

FAQs on Sovereign Gold Bonds Scheme

1. What is Sovereign Gold Bond (SGB)?

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.

2. 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/ premature redemption. The 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. The bonds are held in the books of the RBI or in demat form eliminating risk of loss of scrip etc.

3. Are there any risks in investing in SGBs?

There may be a risk of capital loss if the market price of gold declines. However, the investor does not lose in terms of the units of gold which he has paid for.

4. Who is eligible to invest in the 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. Further, application on behalf of the minor has to be made by his/her guardian and joint holding is also allowed. A nomination facility is also available for the investment.

5. Who are the authorized agencies selling the SGBs?

Bonds are sold through registered trading members of National Stock Exchange of India (NSE), and other channels specified by RBI. Application forms will be provided by trading members and authorised agents. It can also be downloaded from the RBI's website and trading members may also provide online application facility.

6. 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 RBI two days before the issue opens.

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

No fresh KYC is required for the existing clients of NSE trading members. For new clients, Identification documents such as Aadhaar card/PAN or TAN /Passport / Voter ID card will be required

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

Minimum investment in the Bond shall be two grams 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. The bonds are issued in

denominations of one gram of gold and in multiples thereof. This limit of 500 grams per financial year is applicable even if the bond is bought on any exchanges.

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

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.

10. When will the customers be issued Holding Certificate?

For all customers who do not have a demat account, Certificate of Holding will be issued on the date of issuance by NSE trading members through whom bond has been purchased or can be obtained directly from RBI on email, if email address is provided in the application form.

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 the simple average of previous week's (Monday-Friday) closing gold price for 999 purity published by the IBSA.

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

12. Can I encash the bond anytime I want? Is premature redemption allowed?

Though the tenor of the bond is 8 years, early encashment/redemption of the bond is allowed after fifth year from the date of issue on coupon payment dates. Investors need to approach the concerned trading member thirty days before the coupon payment date. The bonds are tradable on Exchanges, if held in demat form. It can also be transferred to any other eligible investor who fulfils the eligibility criteria.

13. 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 the same as applicable to ordinary gold loan prescribed by RBI from time to time.

14. What are the tax implications on i) interest and ii) capital gain?

Interest on the Bonds will be taxable as per the provisions of the Income-tax Act, 1961 (43 of 1961). TDS is not applicable on the bond. However, it is the responsibility of the bond holder to comply with the tax laws.

Capital gains tax treatment will be the same as that for physical gold. Individuals are exempted from capital gain tax if SGBs are held till redemption.

15. Can I trade these bonds?

The bonds held in demat are tradable on Equity segment of NSE from the date notified by RBI. Tranche I commenced trading from June 13, 2016.