



KAMARAJ IAS ACADEMY
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Sovereign Gold Bonds

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Why is in news? Government of India, in consultation with the Reserve Bank of India, has decided to issue Sovereign Gold Bonds 2023-2024

The Government of India, in consultation with the Reserve Bank of India, has decided to issue Sovereign Gold Bonds (SGBs) in tranches as per the calendar specified below: Tranche: 2023-24 Series I, 2023-24 Series II

About SGB:

The SGB scheme was **launched in November 2015** with an objective to **reduce the demand for physical gold** and shift a part of the domestic savings - used for the purchase of gold - into financial savings.

Sovereign Gold Bonds - 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.

Issuance:

To be **issued by the Reserve Bank of India on behalf of the Government** of India under the **Government Securities (GS) Act, 2006**.

Bonds are **sold through** Commercial banks, Stock Holding Corporation of India Limited (SHCIL), designated post offices and recognised stock exchanges viz., National Stock Exchange of India Limited and Bombay Stock Exchange, either directly or through agents.

Eligibility:

The SGBs will be **restricted for sale to resident individuals, Hindu undivided families (HUFs), Trusts, Universities and Charitable Institutions**.

Features:

The SGBs will be **denominated in multiples of gram(s) of gold** with a basic unit of one gram.

The tenor of the SGB will be for **a period of eight years with an option of premature redemption** after 5th year to be exercised on the date on which interest is payable.

Minimum permissible investment will be **One gram of gold**.

The maximum limit of subscription **shall be 4 Kg for individual, 4 Kg for HUF and 20 Kg for trusts** and similar entities per fiscal year (April-March) notified by the Government from time to time.

Kamaraj IAS Academy

Plot A P.127, AF block, 6 th street, 11th Main Rd, Shanthi Colony, Anna Nagar, Chennai, Tamil Nadu 600040

Phone: **044 4353 9988 / 98403 94477 / Whatsapp : 09710729833**

Issue price: Price of SGB will be fixed in Indian Rupees on the basis of simple average of closing price of gold of 999 purity, **published by the India Bullion and Jewellers Association Limited (IBJA) for the last three working days** of the week preceding the subscription period. The **issue price of the SGBs will be less by ₹50 per gram** for the investors who **subscribe online and pay through digital mode**.

Issuance form: The SGBs will be **issued as Government of India Stock under Government Securities Act, 2006**. The investors will be issued a Certificate of Holding for the same. The SGBs will be **eligible for conversion into demat form**.

Interest rate: The investors will be compensated at a **fixed rate of 2.50 per cent** per annum payable semi-annually on the nominal value.

SLR eligibility: SGBs acquired by the banks through the process of invoking lien/hypothecation/pledge alone, shall be counted towards Statutory Liquidity Ratio.

Commission for distribution of the bond shall be **paid at the rate of one per cent of the total subscription** received by the receiving offices and receiving offices shall share at least 50 per cent of the commission so received with the agents or sub agents for the business procured through them.

Benefits:

Bonds can be used as **collateral for loans**.

The capital gains tax arising on redemption of SGB to an **individual has been exempted**.

Redemption is the **act of an issuer repurchasing a bond** at or before maturity.

Capital gain is the profit earned on the sale of an asset like stocks, bonds or real estate. It results in when the selling price of an asset exceeds its purchase price.

The SGB **offers a superior alternative to holding gold in physical form** as 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 script etc.

The **bonds are tradable** from a date to be notified by RBI. The bonds can also be sold and transferred as per provisions of Government Securities Act, 2006.

Disadvantages:

This is a **long term investment** unlike physical gold which can be sold immediately.

Sovereign gold bonds are **listed on exchange** but the trading volumes are not high, therefore it will be difficult to exit before maturity.

Investment in SGB can **result in a capital loss** as the bond value is **directly linked to the price of gold in the international markets**.

India Bullion and Jewellers Association Ltd. (IBJA):

IBJA was established in 1919 as an association for bullion traders in India.

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It is considered the **apex association for all bullion and jewellery associations** in India.

IBJA publishes daily Gold AM and PM Rates, which serve as benchmark rates for issuing Sovereign and Bonds.

It is involved in promoting trade through exhibitions and is setting up its own Domestic Gold Spot exchange, Bullion refinery, and gems and jewellery park.

IBJA assists its members in **promoting and regulating bullion trade, resolving disputes, providing a neutral platform for weighing precious metals, and interacting with government departments.**

The association owns a building in **Zaveri Bazaar, Mumbai**, where various business activities for the bullion and jewellery industry are conducted.