Issues in Sovereign Gold Bond

Why in news?

People prefer physical gold over sovereign gold bonds as no trail is left for the tax authorities.

What is Sovereign Gold Bond (SGB)?

About	A financial instrument introduced by government to reduce gold imports
Launch year	2016
Issuer	Reserve Bank of India (RBI) on behalf of Government of India
Interest	2.5% paid semi-annually
Eligible investors	• Persons residing in India as defined under *Foreign Exchange Management Act,1999* • Individuals, Hindu Undivided Families (HUFs), Trusts, Universities and Charitable institutions
Investment limit	• Minimum investment- 1 gram • Maximum investment - Individuals & HUFs - 4 kg - Trusts - 20 kg
Authorized agencies to sell SGBs	• Nationalised Banks • Scheduled Private Banks • Scheduled Foreign Banks • Designated Post Offices • Stock Holding Corporation of India Ltd., • Authorised stock exchanges
Tenure	8 years with exit option after the 5th year

What are the advantages of SGB?

- **Protected investment**- The quantity of gold the investor pays for is protected, since he receives the ongoing market price at the time of redemption/premature redemption.
- **Cost effective**- These bonds offer a superior alternative to physical gold as the risks and costs of storage are eliminated.
- **Passive income**- Investors are assured of the market value at the time of maturity, and periodical interest.
- **Flexibility-** These bonds are free from issues like jewellery making charges, purity, risk of loss of scrip, etc.,
- **Collateral**- It is as liquid as physical gold and could be exchanged for money at the

time of financial needs.
- **Tax benefits**- There is a provision of tax exemption from the interest and capital gains of the bond.
- **Minimal risk**- Gold bonds have a negligible risk factor, making them an ideal investment choice.

What makes physical gold more attractive than SGB for people?

- **Liquidity restriction**- SGBs are *long-term investments* that cannot be liquidated before 5 years from the date of investment whereas physical gold can be sold at anytime and anywhere.
- **Lower returns**- SGB are risk free instruments but they provide low returns when compared to other market instruments.
- **Investment limit-** Imposing maximum limit restricts the people their freedom of choice to invest.
- **Market fluctuation**- It shifts the price of gold below the bond cost price.
- **Low demand**- The demand for SGB is very low compared to physical gold imports.
    - Only 1.8% of total gold imports were equivalent to SGBs in the last 8 years.
- **Tangible asset**- Confidentiality and privacy is not possible in SGB where the KYC (Know Your Customer) norms are applied and followed as they are issued by RBI through banks.
- **Cultural value**- Physical gold holds emotional significance in India, especially for weddings and festivals. It is also seen as a symbol of status and wealth.
- **Dependence-** SGB carries the risk of default or fluctuation due to government guarantee unlike the physical gold.

Quick facts

Electronic Gold Receipts
• They are a new way of trading gold on the stock exchange without having to buy or store physical gold. • **Aim-** To provide transparent and efficient price discovery of gold. • **Regulation-** Securities and Exchange Board of India (SEBI) • They are held in demat accounts and traded in stock exchanges like dematerialised stocks. • The stock exchange can source physical gold from deposits in delivery centres, domestic refineries and imports.

References

1. Business Line- India wants gold not gold bond
2. RBI- FAQs on Sovereign gold bond
3. Business Today | Image



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