International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

Gold Exchange Traded Funds (Getfs) the Fund That Glitters

Dr. Nibedita Roy

Assistant Professor, Department of Commerce Syamaprasad College, Kolkata

Abstract
India's obsession with gold is well known. It is the world's biggest consumer of gold the majority of which is used for jewellery. Keeping this aspect in mind, Union Finance Minister, Mr. P. Chidambaram, in 2005-2006 Budget, introduced Gold Exchange Traded Funds (GETFs) which will facilitate buying and selling of the yellow metal even in the smallest of units. A GETF unit is like a mutual fund unit backed by gold as the underlying asset and would be held mostly in dematerialised form. They are special types of ETF tracking the price of gold. This was a welcome move which signified India's interest and endeavour to operate in line with the capital markets of the developed countries. Such a move would enable any household to buy and sell gold in units of as little as Rs 100 and these units could be traded in the same manner as mutual fund units. Gold being one of the most important asset classes, GETFs will provide a better, simpler and affordable method of investing without the need to physically own the gold as compared to other investment methods like bullion, gold coins, gold futures, or jewellery.

Keywords: Mutual funds, GETF, Investment, Gold Units, Net Assets Value

1. INTRODUCTION

Buying gold on the stock exchanges may have been impossible until recently as it is a commodity and investment in gold had to be made through the commodity market. However, the eminent introduction of Gold Exchange Traded Fund (GETF) that will invest in gold only has now facilitated buying gold on the stock exchanges[i]. In the context of the discussion of GETF, the concept of Exchange Traded Fund (ETF) needs to be highlighted. ETF is a new term for Indian investors. ETFs are mutual fund schemes that are listed and traded on exchanges like stocks. Their value is derived from the value of the underlying assets comprising the fund and its trading value is based on the Net Assets Value (NAV) of the assets it represents.

An endeavour has therefore, been made in this article to understand the basic aspects of GETFs which can enable the investors to diversify their portfolio. Furthermore, a summarized view has also been provided in order to differentiate between gold and physical gold. The remainder of the paper is organized as follows. Section 2 narrates the differences between ETFs and traditional open ended funds and the comparative position between gold and GETFs. Section 3 deals with the various mechanisms of investment in gold and a comparison between all of them. Finally, the findings and conclusion of the paper lays down the benefits of shifting from physical gold to paper-based gold and diversification of portfolio as has been laid down in Section 4.

2. A broad perspective of GETF

Investing in ETFs tied to a broad-market index provides diversified exposure, reducing risk in the event of massive fluctuations. These qualities give ETFs some advantages over traditional open-ended funds [Ref. Table-1] which appeals to both institutional and retail investors.

Table-1 ETF Vs. Traditional Open-Ended Funds[ii]

Sl. No.	Basis of Difference	ETF	Traditional Open-Ended Funds
1.	Time of Trading	Traded throughout the day	Not traded throughout the day
2.	Place of Trading	Traded at any brokerage firm	Funds can be purchased directly from fund company.
3.	NAV	At any time in a day.	Day-end
4.	Associated Expenses	Low	Comparatively Higher
5.	Hedging Tool	Used as a Hedging Tool	Not used as a Hedging Tool
6.	Liquidity Source	Stock Exchange & Fund	Only Fund
7.	Redemption	Redemption is in kind by exchanging basket of shares (that is deposited by an authorized participant in exchange for a block of ETF shares), between the broker and the ETF, which is considered as an 'in-kind' transaction.	Redemption in cash as the fund must sell shares in the open market to meet redemptions.
8.	Tax incidence in the event of redemption	Redemptions are generally handled in kind for large investors. Such in-kind transactions are not generally taxable events.	As the securities are sold at a gain to cover redemptions, remaining shareholders may receive capital gains distributions at year end which represent a taxable event.
9.	Flexibility	Offers a degree of flexibility as they are traded like stocks.	Comparatively provides less flexibility.
10.	Risk	They are relatively liquid and are immediately tradable which substantially reduces the risk of price movement between investment decision and time of trade.	Here, the investors can trade with the funds at the end of the day only at its NAV, being published at the end of each trading day which increases the risk of price movement.
11.	Tracking error	Tracking Error of ETFs is likely to be low.	Tracking error is higher as compared to ETF.

A GETF unit is like a mutual fund unit backed by gold as the underlying asset and would be held mostly in demat form (i.e. replacement of physical certificates for electronic book-keeping). They are special types of ETF tracking the price of gold. Earlier people used to invest in gold bars and coins but the introduction of GETFs would enable the investors to invest in gold not as a commodity but as a stock [Ref. Table-2].

Table-2 Advantages of GETFs over Physical Gold [iii]

Sl. No.	Basis	GETF
1.	Availability of Surplus	GETFs allow the investor to invest in gold even if he has a small investible surplus. E.g. instead of gradually accumulating enough funds to buy a 50 gm gold bar, one can make an investment in GETFs with an outlay of just Rs 10,000, to start with. The investor can also gradually build exposures by buying additional units as and when he can afford them.
2.	Spread of investments	The investor can phase out the investments in a GETF over a period of several months or years, so that lump sum investment is not made at a single price.
3.	Purity Issues	An investor taking the GETF route can invest in gold without worrying about the purity issues that usually centre around jewellery purchases.
4.	Liquidity	Since an investor of GETF can liquidate the GETF units at NAV-based prices through the stock market, they offer better liquidity at prices closer to the market than gold bars or jewellery.
5.	Decrease in return in case of gold, unlike the GETF	When an individual goes to a bank or a jeweller to buy gold, certain premium has to be paid. As a result, returns shrink. A premium of 20% is charged on small coins of five gram each and 5%-10% on gold coins weighing more than five grams, which is not charged on GETFs.
6.	Unattractive selling price of physical gold	When an individual goes to the jeweller to sell the gold, it is taken back on a discounted price, unlike the GETF.
7.	Associated costs in case of physical gold	Gold has to be kept in lockers which involve payment of rent for the locker facility. Apart from that, the purchaser of physical gold has to bear the making charges which are not applicable in case of GETFs.
8.	Capital Gains Tax Benefits	There are tax benefits on GETF not available in case of physical gold. Capital gains tax calculations in case of GETF are similar to tax calculations on bond funds (an investment scheme that invests in bonds and other debt securities). It is 10% for the GETF instead of 20% (long term) or 30% (short term) for physical gold.
9.	Wealth Tax Benefits	Investment in physical gold attracts wealth tax (if the wealth of the investor crosses Rs 15 lakh in a year, the investor, having

		invested in physical gold, has to pay 1% as wealth tax) which does not apply to GETFs.
10.	Provision for Storage	An investor of GETF does not have to worry about storing & securing the investment as is associated in respect of physical gold.
11.	Hedging Tool	It is easy for an investor to use GETF as a hedging tool than physical gold.
12.	Resale concerns	Concerns about the resale of the investment made are a common feature if investment is made in physical gold, unlike GETF which is easily tradable on the stock exchange.

3. Mechanisms of Investment in Gold

Investment in physical gold can be through jewellers or banks whereas GETF provides the facility to the investors of investing in gold without the need to physically own the gold. Table-3 indicates the comparative position of investment in gold through the three different means.

Table-3 Comparative Position of Different Means of Investment in Gold

Sl.	Parameters	GETFs	Jewellers	Banks
1	Form	Demat Form	Bar or Coin	Bar or Coin
2	Security	Taken care by Fund	Investor's Concern	Investor's Concern
3	Transparency	Very High	Very Low	High
4	Impurity Risk	Nil	High	Nil
5	Pricing (for retail investors)	Transparent as it will be traded at stock exchanges.	Neither standard nor transparent.	Not standard. Huge Markup, 10-15% ideally
6	Selling Back	Sell back on exchange	Conditional and uneconomical	Restricted
7	Bid Ask Spread	Very Low	Very High	Can't Sell back
8	Denomination	1 gram and in multiples of 1 gram	Available in standard denomination	Available in standard denomination.
9	Wealth Tax	No	Yes	Yes
10	Short-term Capital Gains Tax	Applicable before 1 year	Applicable before 3 years	Applicable before 3 years
11	Long-term Capital Gains Tax	Applicable after 1 year	Applicable after 3 years	Applicable after 3 years

In India the idea of GETF was proposed by the Finance minister, Mr. P. Chidambaram, in the Union Budget 2005, who stated that Securities and Exchange Board of India (SEBI) should permit, in consultation with the Reserve Bank of India (RBI), mutual funds to introduce GETFs with gold as the underlying asset. Accordingly, the SEBI amended its regulations and allowed mutual funds launch GETFs in India. On 12th January, 2006 SEBI amended the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 in order to incorporate the concept of GETFs. [iv]

The basic advantages by way of which the investors can be benefitted are[v]—

- Purity of the gold is guaranteed and each unit is backed by physical gold of high purity.

- Transparent and real time gold prices.
- Listed and traded on stock exchange.
- A tax efficient way to hold gold as the income earned from them is treated as long term capital gain.
- No wealth tax, no security transaction tax, no VAT and no sales tax.
- No fear of theft - Safe and secure as units held in Demat. One also saves on safe deposit locker charges.
- ETFs are accepted as collateral for loans.
- No entry and exit load.

Gold ETFs can be sold at the stock exchange through the broker using a demat account and trading account. Since one is investing in an ETF that is backed by physical gold, ETFs are best used as a tool to benefit from the price of gold rather than to get access to physical gold. So, when one liquidates Gold ETF Units, one is paid as per domestic market price of the gold.

Despite being a commodity-based traded fund, gold ETF funds can be used as an industry exchange-traded fund as well. It is an ideal investment strategy to broaden a financial portfolio and to get exposure in a variety of sectors like gold mining, manufacturing, transport industry, etc. These traded funds are relatively simpler to obtain and provides an easier way to invest in the gold industry. The best gold ETFs can also be used as hedge protection against a fluctuating market, which makes them an alternative to insurance in one's investment portfolio. For example, investors can use short-term exchange traded funds to minimise their loss if the price of gold suddenly plummets.[vi]

These exchange-traded funds are rated as some of the best defensive assets available in the market. It is considered to have the same class traits as bonds as many investors use them to insure their investments against economic fluctuations, and in extreme cases, currency debasement. The price of gold can rise by a significant margin if major currencies, like dollar, tend to fall weak. Investing in gold ETF can allow an individual to profit from that sudden drop. Each unit of these traded funds represents 1 gram of 99.5% pure gold, which makes them ideal long-term investments, especially if an individual opts to invest larger sums or performs trade systematically. The following are the GETFs listed on National Stock Exchange (NSE).

Table-4 List of GETFs listed on NSE[vii]

Name of Mutual Fund	**Name of the particular Fund**	**Underlying Asset**	**Launch Date**
Axis Mutual Fund	Axis Gold ETF	Gold	Nov 2010
Birla Sun Life Mutual Fund	Birla Sun Life Gold ETF	Gold	May 2011
Canara Robeco MF	Canara Robeco Gold ETF	Gold	Mar 2012
HDFC Mutual Fund	HDFC Gold Exchange Traded Fund	Gold	Aug 2010
ICICI Prudential	ICICI Prudential Gold Exchange Traded	Gold	Aug 2010

Mutual Fund	Fund		
IDBI AMC	IDBI Gold ETF	Gold	Nov 2011
Kotak Mutal Fund	Kotak Gold Exchange Traded Fund	Gold	Jul 2007
Quantum Mutual Fund	Quantum Gold Fund (an ETF)	Gold	Feb 2008
Reliance Mutual Fund	Reliance Gold Exchange Traded Fund	Gold	Nov 2007
Religare Mutual Fund	Religare Gold Exchange Traded Fund	Gold	Mar 2010
SBI Mutual Fund	SBI Gold Exchange Traded Scheme	Gold	Apr 2009
UTI Mutual Fund	UTI GOLD Exchange Traded Fund	Gold	Mar 2007
Reliance Nippon Life Asset Management Limited	Reliance ETF Gold BeES	Gold	Mar 2007

4. Conclusion

Thus, from the above discussion it can be stated that the above findings provide a positive indication to the prospective investors to include GETF in their portfolio so that they can effectively diversify their portfolio and improve the risk-return aspect of that portfolio. Through this paper an effort has been made to indicate that GETF is a viable source of investment and presence of GETF in the portfolio of an individual improves the composition of that portfolio. GETF enables investment in gold in smaller amounts and a particular investor does not have to be concerned about the huge sum of money that they have to invest while buying gold. This entire concept has simplified investment in gold and has made it much more affordable.

Endnotes

1. Anurag (2024). *"Gold ETF losing shine, probably not"*. The Times of India, 24th June.
2. Retrieved from www.amfiindia.com (Website accessed from 5th May, 2025 till 18th May, 2025).
3. Retrieved from www.goldconvention.in (Website accessed on 15th April, 2025).
4. Krishnan, Aarati. (2024). *"Gold funds: A new investment avenue"*. The Hindu Business Line, 5th December.
5. Retrieved from www.amfiindia.com (Website accessed on 20th March, 2025).
6. Retrieved from www.groww.in (Website accessed on 15th April, 2025).
7. Retrieved from https://www.nseindia.com (Website accessed on 18th April, 2025).