



## How does HSBC Gold ETF work?

Note: The role of the AMC is of a facilitator to the Authorised Participants/ Market Makers and Large Investors to purchase / sell Gold on their behalf for the purpose of creating/redeeming the ETF units in Creation Unit Size. The ETF will be listed on the NSE and/or BSE and/or any other stock exchange and investors can buy or sell units of the ETF from the secondary market. The minimum number of units that can be bought or sold on the stock exchange is 1 (one) unit. Alternatively, Large Investors can directly buy / sell the ETF units from the Fund in 'Creation Unit' size, subject to amount greater than Rs. 25 crore as applicable. The term NAV applicability refers to Intra-day NAV based on the actual execution price of the underlying portfolio.

### THROUGH THE MUTUAL FUND

Creation of the ETF units in Creation Unit Size:

#### **(A) Authorized Participants/ Market Makers:**

1. Authorized Participants / Market Makers may submit an application for purchase of the ETF units in Creation Unit Size to the AMC on any Business Day. The term NAV applicability refers to Intra-day NAV based on the actual execution price of the underlying portfolio.
2. By submitting the application, the Authorized Participants / Market Makers agree to transfer (deposit) the Portfolio Deposit (i.e. gold) and the Cash Component, if any in the Scheme's account. The day on which the application is submitted is referred to as the 'T' day.
3. Authorized Participants / Market Makers are required to transfer (deposit) the Portfolio Deposit (i.e. gold) to the Custodian, while the balance Cash Component, if any has to be paid to the AMC only by means of payment instruction of Real Time Gross Settlement (RTGS) /National Electronic Funds Transfer (NEFT) or Funds Transfer Letter/ Transfer Cheque of a bank where the Scheme has a collection account. The total amount of gold and equivalent Cash Component, if any required for creation of units in Creation Unit Size will be based on the prorata amount of the NAV of the Scheme represented by the Creation Units (i.e. 1,15,000

units) being created determined on the day the request to create is placed by the Authorized Participants/ Market Makers.

4. As per the agreement with Custodian for gold, Custodian will accept gold only if the gold is in compliance with the Good Delivery norms as specified by LBMA which are as under:

(a) Original Assay Certificate; (b) Bar list from the refiner; (c) relevant shipping documents (airway bill and customs invoice) establishing that the gold has been shipped directly from a Good London Refiner using an accredited international shipping company on a door to door basis through one of the accredited agencies; and (d) such other documents that the Custodian may require from time to time so as to adequately indicate the purity of the Gold deposited with it. The Custodian will ensure that all Gold deposited with it is accompanied by the above documents and that the Gold bars indicate that the fineness is 995 or above.

5. On having credited the Scheme's account with the gold deposits in the form, the custodian will confirm to the AMC of vaulting of gold and in turn AMC instructs the registrar the total number of units to be created at applicable NAV upon realization of the Cash Component.

6. The Registrar & Transfer Agent will then allocate the units in proportion of the amount received from the Authorized Participants / Market Makers and will credit the units to the demat account of the Authorized Participants/ Market Makers.

#### **(B) Large Investors:**

1. Large Investors may submit an application for purchase of the ETF units in Creation Unit Size subject to greater than Rs. 25 crore or such threshold as specified by SEBI from time to time to the AMC on any Business Day. The term NAV applicability refers to Intra-day NAV based on the actual execution price of the underlying portfolio.

2. Large Investors can apply to the AMC for creation of units in Creation Unit Size at NAV based prices by payment of requisite cash as determined by AMC only by means of payment instruction of Real Time Gross Settlement (RTGS) / National Electronic Funds Transfer (NEFT) or Funds Transfer Letter / Transfer Cheque of a bank where the Scheme has a collection account. The AMC will not accept Portfolio Deposit (i.e. gold) from the Large Investors. On receipt of confirmation from the Custodian of crediting the Scheme's account with the gold deposits purchased by the AMC on behalf of the Large Investor, AMC will instruct the Registrar & Transfer Agent the total number of units to be created and upon realization of the requisite cash, the creation of units will be at intra-day NAV, based on the executed price at which Gold of prescribed purity representing the underlying index are purchased.

Where the Large Investor brings in cash for subscription of units and the amount is less than the value of Units to be allotted in creation unit size or Rs. 25 crore, the application will be rejected. In case of excess amount provided by the investor, the excess amount will be refunded.

The Portfolio Deposit and Cash Component may change from time to time due to change in NAV and will be decided and announced by AMC:

The role of the AMC is of a facilitator to the Authorized Participants / Market Makers and Large Investors to purchase / sell Gold on their behalf for the purpose of creating/redeeming the ETF units in Creation Unit Size. The Portfolio Deposit and/or Cash Component for the ETF may change from time to time due to change in NAV. The Scheme shall meet its expenses out of the cash held and in case, the cash is insufficient to meet expenses, the Scheme may be required to sell the gold held by the Scheme to meet the Scheme expenses.

The Fund may from time to time change the size of the Creation Unit in order to equate it with marketable lots of the underlying instruments. The subscription request can be made to the Mutual Fund in a duly filled application form. Application forms for subscription of the ETF can be obtained from the office of AMC, Distributors and Registrar and Transfer Agents. The requisite gold constituting the Portfolio Deposit have to be submitted to the Custodian/AMC while the Cash Component has to be paid to the AMC. If the instrument for Cash Component is not honored for any reason whatsoever, the application is liable to be rejected. The AMC may insist on the certificate issued by the refiner or manufacturer certifying the purity of the gold. On confirmation of the same by the Custodian/AMC that the predefined quantity and purity of gold has been received, the AMC will transfer the respective number of Units of the Scheme into the investor's Beneficiary Account.

Redeeming of the ETF units in Creation Unit Size:

### **(A) Redemption in Gold**

The procedure by which Authorized Participants / Market Makers and Large Investors can redeem the ETF units in Creation Unit Size is as follows:

1. Authorised Participants / Market Makers and Large Investors may make a redemption request to the AMC for redemption of the ETF units in Creation Unit Size on any Business Day in a duly filled redemption form. The value of transaction in case of Large investors shall be greater than INR 25 Crores. The same shall not be applicable for Market Makers/Authorised Participants as may be specified by SEBI from time to time. The term NAV applicability refers to Intra-day NAV based on the actual execution price of the underlying portfolio.

2. By placing the redemption request, the Authorised Participants/ Market Makers and large investors agree to transfer the requisite number of the ETF units in Creation Unit Size to the Scheme's DP accounts on T+0 business days.
3. The request for redemption by Authorised Participants / Market Makers and Large Investors needs to be enclosed with the delivery order used in the depository system duly acknowledged by the DP with whom the Authorized Participants / Market Makers and Large Investors has a depository account stating the number of the ETF units transferred to the Scheme's DP account.
4. After successful verification of the redemption request, the AMC will instruct the Custodian to transfer the Portfolio Deposit of gold to the custody account of Authorized Participant/ Market Makers and Large Investors and remit/collect the Cash Component after adjusting transaction handling charges, other applicable charges and the difference between the applicable NAV and closing price of gold. In case of delivery of gold and not transfer to custody account please refer point 6 below.
5. The expenses associated with taking the delivery of gold will have to be borne by Authorised Participants/ Market Makers and Large Investors.
6. The delivery of gold to Authorised Participants / Market Makers and Large Investors will be made at the location of the Custodian within the jurisdiction of Mumbai. Please note if the Large Investor does not possess custody account which will enable vault to vault transfer in same facility, no in-kind redemption will be provided to such Large Investor.
7. The redemption price for redemption of units in Creation Unit Size will be based on the applicable NAV on the redemption. The term NAV applicability refers to Intra-day NAV based on the actual execution price of the underlying portfolio.

## **(B) Redemption For Cash**

The Fund provides for cash redemption of the ETF units in Creation Unit Size by Authorised Participants (AP) / Market Makers.

Market Maker / AP: Mutual Fund will repurchase units from Market Makers / AP on any Business Day in Creation Unit size at approximately indicative NAV based prices (along with applicable charges and execution variations) for applications directly received at AMC.

**Large Investors:** Minimum amount of Rs. 25 crores for redeeming directly with the AMC.

**Other investors** (including Market Maker, Large Investors and Regulated Entities): Units of the Scheme can be redeemed (in lots of 1 Unit) during the trading hours on all trading days on the NSE and BSE on which the Units are listed.

On receipt of such redemption requests the Fund will arrange to sell Gold on behalf of the Large Investors/Authorised Participants/ Market Makers. Accordingly, the sale proceeds of Gold after adjusting necessary charges/costs and exit load, if any will be remitted to the Large Investors/Authorised Participants/ Market Makers. The creation/redemption request for cash can be made to the Fund in a duly filled application/transaction form. Application/Transaction form for Creation / Redemption for the ETF units in 'Creation Unit Size' can be obtained from the office of the AMC and the Registrar & Transfer Agent.

Example of computation of Cash Component for Creation / Redemption of Units in Creation Unit Size:

As explained above, the Creation Unit is made up of 2 components i.e. Portfolio Deposit and Cash Component. The Portfolio Deposit will be determined by Fund. The Portfolio Deposit will be Gold and will be for 1 kg and in multiples of 1 kg. The value of Portfolio Deposit will change due to changes in the prices during the day.

The Cash Component will be arrived in the following manner:

Number of units comprising one Creation Unit	A	115,000.00
NAV per unit	B	77.00
Value of one Creation Unit (including cash component)	C	8,855,000.00
Previous day Closing price per 0.01 gram of Gold	D	82.00
Closing price per gram of Gold	E	8,200.00
<b>Value of Portfolio Deposit (Price of 1 kg Gold)</b>	<b>F</b>	<b>8,200,000.00</b>
Other charges applicable for this transaction (including depository and other applicable transaction charges and taxes)	G	8,500.00
<b>Cash Component (C-F+G)</b>	<b>H</b>	<b>663,500.00</b>

The above is just an example to illustrate the calculation of Cash Component.

The requisite number of Units of the ETF equaling the Creation Unit has to be transferred to the Fund's DP account and the Cash Component to be paid to the AMC. The AMC may redeem Units prior to receipt of all or portion of the relevant number of units of the ETF in

certain circumstances where the Unit holder, among other things, posts collateral to secure its obligation to deliver such outstanding Units of the Scheme. Redemption process will be completed within 3 working Days of the date of redemption subject to confirmation with the depository records of the Scheme's DP account (where redemption is being made in cash)

## **BUYING / SELLING THROUGH THE STOCK EXCHANGE**

Buying / selling units on the stock exchange is just like buying / selling any other listed securities. If an investor has bought units, an investor has to pay the purchase amount to the broker / sub-broker such that the amount paid is realised before the funds pay-in day of the settlement cycle on the exchange. If an investor has sold units, an investor has to deliver the units to the broker/sub- broker before the securities pay-in day of the settlement cycle on the exchange. The units (in case of units bought) and the funds (in the case of units sold) are paid out to the broker on the payout day of the settlement cycle on the exchange. The trading member would pay the money or deliver the units to the investor in accordance with time prescribed by the stock exchange regulations.

If an investor has bought units, he should give standing instructions for 'Delivery-In' to his/her DP for accepting units in his/her beneficiary account. An investor should give the details of his/her beneficiary account and the DP-ID of his/her DP to his/her trading member. The trading member will transfer the units directly to his/her beneficiary account on receipt of the same from exchange's clearing corporation. An investor who has sold units should instruct his/her Depository Participant (DP) to give 'Delivery Out' instructions to transfer the units from his/her account to the trading member account through whom he/she have sold the units. The details of the pool A/c of his/her trading member to which the units are to be transferred, unit quantity etc. should be mentioned in the delivery out instructions given by him/her to the DP. The instructions should be given will before the prescribed securities pay-in day. SEBI has advised that the delivery out instructions should be given at least 24 hours prior to the cut off time for the prescribed securities pay in to avoid any rejection of instructions due to data entry errors, network problems, etc.

### **Past performance may or may not be sustained in future and is not a guarantee of any future returns**

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