

GOLD EXCHANGE TRADED FUNDS - ECONOMY

Q. What are Exchange Traded Funds (ETFs)? Describe the features of Gold Exchange Traded Funds and enumerate the significance of ETFs in the Indian economy. (15 marks, 250 words)

News: *Gold ETF Assets Hit Record Of 342cr In Oct*

What's in the news?

- With prices and demand for gold increasing, assets under management (AUM) by gold exchange-traded funds (ETF) for investors in Gujarat hit a record of Rs 342 crore in October.

Key takeaways:

- According to data from the Association of Mutual Funds in India (AMFI), gold ETFs AUM rose by 8% from Rs 316.9 crore in September and 23.86% from Rs 276 crore in October 2022. The previous record for gold ETFs was Rs 337 crore in April last year.

Gold Exchange Traded Funds (Gold ETFs):

- They are **commodity-based exchange-traded funds with an underlying asset as gold.**
- They are passive investment instruments that are based on gold prices and invest in gold bullion.
- Gold ETFs are units representing physical gold which may be in paper or dematerialised form.
- **One Gold ETF unit is equal to 1 gram of gold** and is backed by physical gold of very high purity.
- Gold ETFs combine the flexibility of stock investment and the simplicity of gold investments.
- **They are listed and traded on the National Stock Exchange of India (NSE) and Bombay Stock Exchange Ltd. (BSE) like a stock of any company.**
- It can be bought and sold continuously at market prices.
- There is a complete **transparency** on the holdings of a Gold ETF due to its direct gold pricing.
- ETFs have much lower expenses as compared to physical gold investments.

Exchange Traded Fund (ETF):

- An ETF is a **collection of investments such as equities or bonds.**
- It is a basket of securities that trades on an exchange just like a stock does.
- ETF share prices fluctuate all day as the ETF is bought and sold, which is different from mutual funds, which only trade once a day after the market closes.
- ETFs can contain all types of investments, including stocks, commodities or bonds
- They have cheaper fees than other types of funds.

Advantages:

1. Transparency:

- a. There is complete transparency on the holdings of an ETF.
- b. Similar to stocks and shares, gold prices on the stock exchange are available publicly.
- c. One can know the value of a portfolio by checking the prices of gold for the day or hour.

2. Less Expensive:

- a. Gold ETFs have much lower expenses as compared to physical gold investments.
- b. If one invests in a gold ETF listed on the stock exchange, there is no entry or exit load – a type of charge that is to be paid to buy or sell units.
- c. The brokerage charges are very low – 0.5 percent to 1 percent.

3. Tax Benefits:

- a. No wealth tax, no security transaction tax, no VAT and no sales tax is levied on ETFs.
- b. While gold ETFs attract long-term capital gains tax after one year, you do not have to pay VAT, Wealth Tax or Securities Transaction Tax on them.

4. Low risks:

- a. Fluctuations in gold prices are generally not as high as in equities.
- b. This means that even if one's return on equities go down, gold ETFs could act as your safety net.
- c. It will prevent investors from incurring large losses.

5. No worry about quantity of purchase:

- a. one can purchase as little as one unit — representing one gram — at a time and still have the flexibility of buying more units depending on liquidity and prevailing gold prices.

6. Redeem for gold:

- a. Since it's an ETF, it's a liquid investment and can be sold at any time on the exchanges.
- b. Also, some mutual funds provide the option of giving physical gold at the time of redeeming but it is subject to certain conditions.

7. No fear of being theft:

- a. There is no fear of theft as ETFs are safe and secure as units held in the Demat Account of the holder.

8. Reduce the amount of gold imports:

- a. encourage share market participation more than a traditional way of purchasing gold.
- b. It will increase investments, reduce gold imports and improve import bills.

9. Other benefits:

- a. one gets to invest in gold without worrying about factors such as purity of gold, transparency of pricing, making charges, lockers and theft, among other things.