NSDL
Technology, Trust & Reach

The Financial Kaleidoscope

Defining the different shapes of investment

July 2016

From The Editor's Desk

Dear Reader,

Gold in its physical form - jewellery or ornaments - has always been popular among Indians, especially women. Unlike in the past when gold was only considered a hedge against inflation and held entirely in physical form, today it finds its place even in an investor's portfolio largely in the form of gold exchange traded funds (Gold ETFs) and Sovereign Gold Bonds (SGBs), which offers many advantages to Indian investors now. So why should an investor buy SGB rather than physical gold? The benefits of investing in SGB rather than physical gold is that the quantity of gold for which the investor pays is protected, since he receives the ongoing market price at the time of redemption/ premature redemption. SGBs offer a superior alternative to holding gold in physical form. The risks and costs of storage are eliminated. Investors are assured of the market value of gold at the time of maturity and periodical interest. SGB is free from issues like making charges and purity in the case of gold in jewellery form. Sovereign Gold Bonds is available both in demat and physical form.

SGBs are government securities denominated in grams of gold. They are substitutes for holding physical gold. Investors have to pay the issue price in cash and the bonds will be redeemed in cash on maturity. The Bond is issued by Reserve Bank on behalf of Government of India. Rather than owning gold in physical form and not earning anything on it, SGBs mean owning gold and also earning interest on it. SGBs give an interest of 2.75 per cent per annum on the amount of initial investment. Interest will be credited semiannually to the bank account of the investor and the last interest will be payable on maturity along with the principal. SGBs can also be used as collateral for loans and can be sold or traded on stock exchanges.

In this issue of Kaleidoscope, we will provide insights about Sovereign Gold Bonds (SGBs) as an investment option. We are sure that the contents in this issue will make your investment life simple.

Best Regards,
NSDL

Click & Find: Sovereign Gold Bonds

Background

Sovereign Gold Bonds (SGBs) are Government securities denominated in gram(s) of gold issued by the Reserve Bank of India on behalf of the Government of India. The scheme of SGB was first launched by Government of India in October 2015. The main objective of the scheme was to reduce the demand for physical gold and shift a part of the gold imported every year for investment purposes, into financial savings through Gold Bonds.

SGBs can be subscribed in multiples gram(s) of gold with a minimum unit of 1 gram and maximum of 500 grams per person/entity in a fiscal year (i.e. April to March). They are substitute for investment in physical gold. SGBs can be subscribed through authorized receiving offices viz., scheduled commercial banks (excluding RRBs), Stock Holding Corporation of India Limited (SHCIL) offices, designated Post Offices, National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Ltd.(BSE) either directly or through their agents/brokers/trading members. SGBs can be subscribed by resident Indian entities including Individuals, HUFs, trusts, Universities, Charitable Institutions.

To subscribe for SGB, investor has to pay the application amount at issue price fixed by RBI to the authorized receiving offices along with the application form and KYC documents. SGBs are available both in demat & physical form. Interest will be credited semi-annually to the bank account of the investor @ 2.75 % (fixed rate) per annum on the amount of initial investment. On maturity, the redemption proceeds equivalent to the prevailing market value of grams of gold originally invested in Indian Rupees will be credited to the investor's registered bank account. SGBs are also traded on recognized stock exchanges viz., NSE & BSE.

Key Features of Sovereign Gold Bonds

- ✓ **Interest rate:** SGBs bears interest at the rate of 2.75 per cent per annum on the amount of initial investment. Interest is credited semi-annually to the investors and the last interest is payable on maturity along with the principal.

- ✓ **Tenure:** The tenure of the Bond is for a period of 8 years with an exit option from 5th year onwards which can be exercised on the interest payment dates.

- ✓ **Tax on SGB:** Interest on the Bonds will be taxable as per the provisions of the Income-tax Act, 1961 (43 of 1961). The capital gains tax arising on redemption of SGB to an individual has been exempted. The indexation benefits will be provided to long terms capital gains arising to any person on transfer of bond.

- ✓ **Denomination of SGB:** Gold bond is issued at fixed gold weights. Minimum investment in a gold bond is of 1 gram. You can take multiple units of 1 gm. However, the maximum investment in a gold bond is 500 grams.

- ✓ **Form of SGB:** Gold bonds are available both in demat & physical form. You can hold the Gold bonds in a dematerialised form by mentioning your Demat account details at the time of subscription.

- ✓ **Trading in Secondary Market:** SGBs will be tradable on Exchanges, if held in demat form.

- ✓ **Loan against SGB:** SGBs are eligible to be used as collateral for loans from banks, financial Institutions and Non-Banking Financial Companies (NBFC). The Loan to Value ratio will be the same as applicable to ordinary gold loan prescribed by RBI from time to time.

Benefits of investments in Sovereign Gold Bonds (SGBs)

There is a common perception that gold never fails. It is believed that the value of gold always increases with the general prices. Thus, most of the Indians consider gold as the safest investment. Below are some of the important benefits an investor gets by investing in Gold Bond.

Click & Find: Sovereign Gold Bonds (contd.)

- ✓ **Safest:** Zero risk of handling physical gold.
- ✓ **Earn Interest:** 2.75% assured interest per annum on the initial investment.
- ✓ **Tax Benefits:** No TDS applicable on interest Indexation benefit if bond is transferred before maturity Capital gain tax exempt on redemption.
- ✓ **Assurance of Purity:** RBI announces the price before the issue date which is fixed on the previous week's simple average of closing price of gold of 999 purity published by India Bullion and Jewellers Association (IBJA).
- ✓ **Sovereign Guarantee:** Both on redemption amount and on the interest.
- ✓ **Easy Exit Option:** The tenor of the bond is for 8 years with an option to redeem from 5th year onwards on the date on which interest is payable.
- ✓ **Traded on Exchange:** Sovereign Gold Bonds are traded on Stock Exchanges.
- ✓ **Ease of Borrowing Loan:** Investment in Sovereign Gold Bonds can be used as collateral for loans.

Get Started – Sovereign Gold Bonds

Who is issuing the Sovereign Gold Bond (SGB)?

The Sovereign Gold Bond (SGB) is issued by the Reserve Bank of India (RBI) on behalf of the Government of India.

Where can I buy it?

SGBs can be subscribed through scheduled commercial banks (excluding RRBs), SHCIL offices, designated Post Offices, National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Ltd. (BSE) either directly or through their agents/brokers/trading members. This should make subscribing to the bonds an easy affair.

How can I buy it?

SGBs will be issued on payment of rupees and denominated in grams of gold. SGBs are issued in denominations of one gram of gold and in multiples thereof. SGBs can be bought by Indian residents or entities and is capped at 500 grams. Investors can subscribe for SGBs through any of the aforesaid receiving offices/agents by submitting the application form along with subscription amount.

"Did You Know"

The stock market is named after former Boston Bruin enforcer P.J. Stock's great, great, great grandfather, when he started selling chunks of a company that didn't actually exist. The company was named Stocks.

"Quote of the month"

Money begets money, the earlier the better. You will make far more money by investing early and reinvesting the dividends, interest and gains than you will by earning a paycheck - unless you are a movie star, pro athlete or heir to a major fortune.

Bond as an Investment Instrument

By Mr. Satish Betadpur, CFA
CFA Institute

Bond funds are ideal for investors who are looking for stable current income with modest capital appreciation. Bond funds invest in multiple individual bonds, just like equity funds invest in many individual stocks. While bond funds may have less volatility than equity funds, bond funds are not without risk. There are two main risks to investing in bond funds – Interest rate risk & Credit risk.

A bond is a debt instrument where in an investor lends money to a corporate or governmental entity. The borrower then returns the money with interest in a pre-specified schedule. Generally, the interest is paid periodically (quarterly, semi-annually or annually) and the principal is paid on a pre-specified maturity date. Thus unlike a stock, the cash flows from a bond is known. Using these cash flows, a bond metric known as duration is calculated. Duration is the weighted average time period by when the cash is received. Duration is used to measure the sensitivity of the bond to changes in interest rate.

When the interest rate rises, the bond prices fall and vice-versa. This is called Interest rate risk. Duration gives us a measure of how much bond prices increase when the interest rate falls and also how much bond prices decrease when interest rate increases. For instance, when a bond has duration of 5 years and the interest rate falls by 1%, the bond price will increase by 5%. The longer the duration of a bond, the more increase in price when interest rate falls. So when there is an expectation of interest rate falling, it is advisable to buy a bond fund which is of longer duration. But if the interest rate increases, the bond prices will go down more since the bonds are of longer duration.

If the interest rates are predicted to go up, then it is better for an investor to buy a short duration bond fund. Money market funds are the shortest duration funds. These funds have little sensitivity to interest rates.

Bonds issued by the government or governmental agencies have little or no risk of default whereas the bonds issued by corporate entities can default. This is called Credit risk. Companies default on their bonds when their business falters. Thus, before investing corporate bonds, it is important to understand the company's business and make sure the company generates enough cash flow to re-pay the bonds. An investor needs to look at the bond funds to make sure that the credit risk is mitigated by holding a diversified portfolio of corporate bonds and also make sure that the corporate bonds held are of good credit.

In addition to looking at returns, investors in bond funds need to look at the risk of the fund by focusing on interest rate risk and credit risk.

Comparison of Physical gold, Gold ETF and Sovereign Gold Bond

Particulars	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 years	Long term capital gain applicable after 3 years	Long term capital gain applicable after 3 years. (No Capital gain tax if held 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

Your Questions Our Answers: Sovereign Gold Bonds

1. **Why should I buy SGB rather than physical gold? What are the benefits?**

   The quantity of gold for which the investor pays is protected, since he receives the ongoing market price at the time of redemption/ The quantity of gold for which the investor pays is protected, since he receives the ongoing market price at the time of redemption/ premature redemption. SGB offers a superior alternative to holding gold in physical form. The risks and costs of storage are eliminated. Investors are assured of the market value of gold at the time of maturity and periodical interest. SGB is free from issues like making charges and purity in the case of gold in jewellery form. SGBs are held in the books of the RBI or in demat form eliminating risk of loss of scrip etc.

2. **Who is eligible to invest in SGBs?**

   Persons resident in India as defined under Foreign Exchange Management Act, 1999 are eligible to invest in SGB. Eligible investors include Individuals, HUFs, Trusts, Universities, Charitable Institutions, etc.

3. **Can I get SGBs in demat form?**

   Yes. SGBs can be held in demat form in your demat account. A specific request for the same must be made in the application form at the time of subscription. SGBs will be held in RBI's books till the time process of dematerialization is completed.

4. **Can I trade these Gold bonds?**

   SGBs are tradable from a date to be notified by RBI. (It may be noted that only bonds held in demat form with depositories can be traded in stock exchanges) The bonds can also be sold and transferred as per provisions of Government Securities Act, 2006.

5. **Can a Minor invest in SGB?**

   Yes. The application on behalf of the minor has to be made by his / her guardian.

6. **Whether joint holding is allowed in SGB?**

   Yes, joint holding is allowed in SGB.

7. **Where can investors get the application form?**

   The application form will be provided by the authorized receiving offices viz., Scheduled Commercial Banks (excluding RRBs), Stock Holding Corporation of India Limited (SHCIL) offices, designated Post Offices, National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Ltd.(BSE) either directly or through their agents/brokers/trading members. It can also be downloaded from the RBI's website. Banks may also provide online application facility.

8. **What is the minimum and maximum limit for investment?**

   The Bonds are issued in denominations of one gram of gold and in multiples thereof. Minimum investment in the Gold bond shall be 1 gram with a maximum buying limit of 500 grams per person per fiscal year (April – March). In case of joint holding, the limit applies to the first applicant.

9. **What is the rate of interest and how will the interest be paid?**

   The Bonds bear interest at the rate of 2.75 per cent (fixed rate) per annum on the amount of initial investment. Interest 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.

10. **At what price the bonds are sold?**

    Price of bond will be fixed in Indian Rupees on the basis of the previous week's (Monday – Friday) simple average price for gold of 999 purity published by the India Bullion and Jewellers Association Ltd. (IBJA). The issue price will be disseminated by the Reserve Bank of India.

11. What will I get on redemption?

On maturity, the redemption proceeds will be equivalent to the prevailing market value of grams of gold originally invested in Indian Rupees. The redemption price will be based on simple average of previous week's (Monday-Friday) price of closing gold price for 999 purity published by the IBJA.

12. What are the procedures involved during redemption?

The investor will be advised one month before maturity regarding the ensuing maturity of SGB. On the date of maturity, the maturity proceeds will be credited to the bank account as per the details on record. In case there are changes in any details, such as, account number, email ids, then the investor must intimate the bank/SHCIL/PO/Stock Exchange promptly.

13. How will I get the redemption amount?

Both interest and redemption proceeds will be credited to the bank account furnished by the customer at the time of buying the bond.

14. Can I encash SGB anytime I want? Is premature redemption allowed?

Though the tenor of SGB is 8 years, early encashment/redemption of SGB is allowed after 5th year from the date of issue on coupon payment dates. SGBs are tradable on Exchanges, if held in demat form. It can also be transferred to any other eligible investor.

15. Can I use these securities as collateral for loans?

Yes, these securities are eligible to be used as collateral for loans from banks, financial Institutions and Non-Banking Financial Companies (NBFC). The Loan to Value ratio will be same as applicable to ordinary gold loan mandated by the RBI from time to time.

16. What are the payment options for investing in the Sovereign Gold Bonds?

Payment can be made through cash (upto ₹20,000)/cheques/demand draft/electronic fund transfer.

17. What are the Know-Your-Customer (KYC) norms?

Know-Your-Customer (KYC) norms will be the same as that for purchase of physical form of gold. Identification documents such as Aadhaar card/PAN or TAN /Passport / Voter ID card will be required. KYC will be done by the issuing banks/SHCIL offices/Post Offices/ National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Ltd. (BSE) /agents. No separate KYC will be needed for receiving bank's own customers.

18. Can I buy 500 grams worth of SGB every year?

Yes. One can buy 500 grams worth of gold every year as the ceiling has been fixed on a fiscal year (April-March) basis.

19. Is the limit of 500 grams of gold applicable if I buy on the Exchanges?

The limit of 500 grams per financial year is applicable even if the bond is bought on the exchanges.

20. Can I gift the bonds to a relative or friend on some occasion?

The bond can be gifted/transferable to a relative/friend/anybody who fulfills the eligibility criteria (as mentioned at Q.no. 2). The Bonds shall be transferable in accordance with the provisions of the Government Securities Act 2006 and the Government Securities Regulations 2007 before maturity by execution of an instrument of transfer which is available with the issuing agents.

21. Whether nomination facility is available for these investments?

Yes, nomination facility is available as per the provisions of the Government Securities Act 2006 and Government Securities Regulations, 2007. A nomination form is available along with Application form.

Change in Participant's name on account of transfer of depository business of State Bank India (DP ID IN300351) to SBICAP Securities Limited (DP ID IN306114)

With reference to change in Participant's name on account of transfer of depository business of State Bank India (DP ID IN300351) to SBICAP Securities Limited (DP ID IN306114), the name of State Bank of India has been replaced with that of SBICAP Securities Limited for Participant ID IN300351.

Subscription to *SPEED-e*

During June 2016, two more Participants have subscribed to the *SPEED-e* facility viz.,

- Patel Wealth Advisors Pvt. Ltd. (DP ID IN304131)
- Shivmangal Securities Private Limited (DP ID IN302252)

Clients of the above mentioned Participants can now avail the facility of submitting various instructions through *SPEED-e* facility.

This takes the total number of Participants who have subscribed to *SPEED-e* to 185.

Investor Education initiatives undertaken by NSDL

Investor Awareness Programmes:

In order to reach out to investors that are spread across the country and to apprise them about the facilities available in NSDL depository system and the awareness on stock markets, NSDL conducts various Investor Awareness Programmes jointly with it's Depository Participants (DPs) & with Institutions like SEBI, NSE etc. NSDL also conducts various training programmes for its Depository Participants (DPs) on Depository related services. During June 2016, NSDL conducted 25 Investor Awareness Programmes with Participants & reputed institutes. NSDL also conducted an Investor Awareness programme presenting "Dhan Ka Re Prasanna" in association with "The Cosmos Co-Operative Bank Limited" & Sakal Media in Mumbai. These programmes were attended by more than 1,800 investors, details as mentioned below:

Sr. No.	Particulars	
1	**Joint Awareness Programmes with DPs**	**No. of Programmes**
	ICICI Securities Limited	5
	Sharekhan Limited	4
	Ventura Securities Limited	2
	Trustline Securities Limited	1
	SMC Global Securities Limited	1
	Patel Wealth Advisors Pvt. Ltd.	1
	Oriental Bank of Commerce	1
	Kotak Securities Limited	1
	Jhaveri Securities Limited	1
	Indiabulls Ventures Limited	1
	Globe Capital Market Limited	1
	ASE Capital Markets Limited	1
	Total Programmes	**20**
2	**Joint Awareness Programmes with other Institutions**	**No. of Programmes**
	Ventura Securities Limited and L&T Mutual Fund	3
	Securities and Exchange Board of India (SEBI)	1
	Sahyadri Sahakari Sakhar Karkhana Ltd.	1
	Total Programmes	**5**

Read and Win!

What are the advantages of Investing in Sovereign Bond Scheme?

Send your replies providing your contact details (Name, address and contact no.) with the subject 'Knowledge Wins Contest -July 2016' to info@nsdl.co.in

KNOWLEDGE WINS Contest

Terms and Conditions

- NSDL shall be solely responsible for the execution and administration of this Contest.
- This Contest is only open to Indian Citizens. (NSDL employees are not allowed to participate in this contest.)
- All personal details submitted must be accurate and complete and are subject to proof upon request by NSDL.
- NSDL reserves the right, at any time, to verify the validity of entries and entrants and to disqualify any entry not submitted in accordance with these Terms or which tampers with the entry process.
- NSDL reserves the right to discontinue the contest at any given point of time without prior intimation.
- All prize drawings will made on a strictly random basis and the decision made by NSDL will be final

Lucky 25 Winners will Win Free Goodies

Your suggestions for newsletter are valuable to us. Send in your suggestions mentioning your contact details (contact name, address & contact number) with the subject "Suggestions for the newsletter" to info@nsdl.co.in

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