

Sovereign Gold Bond 2017-18 – Series II

Prologue:

The Government of India has come out with its sovereign gold bond scheme called 'Sovereign Gold Bonds – 2017-18 – Series II'. The applications for the bond will be accepted from **July 10, 2017 to July 14, 2017**. The Government of India may, with prior notice, close the Scheme before the specified period. The Bonds may be issued on **July 28, 2017**.

The issue price of the Sovereign Gold Bond for this Series has been fixed at Rs. **2,780** (Rupees Two Thousand Seven Hundred and Eighty only) per gram of gold.

Offering gold bonds at a discount of Rs 50/gm: The nominal value of the bond has been fixed on the basis of simple average of closing price for gold of 999 purity of the previous week July 3-7, 2017, published by the India Bullion and Jewellers Association Ltd (IBJA), which works out to be Rs 2,830 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. Hence, the issue price has been fixed at Rs. 2,780/-.

Previous Issues:

The Honourable Finance Minister had announced in Union Budget 2015-16 about developing a financial asset, Sovereign Gold Bond, as an alternative to purchasing metal gold.

Accordingly, the first tranche was open for subscription from November 05 to November 20, 2015. The scheme met with good response from investors. About 62,169 applications were received and Rs. 246 crore was collected (915.953 kg of gold). The issue price of the sovereign gold bond for the first tranche was fixed at Rs. 2,684 per gram of gold.

The second tranche which was open for subscription from January 18, 2016 to January 22, 2016 had attracted 330,000 applicants, for 3,071 kg of gold worth Rs 798 crore, a rise of 200 per cent over the first tranche in November. The issue price of the sovereign gold bond for the second tranche was fixed at Rs. 2,600 per gram of gold.

The subscription at the third tranche opened between 8 March and 14 March which attracted 64,000 applications and received for 1,128 kg of gold of value Rs. 329 crore. The price for the third tranche was set at Rs. 2,916 per gram.

In the fourth tranche issued during July 2016, the Government has collected Rs 919 crore, the highest subscription among the tranches so far, mobilised through over 1.95 lakh applications, representing around 2.95 tonnes of gold. The issue price for the 4th tranche was fixed at Rs 3,119 for per gram.

The subscription at the fifth tranche opened between September 01 and September 09 which attracted about 2,00,000 applications and received for 2,370 kg of gold of value Rs. 820 crore. The price for the tranche was set at Rs. 3,150 per gram.

The subscription at the sixth tranche opened between October 24 and November 02, 2016 which received 3550 kilograms of gold amounting to Rs 1,067 crore. The price for the tranche was set at Rs. 2,957 per gram.

The subscription at the seventh tranche opened between February 23 and February 27, 2017. The price for the tranche was set at Rs. 2,893 per gram. The RBI issued a circular dated 9th June 2017 stating that the total collection from all the seven tranches issued in FY16-17 stood at Rs. 5,400 crores.

The subscription at the first tranche of 2017-18 opened between April 24 and April 28, 2017. The price for the tranche was set at Rs. 2,901 per gram.

Listing of SGB:

The below table shows the details of the previous issues of the sovereign gold bonds.

Issue	2 nd Tranche 16-17	3 rd Tranche 16-17	4 th Tranche 16-17	5 th Tranche 16-17	6 th Tranche 16-17	7 th Tranche 16-17	1 st Tranche 17-18
BSE Code	800252	800253	800254	800258	800259	800265	800268
NSE Code	SGBFEB24	SGBMAR24	SGBAUG24	SGBSEP24	SGBNOV24	SGBMAR25	SGBMAY25
Issued date	08-Feb-16	29-Mar-16	05-Aug-16	30-Sep-16	17-Nov-16	17-Mar-17	12-May-17
Issue price (Rs)	2,600	2,916	3,119	3,150	2,957	2,893	2,901
Total no of applications	3,30,000	64,000	1,95,000	2,00,000			
Collected Amount (Rs Crs)	798	329	919	768	1067	1273	
Worth of gold (in Kg)	3,071	1,128	2,950	2,435	3,550		
Interest Payment Date	8 Feb & 8 Aug	29 Mar & 29 Sep	5 Feb & 5 Aug	30 Mar & 30 Sep	17 May & 17 Nov	17 Sep & 17 Mar	12 Nov & 12 May
BSE Price as on 7 Jul 2017	2,750	2,711	2,765	2,800	2,740	2,681	2,700
NSE Price as on 7 Jul 2017	2,740	2,770	2,765	2,790	2,730	2,706	2,712
Returns % (BSE Price) since issued	5.77	-7.03	-11.35	-11.11	-7.34	-7.33	-6.93
Returns % (NSE Price) since issued	5.38	-5.01	-11.35	-11.43	-7.68	-6.46	-6.51

Source: NSEIndia, BSEIndia, RBI & News papers.

SGB are to be treated more as an asset diversification strategy rather than to earn superior returns. Although investors in 3rd tranche onwards are in the negative based on the current price, one needs to appreciate that gold prices are prone to fluctuations based on macro events globally and USD/INR rates and doing a SIP in every tranche of gold can be considered by investors who are either underinvested in gold or have regular fresh monies for allocation among various asset classes.

Key benefits:

- The issue price that fixed at Rs. 50 less than the nominal value for per gram 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.
- SGBs can be used as collateral for loans. This bond is as liquid as physical gold and could be exchanged for money, albeit on loan basis, at the time of financial need.
- The bonds will be available both in demat and paper form.
- In Union budget 2016, Finance Minister has proposed exempting such bonds from capital gains tax on redemption (under normal case, LTCG tax is levied 20% with indexation on gain). The indexation benefits will be provided to long term capital gains arising to any person on transfer of bond.
- High Liquidity: Investors can liquidate these bonds from the secondary market such as BSE and NSE.

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.
- The Bonds will be restricted for sale to resident Indian entities including 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 500 grams per person per fiscal year (April-March).
- **Tenor:** The tenor of the Bond will be for a period of **8 years** with exit option permitted from 5th year of the date of issue on interest payment dates.
- **Redemption:** The Bonds are repayable on the expiration of eight years. Pre-mature redemption of the Bond is allowed from 5th year of the date of issue on 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 previous week's (Monday-Friday) simple average of closing price of gold of 999 purity published by IBCA.), giving the investor the value of the bond plus capital appreciation/depreciation from increase/fall in gold price.
- **Premature redemption:** After 5 years, 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 month before the coupon payment date.
- **Liquidity:** Liquidity is available from secondary markets as these bonds are mandated to be listed on BSE and NSE.
- **Nomination facility:** Yes.
- **Loan against Bonds:** Available.
- **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 will be the same as that for physical gold (20% tax after indexation benefit if held for three years) (Explained below). 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.

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

- Here, investors buy gold in paper; hence there is no need of checking the quality of gold as that is a major hurdle when purchasing gold from jewellers.
- Further no storage/locker/insurance charges are payable in case of SGB.
- Apart from this, the investor has to face counterparty risk while selling their physical holding of the yellow metal which is not the case here.

Comparison between Sovereign Gold Bonds and Gold ETF:

Sovereign Gold Bonds score over Gold ETF on many grounds.

- The Sovereign Gold Bonds pay an interest of 2.50% per annum (though taxable), an added benefit to the investors which is not available with Gold ETF. However, both options are providing capital appreciation/depreciation.
- Sovereign Gold Bonds hold Sovereign guarantee hence there is no default risk is involved. The credit risk in Gold ETF is also very minimal.
- Investors have to bear the transaction charges if they want to trade in Gold ETF while there is no such charge involved with Sovereign Gold Bonds if they don't exit through the exchanges.
- Further, Gold ETF deduct some charges in the name of TER (Total Expenses Ratio) from the total assets. This expense ratio ranges from 0.57% - 1.08% per annum of the total assets.
- On the liquidity front, the Gold ETF score over Sovereign Gold Bonds. 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).

- 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:

Particular	Sovereign Gold Bonds	Physical Gold	Gold ETF
Sovereign guarantee	Yes	NA	No
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 on expiry of 8 years or earlier 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). In such a case, an investor can claim that the period of holding for being taxed as Long term capital gain should be reduced to 12 months (as SGB is a listed security- Refer Sec 2(42A) of Income Tax Act, 1961). However unless a clarification circular is issued, this stand may be prone to litigation.

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