Exchange traded funds

December 4, 2020

In news

ICICI Prudential Mutual Fund and The Hindu Business Line will conduct a webinar on the topic 'Exchange Traded Funds (ETFs) – Simplified on 5th December

What are Exchange Traded Funds (ETF)?

- Exchange-traded funds (ETF)are a type of investment fund and exchange-traded product, i.e. they are traded on stock exchanges.
- ETFs pool the financial resources of several people and use it to purchase various tradable monetary assets such as shares, debt securities such as bonds and derivatives.
- Most ETFs are registered with the Securities and Exchange Board of India (SEBI)

Difference between Mutual funds and ETFs

- An ETF is called an exchange traded fund since it's traded on an exchange just like stocks.
- ETFs are in many ways similar to mutual funds; however, they are listed on exchanges and ETF shares trade throughout the day just like ordinary stock.
- The price of an ETF's shares will change throughout the trading day as the shares are bought and sold on the market.
- This is unlike mutual funds, which are not traded on an exchange, and trade only once per day after the markets close.
- ETFs tend to be more cost-effective and more liquid when compared to mutual funds.

Bharat bond ETF:

- On December 4, 2019 the government approved the launch of the first corporate bond ETF – Bharat Bond ETF.
- It is an exchange-traded mutual fund that will invest one’s money in bonds issued by public sector companies.
- Edelweiss AMC has received the mandate to launch the ETF.

Gold ETFs

- 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.
- Gold ETFs are listed and traded on the National Stock Exchange of India (NSE) and Bombay Stock Exchange Ltd. (BSE) like a stock of any company.