds shall be eligible for indexation benefits.

## Issue Details of SGBs:

| Issue Year       | Issue price/gram | No. of units (grams) |
|------------------|------------------|----------------------|
| 2015 – 16        | Rs. 2600 – 2916  | 49,03,285            |
| 2016 – 17        | Rs. 2893 – 3150  | 1,13,87,765          |
| 2017 – 18        | Rs. 2780 – 2987  | 65,24,691            |
| 2018 – 19        | Rs. 3114 – 3326  | 20,30,873            |
| 2019 – 20        | Rs. 3196 – 4260  | 61,31,169            |
| 2020 – 21 so far | Rs. 4590 – 5334  | 2,66,79,091          |

## What are the benefits of buying these bonds in comparison to physical gold?

- No impurity risk – These bonds are denoted by 999 purity. When one buys physical gold from jeweller, purity of the metal could be a concern
- No storage risk or cost of storage – Storing physical gold could be a risky affair and involves storage/locker/insurance charges. None of these are applicable for SGBs
- No default/counterparty risk – Physical gold holders could be exposed to counterparty risk, whereas SGBs are backed by the government and issued by RBI on behalf of the central government
- No GST or STT – Purchase of physical gold attracts GST. SGBs do not attract GST and there is no STT charged on SGB trades

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## Comparison between Sovereign Gold Bonds and Gold ETF:

- Two Streams of Returns – SGBs deliver returns in form of interest income (2.50% p.a) on invested capital and in form of capital appreciation at the time of redemption, in case the price at the time of redemption is higher. ETFs generate returns only through capital appreciation if the price at the time of redemption is higher.
- Transaction charges - Investors have to bear the transaction charges if they want to trade in Gold ETF while there is no such charge involved with SGBs.
- Expenses - Gold ETF deducts some charges in the name of TER (Total Expenses Ratio) from the total assets. This expense ratio ranges from 0.35% - 1.17% per annum of the total assets.
- Liquidity - Gold ETFs scores over SGBs when it comes to liquidity. Investors can enter/exit from Gold ETF during any working day of the stock exchanges. Liquidity will not be the constraint (though impact cost may be a hurdle) for the Gold ETF. On the other hand, the encashment/redemption of the Sovereign Gold bond is allowed after fifth year from the date of issue on coupon payment dates. However, these bonds will be tradable on Exchanges, if held in demat form (but, liquidity may be limited).
- Taxation - No capital gains tax is payable if the sovereign gold bonds are held till maturity, while ETFs held for more than three years attract capital gains tax (with indexation benefits).

## Comparison among Sovereign Gold Bonds, Physical Gold and Gold ETF:

| Particulars                       | Sovereign Gold Bonds                                    | Physical Gold          | Gold ETF                                     |
|-----------------------------------|---------------------------------------------------------|------------------------|----------------------------------------------|
| Total Return                      | Higher than the price due to additional interest payout | In line with the price | Lower than price due to fund expenses        |
| Sovereign guarantee               | Yes                                                     | No                     | No                                           |
| Purity of Gold                    | High                                                    | Variable               | High                                         |
| Interest on the investment        | Yes                                                     | No                     | No (No dividend option provided on Gold ETF) |
| Capital Appreciation/depreciation | Yes                                                     | Yes                    | Yes                                          |
| Annual fund management fees       | No                                                      | No                     | Yes                                          |
| Brokers charge on buying          | No                                                      | No                     | Yes                                          |
| Exit / redemption option          | Only from 5th year                                      | Any time exit          | Any time exit                                |
| Tradability                       | Yes                                                     | Yes                    | Yes                                          |
| Liquidity                         | Limited                                                 | Highly liquid          | Highly liquid                                |
| Storage/Insurance charges         | No                                                      | Yes                    | No                                           |
| Quality check required            | No                                                      | Yes                    | No                                           |

## Is capital gain tax payable on gains in SGB?

In case the SGBs are encashed by way of redemption by an individual from the RBI, no capital gains tax is payable.

In case the SGBs are sold before the maturity date on the exchanges, then this exemption is not available. In such a case, the Capital Gains will be levied (Long term or Short term based on whether it is held for 3 years or more or less than 3 Years) at the applicable rates i.e. short term (at applicable rates to the investor) and long term (20% after indexation).

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