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Sovereign Gold Bond 2021-22 – Series VII

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Investment Products Team

Sovereign Gold Bond - Series VII

Prologue:

Government of India, in consultation with the Reserve Bank of India, has decided to issue Sovereign Gold Bonds (SGB), 2021-22 Series VII. Applications for the bonds will be accepted from **October 25, 2021 to October 29, 2021**. The Certificate of Bond(s) will be issued on **November 02, 2021**.

The issue price of the Sovereign Gold Bond for this Series has been fixed at **Rs. 4,711 (Rupees Four thousand seven hundred and eleven only) per gram** of gold for those who subscribe online and pay through digital mode and **Rs. 4,761 (Rupees Four thousand seven hundred and sixty-one only) per gram** for others.

Details of all the tranche issues in FY21 & FY22:

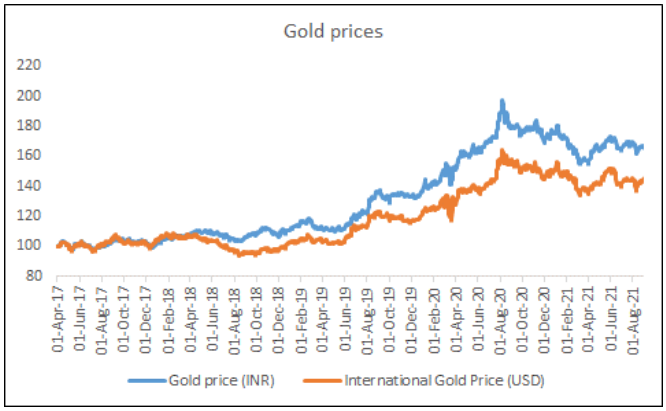
Series	Month	Issue price/gram	No. of units (grams)
FY21 - I	Apr 2020	Rs. 4589 – 4639	17,72,874
FY21 – II	May 2020	Rs. 4540 – 4590	25,44,294
FY21 - III	June 2020	Rs. 4627 – 4677	23,88,328
FY21 - IV	July 2020	Rs. 4802 – 4852	41,30,820
FY21 – V	Aug 2020	Rs. 5284 – 5334	63,49,781
FY21 - VI	Sept 2020	Rs. 5067 – 5117	31,90,133
FY21 - VII	Oct 2020	Rs. 5001- 5051	18,59,518
FY 21 – VIII	Nov 2020	Rs. 5127 – 5177	15,73,457
FY 21 – IX	Dec 2020	Rs. 4,950 – 5000	28,69,886
FY 21 – X	Jan 2021	Rs. 5,054 – 5,104	12,14,048
FY 21 – XI	Feb 2021	Rs. 4,862- 4,912	12,27,915
FY 21 – XII	March 2021	Rs. 4,612 – 4,662	32,30,907
FY 22 – I	May 2021	Rs. 4,727 – 4,777	53,18,973
FY 22 – II	May 2021	Rs 4,792 – 4,842	18,98,475
FY 22 – III	June 2021	Rs 4,839 – 4,889	14,79,232
FY 22 – IV	July 2021	Rs. 4,757 – 4,807	29,23,762
FY 22 – V	August 2021	Rs. 4,740 – 4,790	22,92,743
FY 22 – VI	August 2021	Rs. 4,680 – 4,732	35,20,341

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, i.e. **Oct 20 to Oct 22**. The current tranche is priced at **Rs 4,761 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 update:

Gold prices traded with a mixed bias in the month of October and have gained 2% MTD as of 22nd Oct. Gold prices were under pressure in the first week of the month as stronger USD and firm US yields weighed. Upbeat US companies' data and increase in US retail sales also dented the precious metals appeal. Concerns on rising inflation and the recent softening of USD has been supportive for the gold prices. Spot gold was trading at $1,792/oz as of 22nd Oct and has delivered a return of -5.5% for CYTD.

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.



Note: Gold prices in INR refers to per kg value;
Gold prices in USD refers to per ounce value
All the values are rebased to 100.

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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 period is 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 IBJA), 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	Rs. 4590 – 5334	3,23,51,961
2021- 22 so far	Rs 4680 – 4889	1,74,33,526

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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