

Floating Rate Savings Bond

June 27, 2020

The Government has notified the new Floating Rate Savings Bonds, 2020 (Taxable) Scheme in place of 7.75% Savings (Taxable) Bonds, 2018 Scheme. The **interest on the bonds is payable semi-annually on 1st Jan and 1st July every year. The coupon on 1st January 2021 shall be paid at 7.15%. The interest rate for next half-year will be reset every six months, the first reset being on January 01, 2021. There is no option to pay interest on a cumulative basis.**

What are Floating Rate Bonds?

Unlike traditional bonds that pay a fixed rate of interest, floating-rate bonds have a **variable rate that resets periodically**. The frequency at which the yield of a floating rate note resets can be daily, weekly, monthly, or every three, six, or 12 months.

The advantage of floating-rate bonds, compared to traditional bonds, is that **interest rate risk is largely removed from the equation**. While an owner of a fixed-rate bond can suffer if prevailing interest rates rise, floating rate notes will pay higher yields if prevailing rates go up. As a result, they will tend to perform better than traditional bonds when interest rates are rising.

However, investors in floating-rate securities will receive lower income if rates fall because their yield will adjust downward. Also, investors in individual floating rate bonds **lack certainty as to the future income stream of their investments**.

[A savings bond is a government bond offered to its citizens to help fund federal spending, and which provides savers with a guaranteed, although modest, return].

RBI Floating Rate Bonds

The bonds will have a **tenure of 7 years** and the interest rate will keep varying during the tenure of the scheme. The **minimum investment amount is Rs 1000, while there will be no maximum limit** for investments made in the bonds.

Interest on the bonds will be taxable under the Income-tax Act, 1961 as amended from time to time and as applicable according to the relevant tax status of the Bond holder. There will be an incidence of TDS unless certificate of exemption is provided to not deduct TDS.

The Bonds are open to investment by **individuals (including joint holdings) and Hindu Undivided Families. NRIs are not eligible** for making investments in these bonds. The bonds will be issued only in the electronic form and held at the credit of the holder in an account called Bond Ledger Account (BLA).