F.No 20/10/2014-FT
Government of India
Ministry of Finance
Department of Economic Affairs
(Investment Division)

North Block, New Delhi
Dated: 15th September, 2015

OFFICE MEMORANDUM

Subject: Introduction of 'Sovereign Gold Bonds Scheme'.

The introduction of the **'Sovereign Gold Bonds Scheme' (SGB)** has been approved.

2. The guidelines of the '**Sovereign Gold Bonds Schemes' (SGB)** are as under:

I. Introduction

Sovereign Gold Bonds will be issued on payment of rupees and denominated in grams of gold.

II. Objective-

a) The main idea is to reduce the demand for physical gold.
b) Shift part of the estimated 300 tons of physical bars and coins purchased every year for Investment into 'demat' gold bonds.

III. Agency

- Bonds will be issued on behalf of the Government of India by RBI.
- Issuing agency will need to pay distribution costs and a sales commission to the intermediate channels, to be reimbursed by Government.

IV. Sale to Indian entities

The bond would be restricted for sale to resident Indian entities. The cap on bonds that may be bought by an entity would be, not more than 500 grams per person per year.

V. Features

- The Government will issue bonds with a rate of interest to be decided by the government. The rate of interest will take into account the domestic and international market conditions and may vary from one tranche to another. This rate of interest will be calculated on the value of the gold at the time of investment in rupee terms. The rate could be a floating or a fixed rate, as decided.

- These bonds will be issued in tranches to enable proper planning of Government borrowing.
- The bonds will be available both in demat and paper form.
- The bonds will be issued in denominations of 2,5,10,50,100 grams of gold or other denominations.
- The price of gold may be taken from the reference rate, as decided, and the Rupee equivalent amount may be converted at the RBI Reference rate on issue and redemption. This rate will be used for issuance, redemption and LTV purpose and disbursement of loans.
- Banks/NBFCs/Post Offices/NSC agents and others, as specified, may collect money / redeem bonds on behalf of government (for a fee, the amount would be as decided).
- The tenor of the bond could be for a minimum of 5 to 7 years so that it would protect investors from medium term volatility in the gold prices. Since the bond will be a part of the sovereign borrowing, these would need to be within the fiscal deficit target for 2015-16 and onwards.
- Bonds can be used as collateral for loans. The Loan to Value ratio is to be set equal to ordinary gold loan mandated by RBI from time to time.
- Bonds to be easily sold and traded on exchanges to allow early exits for investors who may so desire.
- KYC norms to be the same as that for gold.
- Bonds to have a sovereign guarantee.
- Capital gains tax treatment will be the same as for physical gold for an 'individual' investor.
- The amount received from the bonds will be used by GoI in lieu of government borrowing and the notional interest saved on this amount would be credited in an account "Gold Reserve Fund" which will be created. The savings in the costs of borrowing compared with the existing rate on government borrowings will be deposited in the Gold Reserve Fund to take care of the risk of increase in gold price that will be borne by the government. Calculations show that, given the trends in gold prices in the past and projections for the future, this risk is sustainable. Further, the Gold Reserve Fund will be continuously monitored for sustainability.

VI. Redemption

- On maturity, the redemption will be in rupee amount only.
- The rate of interest on the bonds will be calculated on the value of the gold at the time of investment. The principal amount of investment, which is denominated in grams of gold, will be redeemed at the price of gold at that time.
- If the price of gold has fallen from the time that the investment was made, or for any other reason, the depositor will be given an option to roll over the bond for 3 or more years.

VII. Hedging

- The deposit will not be hedged and all risks associated with gold price and currency will be borne by GoI. The position may be reviewed in case 'Gold Reserve Fund' becomes unsustainable.
- Upside gains and downside risks will be with the investor and the investors will need to be aware of the volatility in gold prices.

VIII. Marketing

- In order to ensure wide availability the bond will be marketed through post offices/banks/NBFCs and by various brokers/agents (including National Saving Certificate (NSC) agents) who will be paid a commission.

Saurabh Garg 15/8/15

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To,

i) Cabinet Secretary
ii) All Secretaries to the Govt. of India
iii) All Divisions of DEA

Copy to: Dr T.V.Somanathan, Joint Secretary to PM, South Block, New Delhi.