CHAPTER 2

MUTUAL FUND INDUSTRY IN INDIA

CHAPTER CONTENTS

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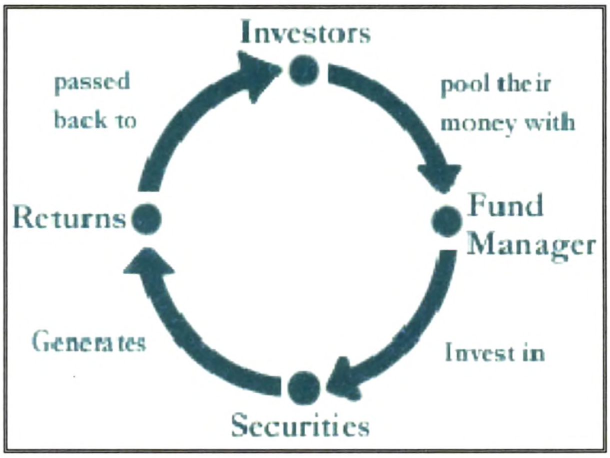
"A Mutual Fund is a financial service organization that receives money from shareholders, invests it, earns returns on it, attempts to make it grow and agrees to pay the shareholder cash on demand for the current value of his investment"

Mutual fund industry has emerged as one of the most dynamic segment of the Indian financial system. This has been made possible due to the rigorous policy initiatives of the government. Mutual fund concept in India roots back to the sixties when reacting to the needs of more active mobilization of household savings the Reserve Bank of India was entrusted to create a special institution to serve as a channel for these resources to the Indian capital market. Since then, the Mutual Fund in India has flourished over a period of time. For systematic presentation, this chapter is divided into five sections. Section 2.1 explains the concept of mutual fund and brief about the organization of the mutual fund industry. Section 2.2 traces the evolution of mutual fund industry globally, history of the Indian mutual fund industry, advantages & disadvantages of mutual fund and types of mutual fund schemes. Section 2.3 reveals the regulatory framework of mutual funds. Section 2.4 brief about the growth and performance of mutual find in India and Section 2.5 presents the summary and conclusions of the chapter.

2.1 MUTUAL FUND: SOME BASIC ASPECTS

2.1.1 CONCEPT OF MUTUAL FUND

Figure 2.1: Mutual Fund Operation Flow Chart



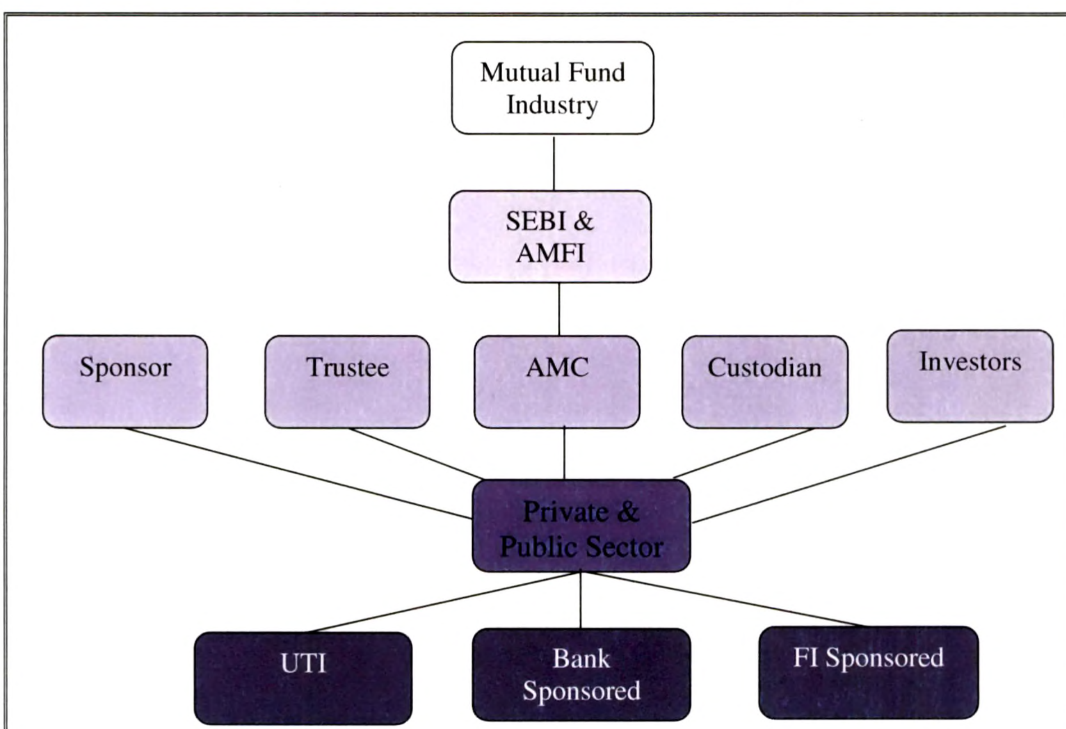
Source: AMFI

The Figure 2.1 describes broadly the working of a Mutual Fund. A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciation realized is shared by its unit holders in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

2.1.2 ORGANIZATION MUTUAL FUND INDUSTRY

Mutual Funds have a particular organization set up consisting of five imperative parties shown in Figure 2.2. SEBI and AMFI work mutually and form the foundation of the entire structure. The overall understanding of MF industry is essential and hence step by step understanding of all elements.

Figure 2.2: Indian Mutual Fund Industry



Source: **Bhole, L.M. (2005)**[1] in *"Financial Institutions and Markets"*

The organization of mutual funds in India (excepting for Unit Trust of India) is dictated by the Securities and Exchange Board of India - SEBI (Mutual Funds) Regulations, 1996. Bank-owned mutual funds are also supervised by the Reserve Bank of India (RBI). This does not overlap with SEBI's supervision. The constituents of a mutual fund include the Sponsors, the Trustee, the Asset Management Company (AMC), the Custodian and the Investors.

The **Sponsor** is the person who acting alone or in combination with another body corporate establishes a mutual fund. The sponsor establishes the mutual fund and registers the same with SEBI. Sponsor appoints the Trustees, custodians and the AMC with prior approval of SEBI and in accordance with SEBI Regulations. Sponsor must have a 5-year track record of business interest in the financial markets. Sponsor must have been profit making in at least 3 of the above 5 years. Sponsor must contribute at least 40% of the net worth of the Investment Managed and meet the eligibility criteria prescribed under the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.The Sponsor is not responsible or liable for any loss or shortfall resulting from the operation of the Schemes beyond the initial contribution made by it towards setting up of the Mutual Fund. The Mutual Fund is constituted as a **trust** in accordance with the provisions of the Indian Trusts Act, 1882 by the Sponsor. The trust deed is registered under the Indian Registration Act, 1908. The **Trustee** is usually a company (corporate body) or a Board of Trustees (body of individuals). The main responsibility of the Trustee is to safeguard the interest of the unit holders and *inter alia* ensure that the AMC functions in the interest of investors and in accordance with the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, the provisions of the Trust Deed and the Offer Documents of the respective Schemes. At least 2/3rd directors of the Trustee are independent directors who are not associated with the Sponsor in any manner. The **AMC** is appointed by the Trustee as the Investment Manager of the Mutual Fund. The AMC is required to be approved by the Securities and Exchange Board of India (SEBI) to act as an asset management company of the Mutual Fund. At least 50% of the directors of the AMC are independent directors who are not associated with the Sponsor in any manner. The AMC must have a net worth of at least 10 crore at all times. The **Custodian** is an agent, bank, trust company, or other organization which holds and safeguards an individual's, mutual funds, or investment company's assets for them. The Mutual Fund **Investors**, like the other share holders have the right to vote. The voting rights include, the right to elect directors during the directorial elections, voting right to approve the alterations investment advisory contract pertaining to the fund and provide approval for changing investment objectives or policies.

2.2 HISTORY AND DEVELOPMENT OF MUTUAL FUND

2.2.1 EVOLUTION OF MUTUAL FUND INDUSTRY: GLOBALLY

The abundances of investment preferences are overwhelming today and too mottled. To mention few of them there are shares, bonds, funds, commodities and bank deposits. However Mutual Fund is principally preferred due to its several benefits like good returns and bearable risk. MF emerged in The Netherlands as early as second half of the 18th century. Beginning of MF in Anglo- Saxon countries can be posted by founding of Foreign and Colonial Government Trust in 1868 however such investment trusts were prevalent in Holland for more than a century already. Post financial crisis of 1772-73 Abraham Van Ketwich's aim, who was Dutch merchant and broker, was to facilitate small investors with an opportunity to diversify since they had limited means. This honest thought gave birth to a trust named Eendragt Maakt Magt which is the maxim of the Dutch Republic and translates to "Unity Creates Strength." Investing in Austria, Germany, Denmark, Russia and variety of colonial plantations guaranteed risk diversification.

Gradually during eighteenth century MF emerged and merchants and brokers learnt how to spread out the horizon of investment opportunities for public. At this time securitization and stock substitution were innovated. Securitization meant, the cash flows of illiquid claims could be used as collateral for tradable securities. In a stock substitution, current securities were repackaged either in smaller denominations or at lower cost in order to make them easier to trade.

Eendragt Maakt Magt (EMM)

This trust founded by Dutch merchant and broker invested in plantation loans and bonds issued by foreign government. Four percent of adjustable (dependent on portfolio's annual investment income) dividend was promised to the investors. Initial 2000 shares were offered to public and the tenure was fixed for 25 years. Subscription was open for general public only till the subscription of these 2000 shares and anyone interested in participating could do that by buying shares from existing shareholders. Public could buy shares in their names or on bearer forms which could later be transferred to anyone since it did not require any registration with the issues. Based on all these characteristics this fund can be classified as close ended fund of today's time.

Fortune of funds near the beginning

A fund named *Voordeelig en Voorsigtig* which means Profitable and Prudent was founded in 1776 by a syndicate of Utrecht bankers. This fund allocated Forty percent to plantation loans. An interesting fact about this fund was listing of EMM amongst its potential investments. During 1779, second MF was launched by Van Ketwich namely *Concordia Res Parvae Crescunt* (CRPC) which was almost like his first MF, major difference was modified investment policy to provide freedom for investors. Year 1980 saw the outbreak of fourth English war and funds were hampered as a result. In 1803 the management of both the funds was taken over by the firm owned by Van Ketwich and Voomberg. CRPC existed for 114 years and is considered to be the longest funds ever. It is also termed as the grandfather of all modern funds. 1780s and 1790s saw the emergence of 30 funds with a common objective of speculating on United States (U.S.) future credit. Major financiers of American Revolution were France and Spain with Netherlands. Post this was the birth of Deposit Receipts which are quite popular even today. Australia and New Zealand history of MF is comparatively recent, here MF are called managed funds or unit trusts. Australia has managed its funds since Second World War while New Zealand's Unit Trust Act of 1960 performs fund management. *"Historians say that the first group in US to invest was staff and faculty at Harvard University in 1893. This fund grew to $400000 in just one year which actually started with $50,000 and 200 investors"* **(Bell)** [2].

London in 1868 saw the creation of the first investment trust outside of the Netherlands which was called as the Foreign and Colonial Government Trust. 18 more trusts were founded in London by 1875. During 1890s investment trusts reached US and mostly were close ended funds. This fund was like EMM issuing fixed number of shares and frequent repurchase. This kind of fund however changed in 1924 when first US open end fund was launched which was named as Massachusetts Investors Trust. This fund allowed continuous issue and redemption of shares. This model of open end fund became an important contribution to the MF industry and is still a governing model. This fund marked the arrival of modern fund and went public in 1928. The custodian of this was State Street Investors' Trust which started its own fund in 1924 with Richard Paine, Richard Saltonstall and Paul Cabot. In 1928 the first no load fund was launched. This year also experienced the launch of Wellington Fund which was the first one to embrace stocks and bonds.

By 1929, 19 open-end MF were competing with almost 700 close end funds. The stock market crash of 1929 saw many changes; it witnessed wiping out of highly leveraged close end funds and the survival of small open end funds. At the same time government also took note of hatching MF industry and as a result Securities and Exchange Commission (SEC), Securities Act 1933 and Securities Exchange Act of 1934 came in force to safeguard investors. All MF were required to register and disclose all necessary details to SEC. At later stages Investment Company Act of 1940 was established which demanded more disclosures. In 1954, the MF industry overcame 1929 and 50 new funds were added. 1960 experienced dawn of aggressive growth funds. Several new funds kept on adding until bear market of 1969 which eased the appetite of public for MF, however this industry's growth resumed later on. 1980 and 1990 saw bull market phase and fund managers became household names **(McWhinney)**[3]**.** MF industry has exploded in US and elsewhere in recent past. While this industry has flourished but the study of MF has remained tapered. Most of the findings have been done on US and many are unaware that US dwelling funds accounted for only 15 percent of the globally available funds and 60 percent of the world's fund assets in 2000. Another surprising and not very popular fact is that Luxemburg is home to second largest fund industry with 6.5 percent of world mutual fund assets. Also France and Korea offers the second-largest number of MF's worldwide available which is 13 percent of the world total for each country. It is right to quote that MF industry has been the most successful innovation ever in financial history **(Khorana, Servaes & Tufano (2004))**[4]**.**

2.2.2 HISTORY OF THE INDIAN MUTUAL FUND INDUSTRY

As learnt above, MF industry was prevalent in world since 18th century however India's MF industry took birth in 1963. Government of India (GOI) and Reserve Bank of India (RBI) took initiative and laid the foundation of Unit Trust of India (UTI) in 1963. The initial growth of this industry was slow but the same accelerated when non UTI concerns entered the market from 1987. There have been many improvements in Indian MF Industry during past few decades both in quality and quantity. One of the reasons behind slight slow growth of Indian MF industry is lack of awareness and knowledge amongst investors.

GROWTH OF MUTUAL FUND IN INDIA:

The journey of MF industry of India is categorized into four major phases: Phase I (1964-1987), Phase II (1987-1993), Phase III (1993-2003), and Phase IV (since February 2003).

Phase I – 1964-1987 (Monopoly of UTI)

This phase was evident from 1964 to 1987. It commenced with the establishment of UTI in 1963 by the Parliament's Act. The Admin and regulatory control of UTI was under RBI. This control was taken over by Industrial and Development Bank of India (IDBI) in 1978 when UTI was delinked from RBI. UTI became operational in 1964 with a major objective of mobilizing savings through the sale of units and investing them in corporate securities for maximizing yield and capital appreciation. UTI first launched its scheme in 1964 named as UTI Scheme 1964 (US-64), the first open-ended and the most popular scheme and collected Rs.24.67 crore. Table 2.1 gives the details about the size and cumulative investible funds available to UTI since its inception in 1964 till 1986-87.

Table 2.1 : Size and Growth of Investible Funds of UTI During 1964-1987

(Rs. in Crore)

Year	Amount	Growth (%)	Year	Amount	Growth (%)
1964-65	24.67	-	1976-77	206.84	17.08
1965-66	25.94	5.15	1977-78	279.91	35.33
1966-67	33.86	30.53	1978-79	393.7	40.65
1967-68	48.7	43.83	1979-80	455.3	15.65
1968-69	65.4	34.29	1980-81	513.97	12.89
1969-70	88.3	35.02	1981-82	679.24	32.16
1970-71	105.14	19.07	1982-83	870.24	28.12
1971-72	119.26	13.43	1983-84	1261.33	44.94
1972-73	141.96	19.03	1984-85	2209.61	75.18
1973-74	172.09	21.22	1985-86	3218.34	45.65
1974-75	169.95	-1.24	1986-87	4563.68	41.8
1975-76	176.66	3.95			

Source : **Sahadevan & Raju (1997)[5],PP.26**

The resource mobilized in the following year witnessed a modest growth of 5.15 per cent that was however, over shadowed by a very impressive growth in the next four years. UTI launched a re-investment plan in the year 1966-67. After that in the year 1971, UTI launched another open-ended scheme, the Unit Linked Insurance Plan-1971 (ULIP). In the year 1978 after delinked from RBI, UTI launched six new schemes. During 1984-87, UTI launched several innovative and widely accepted schemes such as Children's Gift Growth Fund Unit Scheme in 1986 and Master Share in October 1986, which was the first close-ended scheme in India. Also, the first offshore fund-"India Fund" was launched in August 1986. It was a growth-cum-income fund, listed at the London Stock Exchange. Hence, receiving good response from the public, the investible funds of UTI grew to Rs. 4563.68 crore by the end of June 1987. UTI maintained its monopoly and experienced a consistent growth till 1987.

Phase II – 1987-1993 (Entry of Public Sector Funds)

This phase was marked by the entry of public sector funds other than UTI. This Phase was between 1987 to 1993 when Public Sector MF was set up by General Insurance Corporation of India (GIC), Life Insurance Corporation of India (LIC) and public sector banks. There were several non UTI MF launched during this period, few were

1. SBI Mutual Fund -June 1987
2. Canbank Mutual Fund-Dec 87
3. Punjab National Bank Mutual Fund-Aug 89
4. Indian Bank Mutual Fund -Nov 89
5. Bank of India Mutual Fund-Jun 90
6. Bank of Baroda Mutual Fund-Oct 92
7. LIC MF- June 1989
8. GIC MF- December 1990

Thus, this period of five years witnessed rapid expansion of the capital markets, both in terms of total funds raised through the markets and securities turnover on the stock exchanges. Table 2.2 gives the net resources mobilized by mutual funds during the year 1987-88 to 1992-93.

Table 2.2 : Net Resources Mobilized by Mutual Funds during 1987-88 to 1992-93

(Rs. in Crore)

Year	UTI	Bank-sponsored mutual funds (6)	FI-sponsored mutual funds (2)	Total
1987-88	2059	250	-	2309
1988-89	3855	320	-	4175
1989-90	5584	889	315	6788
1990-91	4553	2352	604	7509
1991-92	8685	2140	428	11253
1992-93	11057	1204	760	13021

Note: The number into the bracket represents the number of mutual funds.
Source: Compiled from RBI Reports, SEBI Annual Reports, AMFI updates.

Table 2.2 indicates that because of entry of new players in the market, there is a sharp increase in the total net resource mobilized by the mutual funds. However, as in the earlier period, much of the growth came from UTI, which continued to remain the dominant player in the market. During this period not only increase in the net resources mobilized by mutual funds, but also the number of schemes launched by them increased appreciably. Total AUM at the end of 1993 was Rs. 470.04 billions.

Phase III – 1993-2003 (Entry of Private Sector Funds)

The Government of India introduced several economic reforms including the financial sector reforms in the year 1991. This phase begun in 1993 with the entry of private sector funds and remains prevalent till 2003.This phase actually gave Indian investors variety and a complete family to select the correct MF for them. Year 1993 also witnessed introduction of first MF regulation which required all MF to be registered and governed with an exception of UTI. The first private MF to be registered was erstwhile Kothari Pioneer (now amalgamated with Franklin Templeton) in July 1993. Later in 1996 a more inclusive and revised regulations were introduced which substituted MF regulations of 1993. As of now, the Indian MF industry works under regulations of 1996. During this period MF industry saw many changes like mergers, acquisitions, foreign players entering Indian market and more MF houses growing.

Table 2.3 : Net Resources Mobilized by Mutual Funds during 1992-93 to 2002-03

(Rs. in Crore)

Year	UTI	Bank-sponsored mutual funds (6)	FI-sponsored mutual funds (2)	Private sector mutual funds (24)	Total
1992-93	11057	1204	760	-	13021
1993-94	9297	148	238	1560	11243
1994-95	8611	766	576	1322	11275
1995-96	-6314	113	235	133	-5833
1996-97	-3043	7	137	864	-2035
1997-98	2875	237	204	749	4065
1998-99	170	-89	547	2067	2695
1999-00	4548	336	296	16938	22118
2000-01	322	249	1273	9292	11136
2001-02	-7284	863	406	16134	10119
2002-03	-9434	1033	861	12122	4582

Note: The number into the bracket represents the number of mutual funds.
Source: Compiled from RBI Reports, SEBI Annual Reports, AMFI updates.

Table 2.3 indicates that the industry witnessed several ups and downs during the period 1992-93 to 2002-03. By the end of this phase in 2003 there were total of 33 Mutual funds with total assets of Rs. 1,21,805 crores. And net resource mobilized by mutual funds worth Rs. 4582 crore. The Unit Trust of India with Rs.44,541 crores of assets under management was way ahead of other mutual funds.

Phase IV – since February 2003

This phase started since February 2003 and was bitter for UTI which split into two entities following the repeal of UTI Act 1963. The first one is specified undertaking of UTI with AUM worth Rs. 298.35 billions as on January 2003. This represented guaranteed returns, assets of US 64 scheme and other schemes. This undertaking doesn't come under MF regulation and works as per the rules framed by GOI. The second one is UTI MF which is sponsored by State Bank of India (SBI), Punjab National Bank (PNB), Bank of Baroda (BOB) and LIC. It works under MF regulations and is registered with Securities and Exchange Board of India (SEBI). The Indian MF industry had then entered the phase of growth and is still growing even after reaching new heights. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs.76,000 crores of assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.

Table 2.4 : Net Resources Mobilized by Mutual Funds during to 2003-04 to 2009-10

(Rs. in Crore)

Year	UTI	Bank-sponsored mutual funds	FI-sponsored mutual funds	Private sector mutual funds	Total
2003-04	1050	4526	787	41510	47873
2004-05	-2467	706	-3384	7933	2788
2005-06	3424	5365	2112	41581	52482
2006-07	7326	3033	4226	79477	94063
2007-08	10678	7597	2178	128032	148485
2008-09	-3659	4489	5954	-31425	-24641
2009-10	15653	9855	4871	48166	78545

Source: Compiled from RBI Reports, SEBI Annual Reports, AMFI updates.

Table 2.4 indicates that the net resources mobilized by mutual funds in the year 2003-04 was Rs. 47,873 crore and Rs.78,545 crore in the year 2009-10. There is roughly 60 per cent increase in net resource mobilized by mutual funds. In the year 2008-09, there was a sharp reduction in net resources mobilized by mutual funds i.e. Rs. -24,641 crore due to extreme volatility in the market and depressed equity market conditions but again it increased in the year 2009-10 i.e. Rs.78,545 crore.

As is clear from the growth in investment in Mutual Fund over a period of time, this source has attracted investment of investors at large. This necessarily indicates that there are certain benefits attached with investment in the Mutual Fund schemes. The following paragraph discusses certain advantages of investment in Mutual Fund.

2.2.3 ADVANTAGES OF MUTUAL FUND

- **Portfolio Diversification** By owning shares in a mutual fund instead of owning individual stocks or bonds, your risk is spread out. The idea behind diversification is to invest in a large number of assets so that a loss in any particular investment is minimized by gains in others. It wouldn't be possible for an investor to build this kind of a portfolio with a small amount of money. Mutual Funds invest in a well-diversified portfolio of securities which enables investor to hold a diversified investment portfolio (whether the amount of investment is big or small).
- **Professional Management** The primary advantage of funds is the professional management of your money. Investors purchase funds because they do not have the time or the expertise to manage their own portfolios. A mutual fund is a relatively inexpensive way for a small investor to get a full-time manager to make and monitor investments. Fund manager undergoes through various research works and has better investment management skills which ensure higher returns to the investor than what he can manage on his own.
- **Less Risk** Investors acquire a diversified portfolio of securities even with a small investment in a Mutual Fund. The risk in a diversified portfolio is lesser than investing in merely 2 or 3 securities.
- **Low Transaction Costs** Due to the economies of scale (benefits of larger volumes), mutual funds pay lesser transaction costs. These benefits are passed on to the investors.
- **Liquidity** An investor may not be able to sell some of the shares held by him very easily and quickly, whereas units of a mutual fund are far more liquid.
- **Choice of Schemes** Mutual funds provide investors with various schemes with different investment objectives. Investors have the option of investing in a scheme

having a correlation between its investment objectives and their own financial goals. These schemes further have different plans/options

- **Transparency** Funds provide investors with updated information pertaining to the markets and the schemes. All material facts are disclosed to investors as required by the regulator.
- **Flexibility** Investors also benefit from the convenience and flexibility offered by Mutual Funds. Investors can switch their holdings from a debt scheme to an equity scheme and vice-versa. Option of systematic (at regular intervals) investment and withdrawal is also offered to the investors in most open-end schemes.
- **Safety** Mutual Fund industry is part of a well-regulated investment environment where the interests of the investors are protected by the regulator. All funds are registered with SEBI and complete transparency is forced.

2.2.4 DISADVANTAGES OF MUTUAL FUND

- **Costs Control Not in the Hands of an Investor** Creating, distributing, and running a mutual fund is an expensive proposition. Everything from the manager's salary to the investors' statements cost money. Those expenses are passed on to the investors. Since fees vary widely from fund to fund, failing to pay attention to the fees can have negative long-term consequences. Investor has to pay investment management fees and fund distribution costs as a percentage of the value of his investments (as long as he holds the units), irrespective of the performance of the fund.
- **No Customized Portfolios** The portfolio of securities in which a fund invests is a decision taken by the fund manager. Investors have no right to interfere in the decision making process of a fund manager, which some investors find as a constraint in achieving their financial objectives.
- **Difficulty in Selecting a Suitable Fund Scheme** Many investors find it difficult to select one option from the plethora of funds/schemes/plans available. For this, they may have to take advice from financial planners in order to invest in the right fund to achieve their objectives.
- **Dilution** It's possible to have too much diversification. Because funds have small holdings in so many different companies, high returns from a few investments often don't make much difference on the overall return. Dilution is also the result of a successful fund getting too big. When money pours into funds that have had

strong success, the manager often has trouble finding a good investment for all the new money.

- **Taxes** When a fund manager sells a security, a capital-gains tax is triggered. Investors who are concerned about the impact of taxes need to keep those concerns in mind when investing in mutual funds. Taxes can be mitigated by investing in tax-sensitive funds or by holding non-tax sensitive mutual fund in a tax-deferred account, such as a 401(k) or IRA.

2.2.5 TYPES OF MUTUAL FUND SCHEMES

The objectives of mutual funds are to provide continuous liquidity and higher returns with high degree of safety to investors. There are over hundreds of mutual funds scheme to choose from. Based on these objectives, different types of mutual fund schemes have evolved which are presented in Table 2.5.

2.2.5.1 BY STRUCTURE

1. Open - Ended Schemes:

An open-ended mutual fund is the most common type of mutual fund available for investment. An open-end fund is one that is available for subscription all through the year. These do not have a fixed maturity. An investor can choose to invest or transact in these schemes whenever he likes to. In an open-ended mutual fund, there is no limit to the number of investors, shares, or overall size of the fund, unless the fund manager decides to close the fund to new investors in order to keep it manageable. The value or share price of an open-ended mutual fund is determined at the market close every day and is called the Net Asset Value (NAV). Investors can conveniently buy and sell units at Net Asset Value ("NAV") related prices. The key feature of open-end schemes is liquidity.

2. Close - Ended Schemes:

These schemes have a pre-specified maturity period. One can invest directly in the scheme at the time of the initial issue. Depending on the structure of the scheme there are two exit options available to an investor after the initial offer period closes. Investors can transact (buy or sell) the units of the scheme on the stock exchanges where they are listed. The market price at the stock exchanges could vary from the net asset value (NAV) of the scheme on account of demand and supply situation, expectations of unit holder and other market factors. Alternatively some close-ended schemes provide an additional option of selling the units directly to the Mutual Fund through periodic repurchase at the schemes NAV; however one cannot buy units and can only sell units during the liquidity window. SEBI Regulations ensure that at least one of the two exit routes is provided to the investor.

Table 2.5 : Types of Mutual Fund Schemes

By Structure	By Nature	By Investment Objective	By Geographic	Other schemes
• Open-ended schemes • Close-ended Schemes • Interval Schemes	**Equity Fund** • Aggressive Growth Funds • Growth Funds • Speciality Funds ➢ Sector Funds ➢ Foreign Securities Funds ➢ Mid-Cap or Small-Cap Funds ➢ Option Income Funds • Diversified Equity Funds • Equity Index Fund • Value Funds • Equity Income or Dividend Yield Funds **Debt Fund** • Gilt Fund • Income Funds • MIPs • Short Term Plans • Liquid Funds **Balanced Fund**	• Growth Schemes • Income Schemes • Balanced Schemes • Money Market Schemes	• Domestic Schemes • Offshore Schemes	• Commodity Funds • Real Estate Funds • Exchange Traded Funds (ETF) • Fund of Funds

3. Interval Schemes:

Interval Schemes are that scheme, which combines the features of open-ended and close-ended schemes. The units may be traded on the stock exchange or may be open for sale or redemption during pre-determined intervals at NAV related prices. FMP or the Fixed Maturity Plans are the example for these types of schemes.

2.2.5.2 BY NATURE

1. Equity fund:

These funds invest a maximum part of their corpus into equities holdings. The structure of the fund may vary different for different schemes and the fund manager's outlook on different stocks. Equity funds are considered to be the more risky funds as compared to other fund types, but they also provide higher returns than other funds. It is advisable that an investor looking to invest in an equity fund should invest for long term i.e. for 3 years or more. There are different types of equity funds each falling into different risk bracket. In the order of decreasing risk level, there are following types of equity funds:

- **Aggressive Growth Funds:**

  In Aggressive Growth Funds, fund managers aspire for maximum capital appreciation and invest in less researched shares of speculative nature. Because of these speculative investments Aggressive Growth Funds become more volatile and thus, are prone to higher risk than other equity funds.

- **Growth Funds:**

  Growth Funds also invest for capital appreciation (with time horizon of 3 to 5 years) but they are different from Aggressive Growth Funds in the sense that they invest in companies that are expected to outperform the market in the future. Without entirely adopting speculative strategies, Growth Funds invest in those companies that are expected to post above average earnings in the future.

- **Tax Saving Schemes:**

  Tax-saving schemes offer tax rebates to the investors under tax laws prescribed from time to time. Under Sec.88 of the Income Tax Act, contributions made to any Equity Linked Savings Scheme (ELSS) are eligible for rebate.

- **Speciality Funds:**

  Speciality Funds have stated criteria for investments and their portfolio comprises of only those companies that meet their criteria. Criteria for some speciality funds could be to invest/not to invest in particular regions/companies. Speciality funds are concentrated and thus, are comparatively riskier than diversified funds. There are following types of speciality funds:

  - **Sector Funds:** Equity funds that invest in a particular sector/industry of the market are known as Sector Funds. The exposure of these funds is limited to a particular sector (say Information Technology, Auto, Banking, Pharmaceuticals or Fast Moving Consumer Goods) which is why they are more risky than equity funds that invest in multiple sectors.

- **Foreign Securities Funds:** Foreign Securities Equity Funds have the option to invest in one or more foreign companies. Foreign securities funds achieve international diversification and hence they are less risky than sector funds. However, foreign securities funds are exposed to foreign exchange rate risk and country risk.
- **Mid-Cap or Small-Cap Funds:** Funds that invest in companies having lower market capitalization than large capitalization companies are called Mid-Cap or Small-Cap Funds. Market capitalization of Mid-Cap companies is less than that of big, blue chip companies (less than Rs. 2500 crores but more than Rs. 500 crores) and Small-Cap companies have market capitalization of less than Rs. 500 crores. The shares of Mid-Cap or Small-Cap Companies are not as liquid as of Large-Cap Companies giving rise to volatility in share prices of these companies and consequently, investment gets risky.
- **Option Income Funds:** While not yet available in India, Option Income Funds write options on a large fraction of their portfolio. Proper use of options can help to reduce volatility, which is otherwise considered as a risky instrument. These funds invest in big, high dividend yielding companies, and then sell options against their stock positions, which generate stable income for investors.

- **Diversified Equity Funds:**

Except for a small portion of investment in liquid money market, diversified equity funds invest mainly in equities without any concentration on a particular sector(s). These funds are well diversified and reduce sector-specific or company-specific risk. However, like all other funds diversified equity funds too are exposed to equity market risk. One prominent type of diversified equity fund in India is Equity Linked Savings Schemes (ELSS). As per the mandate, a minimum of 90% of investments by ELSS should be in equities at all times. ELSS investors are eligible to claim deduction from taxable income (up to Rs 1 lakh) at the time of filing the income tax return. ELSS usually has a lock-in period and in case of any redemption by the investor before the expiry of the lock-in period makes him liable to pay income tax on such income(s) for which he may have received any tax exemption(s) in the past.

- **Equity Index Funds** - Equity Index Funds have the objective to match the performance of a specific stock market index. The portfolio of these funds comprises of the same companies that form the index and is constituted in the same proportion as the index. Equity index funds that follow broad indices (like S&P CNX Nifty, Sensex) are less risky than equity index funds that follow narrow sectoral indices (like BSEBANKEX or CNX Bank Index *etc*). Narrow indices are less diversified and therefore, are more risky.
- **Value Funds** - Value Funds invest in those companies that have sound fundamentals and whose share prices are currently under-valued. The portfolio of these funds comprises of shares that are trading at a low Price to Earning Ratio (Market Price per Share / Earning per Share) and a low Market to Book Value (Fundamental Value) Ratio. Value Funds may select companies from diversified sectors and are exposed to lower risk level as compared to growth funds or speciality funds. Value stocks are generally from cyclical industries (such as cement, steel, sugar *etc.*) which make them volatile in the short-term. Therefore, it is advisable to invest in Value funds with a long-term time horizon as risk in the long term, to a large extent, is reduced.
- **Equity Income or Dividend Yield Funds** - The objective of Equity Income or Dividend Yield Equity Funds is to generate high recurring income and steady capital appreciation for investors by investing in those companies which issue high dividends (such as Power or Utility companies whose share prices fluctuate comparatively lesser than other companies' share prices). Equity Income or Dividend Yield Equity Funds are generally exposed to the lowest risk level as compared to other equity funds.

2. Debt funds:

The objective of these Funds is to invest in debt papers. Government authorities, private companies, banks and financial institutions are some of the major issuers of debt papers. By investing in debt instruments, these funds ensure low risk and provide stable income to the investors. Debt funds are further classified as:

- **Gilt Funds**: Invest their corpus in securities issued by Government, popularly known as Government of India debt papers. These Funds carry zero Default risk but are associated with Interest Rate risk. These schemes are safer as they invest in papers backed by Government.

- **Income Funds:** Invest a major portion into various debt instruments such as bonds, corporate debentures and Government securities.
- **MIPs:** Invests maximum of their total corpus in debt instruments while they take minimum exposure in equities. It gets benefit of both equity and debt market. These scheme ranks slightly high on the risk-return matrix when compared with other debt schemes.
- **Short Term Plans (STPs):** Meant for investment horizon for three to six months. These funds primarily invest in short term papers like Certificate of Deposits (CDs) and Commercial Papers (CPs). Some portion of the corpus is also invested in corporate debentures.
- **Liquid Funds:** Also known as Money Market Schemes, These funds provides easy liquidity and preservation of capital. These schemes invest in short-term instruments like Treasury Bills, inter-bank call money market, CPs and CDs. These funds are meant for short-term cash management of corporate houses and are meant for an investment horizon of 1day to 3 months. These schemes rank low on risk-return matrix and are considered to be the safest amongst all categories of mutual funds.

3. Balanced funds:

As the name suggest they, are a mix of both equity and debt funds. They invest in both equities and fixed income securities, which are in line with pre-defined investment objective of the scheme. These schemes aim to provide investors with the best of both the worlds. Equity part provides growth and the debt part provides stability in returns.

2.2.5.3 BY INVESTMENT OBJECTIVE

1. Growth Schemes:

Growth Schemes are also known as equity schemes. The aim of these schemes is to provide capital appreciation over medium to long term. These schemes normally invest a major part of their fund in equities and are willing to bear short-term decline in value for possible future appreciation.

2. **Income Schemes:**

   Income Schemes are also known as debt schemes. The aim of these schemes is to provide regular and steady income to investors. These schemes generally invest in fixed income securities such as bonds and corporate debentures. Capital appreciation in such schemes may be limited.

3. **Balanced Schemes:**

   Balanced Schemes aim to provide both growth and income by periodically distributing a part of the income and capital gains they earn. These schemes invest in both shares and fixed income securities, in the proportion indicated in their offer documents (normally 50:50).

4. **Money Market Schemes:**

   Money Market Schemes aim to provide easy liquidity, preservation of capital and moderate income. These schemes generally invest in safer, short-term instruments, such as treasury bills, certificates of deposit, commercial paper and inter-bank call money.

2.2.5.4 BY GEOGRAPHIC

1. **Domestic Funds:**

   Funds which mobilize resources from a particular geographical locality like a country or region are domestic funds. The market is limited and confined to the boundaries of a nation in which the fund operates. They can invest only in the securities which are issued and traded in the domestic financial markets.

2. **Offshore Funds:**

   Offshore funds attract foreign capital for investment in the country of the issuing company. They facilitate cross-border fund flow which leads to an increase in foreign currency and foreign exchange services. Such mutual funds can invest in securities of foreign companies. They open domestic capital market to international investors. Many mutual funds in India have launched a number of offshore funds, either independently or jointly with foreign investment management companies. The first offshore fund, The India Found, was launched by Unit Trust of India in July 1986 in collaboration with the US fund manager, Merril Lynch.

2.2.5.5 OTHER SCHEMES

1. **Commodity Funds:**

   Those funds that focus on investing in different commodities (like metals, food grains, crude oil *etc.*) or commodity companies or commodity futures contracts are termed as Commodity Funds. A commodity fund that invests in a single commodity or a group of commodities is a specialized commodity fund and a commodity fund that invests in all available commodities is a diversified commodity fund and bears less risk than a specialized commodity fund. "Precious Metals Fund" and Gold Funds (that invest in gold, gold futures or shares of gold mines) are common examples of commodity funds.

2. **Real Estate Funds:**

   Funds that invest directly in real estate or lend to real estate developers or invest in shares/securitized assets of housing finance companies, are known as Specialized Real Estate Funds. The objective of these funds may be to generate regular income for investors or capital appreciation.

3. **Exchange Traded Funds (ETF):**

   Exchange Traded Funds provide investors with combined benefits of a closed-end and an open-end mutual fund. Exchange Traded Funds follow stock market indices and are traded on stock exchanges like a single stock at index linked prices. The biggest advantage offered by these funds is that they offer diversification, flexibility of holding a single share (tradable at index linked prices) at the same time. Recently introduced in India, these funds are quite popular abroad.

4. **Fund of Funds:**

   Mutual funds that do not invest in financial or physical assets, but do invest in other mutual fund schemes offered by different AMCs, are known as Fund of Funds. Fund of Funds maintain a portfolio comprising of units of other mutual fund schemes, just like conventional mutual funds maintain a portfolio comprising of equity/debt/money market instruments or non financial assets. Fund of Funds provide investors with an added advantage of diversifying into different mutual fund schemes with even a small amount of investment, which further helps in diversification of risks. However, the expenses of Fund of Funds are quite high on account of compounding expenses of investments into different mutual fund schemes.

2.3 REGULATORY FRAMEWORK OF MUTUAL FUNDS

This section discusses the regulatory framework of mutual fund industry in India. It is divided into two parts. Part one discusses the regulatory framework and guidelines by Securities and exchange Board of India (SEBI) and Part two discusses the role of the Association of Mutual Funds in India (AMFI).

2.3.1 SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI)

In the year 1992, Securities and Exchange Board of India (SEBI) Act was passed. The objectives of SEBI are – to protect the interest of investors in securities and to promote the development of and to regulate the securities market. As far as mutual funds are concerned, SEBI formulates policies and regulates the mutual funds to protect the interest of the investors. SEBI notified regulations for the mutual funds in 1993. Thereafter, mutual funds sponsored by private sector entities were allowed to enter the capital market. The regulations were fully revised in 1996 and have been amended thereafter from time to time. SEBI has also issued guidelines to the mutual funds from time to time to protect the interests of investors. All mutual funds whether promoted by public sector or private sector entities including those promoted by foreign entities are governed by the same set of Regulations. There is no distinction in regulatory requirements for these mutual funds and all are subject to monitoring and inspections by SEBI.

The mutual funds are registered and regulated under the SEBI (MF) regulations, 1996. These regulations deal with Procedure to get registered as a mutual fund, Offer document for schemes, Conversion and consolidation of schemes and launch of Additional plan, New products, Risk management system, Disclosures & reporting norms, Governance norms, Secondary market issues, Net asset value, Valuation, Loads, fees and expenses, Dividend distribution procedure, Investment by schemes, Advertisements, Investor rights & obligations, Certification and registration of intermediaries and Transaction in mutual funds units. SEBI regulates structure, market and investor-related activities of mutual funds. Issues concerning the ownership of the AMCs by banks fall under the regulatory framework of the RBI.

(A) PROCEDURE TO GET REGISTERED AS A MUTUAL FUND

A mutual fund is set up in the form of a trust, which has sponsor, trustees, Asset Management Company (AMC) and custodian. The trust is established by a sponsor or more than one sponsor who is like promoter of a company. The trustees of the mutual fund hold its property for the benefit of the unit holders. Asset Management Company (AMC) approved by SEBI manages the funds by making investments in various types of securities. Custodian, who is registered with SEBI, holds the securities of various schemes of the fund in its custody. The trustees are vested with the general power of superintendence and direction over AMC. They monitor the performance and compliance of SEBI Regulations by the mutual fund.

SEBI Regulations require that at least two thirds of the directors of trustee company or board of trustees must be independent i.e. they should not be associated with the sponsors. Also, 50% of the directors of AMC must be independent. All mutual funds are required to be registered with SEBI before they launch any scheme.

SEBI will guide the applicant step by step after getting application for registration as a mutual fund. Normally, all replies are sent within 21 working days from the date of getting each communication from the applicant during the process of registration. Thus, the total time period for registration depends on how fast the requirements are compiled with by the applicant.

The detailed procedure is explained below:

- **Main requirements under SEBI (Mutual Funds) Regulations, 1996:**

For the purpose of grant of a certificate of registration, the applicant has to fulfill the following, namely:-

a) The sponsor should have a sound track record and general reputation of fairness and integrity in all his business transactions and the applicant is a fit and proper person.

b) In the case of an existing mutual fund, such fund is in the form of a trust and the trust deed has been approved by the Board.

c) The sponsor has contributed or contributes at least 40% to the net worth of the asset management company.

d) The sponsor or any of its directors or the principle officer to be employed by the mutual fund should not have been guilty of fraud or has not been convicted of an offence involving moral turpitude or has not been found guilty of any economic offence.

e) Appointment of trustees to act as trustees for the mutual fund in accordance with the provisions of the regulations.

f) Appointment of Asset Management Company to manage the mutual fund and operate the scheme of such funds in accordance with the provisions of these regulations.

g) Appointment of a custodian in order to keep custody of the securities and carry out the custodian activities as may be authorized by the trustees.

(B) OFFER DOCUMENT FOR SCHEMES

- **Filing of Offer Document with the Board**

The Offer Document has two parts i.e. Scheme Information Document (SID) and Statement of Additional Information (SAI). SID is required to incorporate all information pertaining to a particular scheme. SAI is required to incorporate all statutory information on Mutual Fund.

The Mutual Funds is required to prepare SID and SAI in the prescribed formats. Contents of SID and SAI are required to follow the same sequence as prescribed in the format. The Board of the AMC and the Trustee(s) have to exercise necessary due diligence, ensuring that the SID/SAI and the fees paid are in conformity with the Mutual Funds Regulations.

All offer documents (ODs) of Mutual Fund schemes are required to be filed with SEBI in terms of the Regulations.

- **Validity of SEBI Observations on SID**

The AMCs is required to file their replies to the modifications suggested by SEBI on SID as required under Regulation, if any, within six months from the date of the letter. In case of lapse of six-month period, the AMC is required to refile the SID along with filing fees.

- **Undertaking from Trustees for new Scheme**

In the certificate submitted by Trustees with regard to compliance of AMC with Regulations, the Trustees are required to certify as follows:

"The Trustees have ensured that the (name of the scheme/Fund) approved by them is a new product offered by (name of the Mutual Fund) and is not a minor modification of any existing scheme/fund/product."

This certification is to be disclosed in the SID along with the date of approval of the scheme by the Trustees. This certification is not applicable to close ended schemes except for those close ended schemes which have the option of conversion into open ended schemes on maturity.

- **Standard Observations**

Standard Observations have been prescribed to ensure minimum level of disclosures in the SID and SAI. SEBI may revise the Standard Observations from time to time and in that case the date of revision is to be mentioned. While filing the SID and SAI, AMC is required to highlight and clearly mention the page number of the SAI and SID on which each standard observation has been incorporated.

- **KIM (Key Information Memorandum)**

Application forms for schemes of mutual funds are required to accompany by the KIM in terms of Regulation. KIM is required to print at least in 7 point font size with proper spacing for easy readability. KIM is required to update at least once a year and is required to filed with SEBI. In case of changes in the SID other than changes in fundamental attribute, the addendum circulated to all the distributors/brokers/investor Service Centre (ISC) is required to attach to KIM till the KIM is updated. In case any information in SID is amended more than once, the latest applicable addendum is required to a part of KIM.

- **Easy Availability of Offer Document**

Trustees and AMCs is required to ensure that the SID of the schemes and SAI are readily available with all the distributors/ISCs and confirm the same to SEBI in the half yearly trustee report.

- **New Fund Offer (NFO) Period**

In case of open ended schemes, the NFO should be open for 30 days. The scheme should open for ongoing sales and repurchases within 30 days from the closure of the NFO of the scheme.

(C) CONVERSION AND CONSOLIDATION OF SCHEMES AND LAUNCH OF ADDITIONAL PLAN

- **Conversion of Schemes**

Conversion of Close Ended Scheme(s) to Open Ended Scheme(s)

Since the scheme(s) would reopen for fresh subscriptions, disclosures contained in the SID are required to revise and updated. A copy of the draft SID is required to file with the Board along with filing fees prescribed under the Mutual Funds Regulations. A draft of the communication to be sent to unit holders is required to submit to the Board.

The letter to unit holders and revised SID (if any) is required to issue only after the final observations as communicated by the Board in terms of Regulation 29(3) of the Mutual Funds Regulations have been incorporated therein and final copies of the same have been filed with the Board.

Unit holders are required to give at least 30 days to exercise exit option. During this period, the unit holders who opt to redeem their holdings in part or in full is required to allow to exit at the NAV applicable for the day on which the request is received, without charging exit load.

- **Consolidation of schemes**

Any consolidation or merger of Mutual Fund schemes is required to treated as a change in the fundamental attributes of the related schemes and Mutual Funds is required to comply with the Mutual Funds Regulations in this regard.

Further, in order to ensure that all important disclosures are made to the investors of the schemes sought to be consolidated or merged and their interests are protected; Mutual Funds is required to take the following steps:

1. Approval by the Board of the AMC and Trustee(s)
2. Disclosures
3. Updation of SID is required as per the requirements for change in fundamental attribute of the scheme.
4. Maintenance of Records

AMC(s) is required to maintain records of dispatch of the letters to the unit holders and the responses received from them. A report giving information on total number of unit holders in the schemes and their net assets, number of unit holders who opted to exit and net assets held by them and number of unit holders and net assets in the consolidated scheme is required to filed with the Board within 21 days from the date of closure of the exit option.

- **Launch of additional plans**

Additional plans sought to be launched under existing open ended schemes which differ substantially from that scheme in terms of portfolio or other characteristics is required to launched as separate schemes in accordance with the regulatory provisions.

However, plan(s) which are consistent with the characteristics of the scheme may be launched as additional plans as part of existing schemes by issuing an addendum. Such proposal should be approved by the Board(s) of AMC and Trustees.

(D) NEW PRODUCTS

- **Fund of Funds Scheme**

The SID and the advertisements pertaining to Fund of Funds Scheme is required to disclose that the investors are bearing the recurring expenses of the scheme, in addition to the expenses of other schemes in which the Fund of Funds Scheme makes investments.

- **Gold Exchange Traded Fund Scheme**

A Gold Exchange Traded Fund (GETF) Scheme is required to invest primarily in Gold and Gold related instruments. However investments in gold related instruments is required to done only after such instruments are specified by the Board.

Gold is required to value based on the methodology provided in Mutual Funds Regulations.

- **Capital Protection Oriented Scheme**

The SID, KIM and advertisements pertaining to Capital Protection Oriented Scheme is required to disclose that the scheme is "oriented towards protection of capital" and not "with guaranteed returns." It is required to also indicated that the orientation towards protection of capital originates from the portfolio structure of the scheme and not from any bank guarantee, insurance cover *etc.*

- **Real Estate Mutual Funds**

A real estate mutual fund scheme can invest in real estate assets in the cities mentioned in: List of Million Plus Urban Agglomerations/Cities or List of Million Plus Cities. Such list appears in Census Statistics of India (2001) at www.censusindia.gov.in.

(E) RISK MANAGEMENT SYSTEM

An Operating Manual for Risk Management has been developed to ensure minimum standards of due diligence and Risk Management Systems for all the Mutual Funds in various operational areas (Fund Management, Operations, Customer Service, Marketing and Distribution, Disaster Recovery and Business Contingency, *etc.*).

- The Risk Management practices covered in the Operating Manual are under three categories as detailed below:

Existing Industry Practices:

Under each head of risk, the Manual covers the exemplary practices followed by some / most of Mutual Funds in India. However, the extent and degree of observance of these practices differs among the Mutual Funds. Mutual Funds accordingly develop their systems and follow these practices.

Practices to be followed on Mandatory Basis:

Mutual Funds is required to follow the practices which have been indicated as mandatory in the operating manual. These are Risk Management function that is required to assigned to Compliance Officer or Internal Risk Management Committee or to an external agency

a. Disaster Recovery and Business Contingency plans, and

b. Insurance cover against certain risks.

Best Practices to be followed by Mutual Funds:

Mutual Funds are required to adopt these practices as a part of their due diligence exercise after considering the size of their operations.

- **Implementation of the Risk Management System**

Mutual Funds are required to adopt the following approach to implement the Risk Management System:

a. Identification of observance of each recommendation

b. Review of Progress of implementation by Board of AMC and Trustee(s)

c. Review by Internal Auditors

(F) DISCLOSURES & REPORTING NORMS

DISCLOSURES

- **Half Yearly disclosure of Portfolios**

Mutual Funds is required to send a complete statement of Scheme Portfolio to the unit holders and it is also required to be disclosed on the Mutual Funds' web sites before the expiry of one month from the closure of each Half Year (i.e. March 31 and September 30), if such statement is not published by way of advertisement and a copy of the same is filed with the Board along with the Half Yearly Results.

- **Unaudited Half Yearly Financials**

The publication of the unaudited half-yearly results in news paper and websites is made in the format prescribed in Twelfth Schedule in line with provisions of the Regulations.

The half yearly results must be published before the expiry of one month from the close of each half year. Copies of the advertisements carrying the results must be filed with SEBI within 7 days from the date of publication.

- **Abridged Scheme-wise Annual Report Format**

The Abridged Scheme-wise Annual Report may be mailed to the investors' e-mail address if so mandated by the investor and the Scheme wise Annual Report is required to display on the website of the mutual fund. These websites are required to link with AMFI website so that the investors and analyst(s) can access the annual reports of all mutual funds at one place. However, as per the Regulations, a copy of Scheme wise Annual Report is required to made available to unit holder(s) on payment of nominal fees.

- **Disclosure of large unit holdings**

The number of investors holding over 25 % of the NAV in a scheme and their total holdings in percentage terms is required to disclose in the Statement of Accounts issued after the NFO and also in the Half Yearly and Annual Results.

- **Portfolio disclosure for debt oriented close-ended and interval schemes/plans**

AMCs are required to disclose the portfolio of such schemes in the prescribed format on a monthly basis on their respective websites.

- **Annual report of the AMC**

Annual report containing accounts of the asset management companies is required to display on the website of the mutual funds. It is required to mention in the annual report of the mutual fund schemes that the unit holders, if they so desire, may request for a copy of the annual report of the asset management company.

- **Submission of bio data of key personnel**

AMCs are required to submit the bio data of all key personnel to Trustees and the Board. For this purpose, 'key personnel' would be the Chief Executive Officer (CEO), fund manager(s), dealer(s) & heads of other departments of the AMC.

REPORTS

- **Monthly Cumulative Report (MCR)**

MCR is required to submit to the Board by 3rd of each month by way of an email. Hard copy should also be sent by hand delivery/courier. Details of the new schemes launched are required to report in the MCR for the month in which the allotment is done. Further, additional report on overseas investment by Mutual Funds in

ADRs/GDRs, foreign securities and overseas exchange traded funds (ETFs) is required to also provide as per the prescribed format. Compliance officers of all the Mutual Funds are advised to take due care while forwarding the MCR data to SEBI. Compliance Officers is required to confirm that the data forwarded is correct and does not require any revision.

- **New Scheme Report (NSR)**

All Mutual Funds is required to submit the NSR to SEBI complete in all respects within 10 working days from the date of allotment in the prescribed format.

- **Bi–monthly Compliance Test Reports**

AMCs' is required to do exception reporting on a bi-monthly basis. AMCs' are required to report only exceptions in the CTR to SEBI, i.e. AMCs' report for only those points in the CTR where they have not complied with the same. This exception report is required to also place before the Trustee(s). The CTRs is required to submit by the AMC to the Board once in every two months so as to reach within 21 days of completion of the two months period. As a compliance of SEBI Regulations is a continuous process, AMCs are advised to incorporate the modifications/additions under the relevant sections of the format, based on amendments to the Regulations/guidelines issued in the future from time to time.

- **Annual Statistical Report (ASR)**

AMC is required to submit the annual statistical report to SEBI in the prescribed format by 30th of April each year.

- **Daily Transaction Report**

All Mutual Funds are required to submit details of transactions in secondary market on daily basis in the prescribed format. Accordingly, Mutual Funds are advised to make necessary arrangements with their custodians for the submission of reports on a daily basis. The report is to be submitted to the Board in both hard as well as soft copy. It is required to ensure by the compliance officers of the custodians as well as that of Mutual Funds that the information submitted is correct and reaches the Board by 3.00 p.m. on the following working day (T+1).

- **Filing of Annual Information Return by Mutual Funds**

Mutual Funds are required to submit the Annual Information Return under section 285 BA in the Income-tax Act. As per this requirement, Trustees of Mutual Funds or such other person managing the affairs of the Mutual Funds have to report specified financial transactions in electronic media to Income Tax Department giving PAN of the transacting parties in an Annual Information Return (AIR).

(G) GOVERNANCE NORMS

FUND GOVERNANCE

- **Formation of Audit and Valuation Committees by the Trustees and/or AMC**

Audit Committee

Trustees constitute is required to an audit committee, comprising of the Trustees and chaired by an Independent Trustee to review the internal audit systems and recommendations of the internal and statutory audit reports and ensure that the rectifications as suggested by internal and external auditors are acted upon.

Valuation Committee

The AMC constitute an in-house valuation committee consisting of senior executives including personnel from accounts, fund management *and* compliance departments. This committee is required to, on a regular basis review the systems and practices of valuation of securities.

- **Review and Reporting of Transactions**

Reporting of transactions

Directors of the AMC are required to file with the trustees on a quarterly basis details of transactions in securities exceeding Rs. 1 lakh. Trustees are required to report to Mutual Funds only those transactions in securities that exceed Rs. 1 lakh in value.

Review of transactions

Trustees are required to review all transactions of the Mutual Fund with the associates on a regular basis and ensure that Regulations are complied with.

- **Investment and/or for / Trading in Securities by the employees of the AMC(s) and Trustee(s)**

The Board of the AMC and Trustees is required to ensure compliance with Guidelines on a continuous basis and is required to report any violations and remedial action taken by them in the periodical reports submitted to the Board.

- **Investments in Shares and/or Debentures and/or Bonds and/or Warrants and/or Derivatives –**

Investments in securities are classified into investments through (a) primary markets and (b) secondary markets

Investments through the primary markets:

a. An employee including access person is permitted to apply to a public issue of shares and/or debentures and/or bonds and/or warrants of any company, as long as the application is made in the normal course of the public issue. Such an application may be made without seeking the clearance from the Compliance Officer. Employees of AMC(s) and Trustees are prohibited from applying in any reserved quota such as promoters' quota, employees' quota *etc*. Employees do not require participating in any private placement of equity by any company.

b. Notwithstanding anything stated in (a) above, an employee of an AMC(s) and/or Trustees may apply for shares and/or debentures and/or bonds and/or warrants in a preferential offer, in cases where such a preferential offer is being made by a company that belongs to the same industrial group as the company in which the employee already has an investment, provided that such a preferential offer is made to all shareholders and/or debenture holders of such companies. Details of such applications made are required to intimate to the Compliance Officer.

c. The employees of the AMC(s) and/or Trustees including access person may apply for any rights offer of any company in which they are already shareholders. Applications for additional rights (over and above the normal rights entitlement) shares may be made by the employees including access person without getting the clearance from the Compliance Officer. An employee including access person may also sell and/or renounce his rights entitlement without getting the clearance from the Compliance Officer. However, if an access person wishes to purchase the "Rights renunciations" he is required to get the clearance of the Compliance Officer for the same. Such purchases are required to done only at market prices. Details of any applications made in any rights issue, whether in the normal course, or through purchase of rights renunciations, are required to intimate to the Compliance Officer.

Investments through the secondary markets:

a. An access person who wishes to make a secondary market transaction is required to submit a written application to that effect to the Compliance Officer. Such an application is required to specify the name of the company whose securities the employee wishes to buy and/or sell, type of security, and the number of shares and/or debentures and/or bonds and/or warrants and/or derivatives that the access person wishes to buy/sell.

b. The Compliance Officer is required to clear these requests if the following conditions are met:

1. If the shares and/or debentures and/or bonds and/or warrants of the company or derivatives specified by the access person are not held by any scheme of the Mutual Fund of which the AMC is the investment manager;
2. If such shares and/or debentures and/or bonds and/or warrants of the company or derivatives specified by the employee are held by any scheme of the Mutual Fund of which the AMC is the investment manager, there should be a "cooling off" period of 15 calendar days. The Compliance Officer is required to ensure that the last transaction in that particular security was done by the Mutual Fund at least 15 calendar days prior to the date of the written application by the access person. In other words, an application for a purchase /sale transaction on a personal basis would be cleared only if the Mutual Fund has not transacted in that particular security for at least 15 calendar days.

c. The Compliance Officer is required to keep a track of the transactions of the employees and transactions of the Mutual Fund to ensure that there is no conflict of interest between them i.e. the Compliance Officer should track whether the Mutual Fund has transacted in the same securities either before or after the employee's transaction(s).

d. The Compliance Officer is required to maintain a record of all requests for pre clearance regarding the purchase or sale of a security, including the date of the request, the name of the access person, the details of the proposed transaction and whether the request was approved or denied and waivers given, if any, and its reasons.

e. No employee is required to purchase any security (including derivatives) on a "Carry Forward" basis or indulge in "Short Sale" of any security (including derivatives) i.e. employees who effect any purchase transaction(s) is required to ensure that they take delivery of the securities purchased, before selling them.

f. Any transaction of Front Running by any employee directly or indirectly is strictly prohibited. For this purpose, "Front Running" means any transaction of purchase and/or sale of a security carried by any employee whether for self or for any other person, knowing fully well that the AMC also intends to purchase and/or sell the same security for its Mutual Fund operations. To ascertain that the employee had no prior knowledge of the Mutual Fund's intended transactions, the Compliance

Officer may take a declaration in this regard from the employee. Such declaration may be included in the application form itself.

g. Any transaction of self dealing by any employee either directly or indirectly, whether alone or in concert with another person is prohibited. For this purpose, "Self Dealing' means trading in the securities based on price sensitive information to which the employee has access by virtue of his office. Declaration to this effect may be taken from the employee while clearing the proposals for investment.

h. The employees is required to not insist or suggest to the concerned brokers to charge reduced brokerage, or accept any contract with a clause on reduced brokerage charge.

- **Investments in units of Mutual Fund Schemes**

1. Access persons as well as other employees do not require prior permission of the Compliance Officer for purchase or sale of units of Mutual Fund schemes. However, details of each such transaction, excluding transactions in Money Market Mutual Fund schemes is required to report by them to the Compliance Officer within 7 calendar days from the date of transaction.

2. In case of investments in SIP of any Mutual Fund scheme, the employees may report only at the time of making the first installment of the SIP.

3. Notwithstanding anything mentioned earlier, in the following cases employees of AMC & Trustees are not required to purchase or sell /or repurchase or redeem units of any scheme, including Money Market Mutual Fund scheme of their Mutual Fund:

a. There is a likelihood of a change in the investment objectives of the concerned Mutual Fund Scheme(s) and this has not been communicated to the investors;

b. There is a likelihood of a rights and/or bonus issue in the concerned Mutual Fund Scheme(s) and this has not been communicated to the investors;

c. The concerned Mutual Fund Scheme is contemplating to issue dividend to the unit holders and this has not been communicated to the investors;

d. There is a likelihood of a change in the accounting policy, or a significant change in the valuation of any asset, or class of assets and the same has not been communicated to the investors;

e. There is a likelihood of conversion of a close ended scheme to an open ended scheme and vice versa and this has not been communicated to the investors.

- **Applicability of Insider Trading Regulations**

Securities and Exchange Board of India (Insider Trading) (Amendment) Regulations, 2002 is required to follow strictly by the trustee companies, asset management companies and their employees and directors.

SCHEME GOVERNANCE

- **Minimum Number of investors**

Applicability for an open-ended scheme

The Scheme/Plan is required to have a minimum of 20 investors and no single investor is required to account for more than 25% of the corpus of the Scheme/Plan(s).

If either/both of such limit(s) is breached during the NFO of the Scheme, it is required to ensure that within a period of three months or the end of the succeeding calendar quarter from the close of the NFO of the Scheme, whichever is earlier, the Scheme complies with these two conditions.

In case the Scheme / Plan(s) does not have a minimum of 20 investors in the stipulated period, the provisions of Regulation would become applicable automatically without any reference from SEBI and accordingly the Scheme / Plan(s) is required to wound up and the units would be redeemed at applicable NAV.

If there is a breach of the 25% limit by any investor over the quarter, a rebalancing period of one month would be allowed and thereafter the investor who is in breach of the rule is required to give 15 days notice to redeem his exposure over the 25 % limit. Failure on the part of the said investor to redeem his exposure over the 25 % limit within the aforesaid 15 days would lead to automatic redemption by the Mutual Fund on the applicable Net Asset Value on the 15th day of the notice period.

The two conditions mentioned above are required to also be complied within each subsequent calendar quarter thereafter, on an average basis, as specified by SEBI.

The Fund is required to adhere to the requirements prescribed by SEBI from time to time in this regard.

Applicability for a Close ended scheme/Interval scheme

The Scheme(s) and individual Plan(s) under the Scheme(s) is required to have a minimum of 20 investors and no single investor is required to account for more than 25% of the corpus of the Scheme(s)/Plan(s). These conditions will be complied with immediately after the close of the NFO itself i.e. at the time of allotment.

In case of non-fulfillment with the condition of minimum 20 investors, the Scheme(s)/Plan(s) are required to wound up in accordance with Regulation119 automatically without any reference from SEBI.

In case of non-fulfillment with the condition of 25% holding by a single investor on the date of allotment, the application to the extent of exposure in excess of the stipulated 25% limit would be liable to be rejected and the allotment would be effective only to the extent of 25% of the corpus collected. Consequently, such exposure over 25% limits will lead to refund within 6 weeks of the date of closure of the New Fund Offer.

For interval scheme the aforesaid provision will be applicable at the end of NFO and specified transaction period.

Requisite disclosure in this regard is required to be made in the SID.

Determination of breach:

The average is required to calculate, at the end of each quarter, on the basis of number of investors at the end of the business hours of the scheme on a daily basis.

To determine breach of 25% holding limit by an investor, net assets under the scheme is required to calculated daily and the daily holding limit is required to determine accordingly. At the end of the quarter, average daily holding by each investor is required to calculate and any breach of the 25% holding limit will be accordingly determined.

Applicability

These Guidelines are applicable at the Portfolio level and these Guidelines are not applicable to Exchange Traded Funds (ETFs).

Redemptions

Redemptions affected pursuant to these Guidelines are required to complete within 10 days from the day of winding up of the scheme(s) and/or plan(s).

Reporting to the Board

Compliance with these Guidelines is required to report in Compliance Test Reports (CTRs) and Half Yearly Trustee Reports.

Scheme Performance Review

AMCs and Trustees is required to review the performance of their schemes on periodic basis. Such review can take place by comparing the performance of the schemes with benchmark indices as well as in light of the performance of the entire Mutual Funds industry by relying on data published from time to time by independent research agencies and financial newspapers and journals. Corrective action if required may be taken in case of unsatisfactory performance. Its compliance should be reported in the bimonthly CTRs of AMCs and half-yearly reports of the Trustees to SEBI (while reporting compliance of Regulation 25(2) on exercise of due diligence in investment decisions).

(H) SECONDARY MARKET ISSUES

Non Applicability of Listing Deposit

The requirement of collecting listing deposit is not applicable to Mutual Fund schemes seeking listing on the Stock Exchanges.

Payment of Margins

The applicable margins is required to pay as per the guidelines issued by SEBI and as directed by stock exchanges from time to time.

Unique Client Codes

Mutual Funds are not permitted to operate in the securities market without furnishing a valid Unique Client Code (UCC). Mutual Funds are required to obtain UCC from the Bombay Stock Exchange Ltd. (BSE) or The National Stock Exchange Ltd. (NSE) whenever a new scheme(s) or plan(s) (wherever the portfolio of the plans is different) is launched.

Trading in Exchange Traded Derivatives Contracts

For trading in Exchange Traded Derivatives Contracts, following should be observed: Mutual Fund schemes can participate in derivatives market as per the guidelines issued by SEBI in this regard from time to time. The Mutual Funds are treated at par with a registered FII in respect of position limits in index futures, index options, stock options and stock futures contracts. Appropriate disclosures is to be made in the offer document regarding the extent and manner of participation of the schemes of the Mutual Funds in derivatives and the risk factors, which should be explained by suitable numerical examples.

Trading in Interest Rate Derivatives

Mutual Fund schemes are permitted to undertake transactions in Forward Rate Agreements and Interest Rate Swaps with banks, PDs & FIs as per applicable RBI Guidelines, mutual funds can also trade in interest rate derivatives through the Stock Exchanges subject to requisite disclosures in the SID.

Transactions of mutual funds in Government Securities in dematerialized form

According to Regulation, the Mutual Funds having an aggregate of securities worth Rs. 10 crore or more are required to settle their transactions only through dematerialized securities. All Mutual Funds should enter into transactions relating to government securities only in dematerialized form.

(I) NET ASSET VALUE

- **Disclosure of Net Asset Value**

The NAV of schemes is to be published on a daily basis by the Mutual Funds at least in two daily newspapers. NAV and sale/repurchase price of all Mutual Fund schemes except for Fund of Fund Schemes is to be updated on AMFI's website and the Mutual Funds' websites by 9 p.m. of the same day. Fund of Fund Schemes is required to have an extended time up to 10 a.m. the following business day in this regard and the NAVs is required to publish in newspapers with an asterisk to indicate the one day time lag/or the actual time lag. Delay beyond 10 a.m. of the following business day in case of Fund of Fund schemes and 9 p.m. on the same day for all other schemes is required to explain in writing to AMFI and the Board and is also required to report in the CTR(s) in terms of number of days of non adherence of time limit for uploading NAV on AMFI's website and the reasons for the same. Corrective steps taken by AMC to reduce the number of occurrences are required to also be disclosed. In case the NAVs are not available before the commencement of business hours on the following day due to any reason, Mutual Funds is required to issue a press release giving reasons for the delay and explain when they would be able to publish the NAVs.

- **Rounding off NAVs**

To ensure uniformity, Mutual Funds are required to round off NAV up to four decimal places for index funds and all types of debt & liquid/money market schemes. For all equity oriented and balanced fund schemes, Mutual Funds is required to round off NAVs up to two decimal places. However, Mutual Funds can round off the NAVs up to more than two decimal places in case of equity oriented and balanced fund schemes also, if they so desire. Relevant disclosure in this regard is required to make in the SID/SAI.

- **Uniformity in calculation of sale and repurchase price**

The following method is being prescribed

To streamline the calculation of sale and repurchase price of mutual fund units, to avoid variation in the amounts payable to investors and/or number of units allotted to them, and to make the calculations more comprehensible to the investors.

Exit loads are required to charge as a percentage of the NAV i.e. applicable load as a percentage of NAV will be subtracted from the NAV to calculate the repurchase price.

The formula for the same is as follows:

Sale Price = Applicable NAV

Repurchase Price = Applicable NAV *(1 – Exit Load, if any)

(J) VALUATION

- **Valuation of Securities**

Traded Securities:

When a security (other than debt securities) is not traded on any Stock Exchange on a particular valuation day, the value at which it was traded on the selected Stock Exchange, as the case may be, on the earliest previous day may be used provided such date is not more than thirty days prior to valuation date. When a debt security (other than Government Securities) is not traded on any Stock Exchange on any particular valuation day, the value at which it was traded on the principal Stock Exchange or any other Stock Exchange, as the case may be, on the earliest previous day may be used provided such date is not more than fifteen days prior to valuation date. When a debt security (other than Government Securities) is purchased by way of private placement, the value at which it was bought may be used for a period of fifteen days beginning from the date of purchase.

Non-Traded /and/or Thinly Traded Securities:

AMCs are required to value non traded and/or thinly traded securities "in good faith" based on the Valuation norms prescribed below:

Non-traded/ and/or thinly traded equity securities:

Based on the latest available Balance Sheet, Net Worth is required to calculate as follows:

a. Net Worth per share = [Share Capital+ Reserves (excluding Revaluation Reserves) – Miscellaneous expenditure and Debit Balance in Profit and Loss Account] / Number of Paid up Shares.

b. Average Capitalization rate (P/E ratio) for the industry based upon either BSE or NSE data (which is required to follow consistently and changes, if any, noted with proper justification thereof) is required to take and discounted by 75 per cent i.e. only 25 per cent. Of the industry average P/E is required to take as Capitalization rate (P/E ratio). Earnings per share (EPS) of the latest audited annual accounts are required to consider for this purpose.

c. The value as per the Net Worth value per share and the capital earning value calculated as above is required to average and further discounted by 10 per cent. For illiquidity so as to arrive at the fair value per share.

d. In case the EPS is negative, EPS value for that year is required to take as zero for arriving at capitalized earning.

e. In case where the latest Balance Sheet of the company is not available within nine months from the close of the year, unless the accounting year is changed, the shares of such companies is required to value at zero.

f. In case an individual security accounts for more than 5 per cent. Of the total assets of the scheme, an independent valuer is required to appoint for the valuation of the said security. To determine if a security accounts for more than 5 per cent. Of the total assets of the scheme, it is required to value by the procedure above and the proportion which it bears to the total net assets of the scheme to which it belongs will be compared on the date of valuation.

g. In case trading in an equity security is suspended up to thirty days, then the last traded price is required to consider for valuation of that security. If an equity security is suspended for more than thirty days, then the AMC(s) or Trustees is required to decide the valuation norms to be followed and such norms is required to document and record.

Non traded/thinly Traded Debt security

A thinly traded debt security as defined above is required to value as per the norms for non traded debt security.

a. Non Traded/ Thinly Traded Debt Securities of up to 182 Days to Maturity:

1. As the Money Market securities are valued on the basis of amortization (cost + accrued interest till the beginning of the day + the difference between the redemption value and the cost spread uniformly over the remaining maturity period of the instruments) a similar process should be adopted for non-traded debt securities with residual maturity of up to 182 days, in the absence of any other standard benchmarks in the market.

2. Debt securities purchased with residual maturity of up to 182 days are to be valued at cost (including accrued interest till the beginning of the day) plus the difference between the redemption value (inclusive of interest) and cost spread uniformly over the remaining maturity period of the instrument. In case of a debt security with maturity greater than 182 days at the time of purchase, the last valuation price plus accrued interest should be used instead of purchase cost. All other non traded Non Government debt instruments is required to value using the method suggested below in (b) hereof.

b. Non Traded/ Thinly Traded Debt Securities of over 182 Days to Maturity:

1. For the purpose of valuation, all non-traded Debt Securities would be classified as "Investment grade" and "Non Investment grade" securities based on their credit ratings. Non investment grade securities would further be classified as "Performing" and "Non Performing" assets.

2. The approach in valuation of non traded debt securities is based on the concept of using spreads over the benchmark rate to arrive at the yields for pricing the non traded security.

3. The Yields for pricing the non traded debt security would be arrived at using the process as defined below.

Step 1: A Risk Free Benchmark Yield is built using the government securities as the base. Government securities are used as the benchmarks as they are traded regularly; free of credit risk; and traded across different maturity spectrums every week.

Step 2: A Matrix of spreads (based on the credit risk) are built for marking up the benchmark yields. The matrix is built based on traded corporate paper on the wholesale debt segment of an appropriate stock exchange and the primary market issuances. The matrix is restricted only to investment grade corporate paper.

Step 3: The yields as calculated above are Marked-up/Marked-down for ill-liquidity risk

Step 4: The Yields so arrived are used to price the portfolio

- **Valuation of securities with Put/Call Options:**

The option embedded securities would be valued as follows:

Category Discretionary discount

Unrated instruments with duration up to 2 years Discretionary discount of up to +50 bps over and above mandatory discount of +50 bps Unrated instruments with duration over 2 years Discretionary discount of up to +50 bps over and above mandatory discount of +25 bps.

Securities with call option

The securities with call option are required to value at the lower of the value as obtained by valuing the security to final maturity and valuing the security to call option. In case there are multiple call options, the lowest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instrument.

Securities with Put option

The securities with put option are required to value at the higher of the value as obtained by valuing the security to final maturity and valuing the security to put option. In case there are multiple put options, the highest value obtained by valuing to the various put dates and valuing to the maturity date is to be taken as the value of the instruments.

Securities with both Put and Call option on the same day

The securities with both Put and Call option on the same day would be deemed to mature on the Put/Call day and would be valued accordingly.

- **Valuation of Government Securities**

Government securities are required to value at prices for government securities released by an agency suggested by AMFI to ensure uniformity in calculation of NAVs.

- **Illiquid Securities**

Provided that in case any scheme has illiquid securities in excess of 15% of total assets as on September 30, 2000 then such a scheme is required to within a period of two 80 Master Circular for Mutual Funds Aggregate value of "illiquid securities" under a scheme, which are defined as non-traded, thinly traded and unlisted equity shares, is not required to exceed 15 per cent of the total assets of the scheme and any illiquid securities held above 15 per cent of the total assets is required to assign zero value.

All Mutual Funds is required to disclose as on March 31 and September 30 the scheme wise total illiquid securities in value and percentage of the net assets while disclosing Half Yearly Portfolios to the unit holders. In the list of investments, an asterisk mark is required to give against all such investments which are recognized as illiquid securities.

(K) LOADS, FEES AND EXPENSES

- **Limits on fees and expenses charged to schemes**

Mutual Funds may charge certain expenses to a scheme, as specified under Regulations. Apart from the these expenses, any other expense as may be approved by SEBI under clause (xiii) of Sub Regulation 52(4) can also be charged to the Mutual Fund schemes. Other expenses directly attributable to a scheme may be charged with the approval of trustees within the overall limits as provided in the Regulation 52(6).

The following expenses cannot be charged to the schemes of Mutual Funds:

Penalties and fines for infraction of laws, Interest on delayed payment to the unit holders, Legal, marketing, publication and other general expenses not attributable to any scheme(s), Fund Accounting Fees, Expenses on investment management/general management, Expenses on general administration, corporate advertising and infrastructure costs, Depreciation on fixed assets and software development expenses and Such other costs as may be prohibited by the Board.

The expenditure and/or fee payable by Mutual Funds to the Depositories may either be capitalized or included as part of recurring expenditure within the limits prescribed under Regulation 52(6) of the Mutual Funds Regulations.

Further, each item of expenditure accounting for more than 10% of total expenditure is required to disclose in the accounts or the notes thereto of the schemes.

- **Restriction on paying brokerage or commission**

In case of investments made by the Sponsor(s), no brokerage or commission is required to pay.

- **Restriction on charging Service Tax**

AMC(s) can charge Service Tax, as per applicable Taxation Laws, to the scheme(s) within the limits prescribed under Regulations

- **No Load on Bonus Units and Units allotted on Reinvestment of Dividend**

AMC(s) are not required to charge entry and/or exit load on bonus units and units allotted on reinvestment of dividend.

- **Filing fees**

Revised filing fee as per the amendment would be applicable to those scheme(s) whose SID has been filed with SEBI on or after July 01, 2009

- **Exit load parity**

While charging exit loads, no distinction among unit holders should be made based on the amount of subscription.

(L) DIVIDEND DISTRIBUTION PROCEDURE

Regulations permit Mutual Funds to distribute returns including dividend. To introduce uniform practices in dividend distribution, the following guidelines should be followed:

These guidelines are applicable to all Mutual Fund schemes/plans which intend to declare the dividend irrespective of their dates of launch.

- **Unlisted Scheme(s)/ Plan(s)**

The Trustees are required to decide the quantum of dividend and the record date in their meeting. Dividend so decided, is required to pay, subject to availability of distributable surplus.

Record date is the date which will be considered for the purpose of determining the eligibility of investors whose names appear on the register of unit holders for receiving dividends.

Within one calendar day of the decision of the Trustees with respect to the dividend to be distributed, the AMC(s) is required to issue a notice to the public communicating the decision including the record date. The record date is required to five calendar days from the issue of public notice.

Before the issue of such notice, no communication whatsoever indicating the probable date of dividend declaration is issued by any Mutual Fund or its distributors of its products.

Such notice is required to give in at least one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the head office of the Mutual Fund is situated.

The notice is required to, in font size 10, bold, categorically state that pursuant to dividend distribution, NAV of the scheme would fall to the extent of payout and statutory levy (if applicable).

Liquid / Debt Schemes with frequent dividend distribution

The requirement of giving notice is not mandatory for scheme(s)/ plan(s)/ option(s) with dividend distribution frequency ranging from daily up to monthly distribution if requisite disclosures in this regard are made in the SID.

Listed Schemes/Plans

Listed scheme(s)/ plan(s) is required to follow the requirements stipulated in the Listing Agreement for dividend declaration and distribution.

(M) INVESTMENT BY SCHEMES

Investments by Index Funds:

Investments by index funds are required to in accordance with the weightage of the scrips in the specific index as disclosed in the SID. In case of sector or industry specific scheme, the upper ceiling on investments may be in accordance with the weightage of the scrips in the representative sectoral index or sub index as disclosed in the SID or 10% of the NAV of the scheme, whichever is higher.

Investments by Liquid Schemes and plans

The 'liquid fund schemes and plans' is required to make investment in /purchase debt and money market securities with maturity of up to 91 days only. This is also applicable in case of inter scheme transfer of securities

Investments by close ended debt schemes:

Close ended debt schemes are required to invest only in such securities which mature on or before the date of the maturity of the scheme.

Stock Lending Scheme

The following guidelines are issued to facilitate lending of securities by Mutual Funds through intermediaries approved by the Board in accordance with the Stock Lending & Borrowing Scheme.

Investments in Units of Venture Capital Funds

Mutual Fund schemes can invest in listed or unlisted securities or units of Venture Capital Funds within the prescribed investment limits as applicable.

- **Overseas Investment**

Applicable limits:

Aggregate ceiling for overseas investments is US $ 7 billion and within this overall limit, Mutual Funds can make overseas investments subject to a maximum of US $ 300 million per Mutual Fund. Aggregate ceiling for investment by Mutual Funds in overseas Exchange Traded Fund (ETF(s)) that invest in securities is US $ 1 billion subject to a maximum of US $ 50 million per Mutual Fund.

Permissible investments:

ADR(s) and/or GDR(s) issued by Indian or foreign companies. Equity of overseas companies listed on recognized Stock Exchanges overseas. Initial and Follow on Public Offerings for listing at recognized Stock Exchanges overseas. Foreign debt securities in the countries with fully convertible currencies, short term as well as long term debt instruments with rating not below investment grade by accredited/ registered credit rating agencies. Money Market Instruments rated not below investment grade. Repos in form of investment, where the counterparty is rated not below investment grade; repo is not required to involve any borrowing of funds by Mutual Funds. Government securities where the countries are rated not below investment grade. Derivatives traded on recognized stock exchanges overseas only for hedging and portfolio balancing with underlying as securities. Short term deposits with banks overseas where the issuer is rated not below investment grade.

Units / securities issued by overseas Mutual Funds or unit trusts registered with overseas regulators and investing in

a. Aforesaid Securities

b. Real Estate Investment Trusts listed on recognized Stock Exchanges overseas or

c. Unlisted overseas securities, not exceeding 10% of their net assets

Investments in Indian Depository Receipts (IDRs)

Mutual funds can invest in Indian Depository Receipts [Indian Depository Receipts as defined in Companies (Issue of Indian Depository Receipts) Rules, 2004] subject to compliance with SEBI (Mutual Funds) Regulations 1996 and guidelines issued there under, specifically investment restrictions as specified in the Seventh Schedule of the Regulations.

(N) ADVERTISEMENTS

- **Standards of Communications**

Communications is required to fair and in good faith. No material fact is required to omit, if such omission will cause the communication to be misread and misunderstood. The fact that Mutual Fund investments are prone to risks of fluctuation in NAV, uncertainty of dividend distributions, *etc.* is required to adequately bring to the notice of unit holders or public in all communications. When engaged in public speaking, seminars, TV or Radio shows, interview to the press *etc.*, Mutual Funds and their employees is required to observe these Guidelines, even though some of such forms of communications may not amount to advertisement and/or distribution of Sales Literature. Use of exaggerated or unwarranted claims, superlatives and opinions, not substantiated by available public data is required to refrain from and future forecasts and estimates of growth is required to avoid. Disclosure of risks as required by the Mutual Funds Regulations is not required to treat as a hedge in communications with investors or customers. Statistical information, charts, graphs, *etc.*, when used, is required to support by their source, if any. Comparisons is required to refrain from unless essential to the form and content of the advertisement. If used, such comparisons must be clear and unambiguous.

Advertisements through Hoardings and/or Posters

It is essential for the investors to read the SID and SAI and risk factors before investing in Mutual Fund schemes to arrive at a well informed investment decision. Considering that investors get very little time to read the advertisements through hoardings or posters *etc.* while passing by, it is clarified that such advertisements is required to carry only the following statement besides the copy of advertisement: "Mutual Fund investments are subject to market risks, read the Offer Document carefully before investing." The above statement is required to display in black letters of at least 8 inches height or covering 10% of the display area, on a white background. The Compliance Officers of the Mutual Funds/ AMC is required to ensure that the statements appearing in such advertisements are in legible font.

Advertisements through Audio-Visual Media

In audio-visual media based advertisements, the statement "Mutual Fund investments are subject to market risks, read the Offer Document carefully before investing" is required to display in a clearly legible font size covering at least 80% of the total screen space. The remaining 20% space can be used for the name of the Mutual Fund or logo or name of the scheme, *etc.* The display and voice over reiteration of the statement mentioned above is required for a period of at least five seconds and in an easily understandable manner. Advertisements through audio media like radio, cassettes, CDs *etc.* is required to read the above statement in a manner easily understandable to the listeners over a period of five seconds.

Disclosure of risk factors in the advertisements

Regarding disclosure of risk factors in the advertisements by the mutual funds as mentioned Regulations, it is clarified that : All advertisements announcing the launch of a scheme and those which solicit subscription to the scheme is required to disclose all the risk factors as required by the advertisement code. All advertisements containing performance information, advertising yield/return *etc.* is also required to disclose all the risk factors. Any advertisement which discloses only the latest NAV, sale and/or repurchase price without any reference to the corresponding past figures may not disclose all the risk factors. However, it is required to include a statement that 'investors are advised to read the offer document before investing in the scheme'.

(O) INVESTOR RIGHTS & OBLIGATIONS

INVESTOR RIGHTS

Payment of interest for delay in dispatch of redemption and/or repurchase proceeds and/or dividend

In the event of failure to dispatch: Redemption or repurchase proceeds within 10 working days from the date of receipt of such requests and/ or Dividend within the stipulated 30 day period.

The AMC(s) is liable to pay interest @ 15 per cent per annum to the unit holders. Such interest is required to bear by the AMC(s).

Unclaimed Redemption Amount

Unclaimed redemption and dividend amounts may be deployed by Mutual Funds in Call Money Market or Money Market instruments, as may be permitted by RBI from time to time. Investors claiming these amounts within three years from the due date are required to pay at the prevailing NAV. At the end of three years, the amount can be transferred to a pool account and investors can claim the amount at the NAV prevailing at the end of the third year. Income earned on such funds can be used for the purpose of investor education. The AMC is required to make a continuous effort to remind the investors through letters to take their unclaimed amounts. The investment management and advisory fee charged by the AMC for managing unclaimed amounts do not exceed 50 basis points.

Dispatch of Statement of Accounts

Mutual Funds are required to dispatch Statement of Accounts within 30 days from the closure of the NFO. AMC(s) may also start dispatching the Statement of Accounts once the minimum specified in the SID is received, even before the closure of the NFO.

Systematic Investment Plan (SIP) or Systematic Transfer Plan (STP) or Systematic Withdrawal Plan (SWP)

Mutual Funds may dispatch the Statement of Accounts to the unit holders under SIP or STP or SWP, once every quarter ending March, June, September and December within 10 working days of the end of the respective quarter. The first Statement of Accounts is required to be issued within 10 working days of the initial transaction. Mutual funds are required to provide Statement of Accounts to unit holders within 5 working days, without any charges, if specific requests are received from the investors. Further, if so mandated, a soft copy of the Statement of Accounts is required to email to the unit holders on a monthly basis.

Dormant Accountholders

Mutual Funds are required to also provide Statement of Accounts to those unit holders who have not transacted during the last six months prior to the date of generation of the Statement of Accounts.

AMC's Annual Reports for unit holders

The annual report containing accounts of the AMCs should be displayed on the website of Mutual Fund. It should also be mentioned in the Annual Report of Mutual Funds schemes that the unit holders, if they so desire may request for the Annual Report of the AMC.

Change of Mutual Fund Distributor

In case an investor wishes to change his distributor or wishes to go direct, Mutual Funds/AMC's is required to ensure compliance with the instruction of the investor informing his desire to change his distributor and / or go direct, without compelling that investor to obtain a 'No Objection Certificate' from the existing distributor.

INVESTOR'S OBLIGATIONS

Mandatory mentioning of PAN Number

It is mandatory requirement of mentioning PAN Number by investors of mutual fund schemes.

Mandatory mentioning of Bank Account by Investors

It is mandatory for the investors of the Mutual Funds schemes to mention their bank account numbers in their applications/request for redemption.

INVESTOR EDUCATION

SEBI Investors Education Programme – Investments in Mutual Funds

Board has prepared a brochure in question-answer format explaining the fundamental issues pertaining to mutual funds. AMCs are advised to circulate copies of the brochure among their distributors and agents (including brokers, banks, post offices) and the investors. AMCs may publish the same as small booklets. In such a case, while the booklets must bear SEBI name and logo, AMC may give their name as publisher. This may also be displayed prominently on their web sites. AMFI may consider including the brochure as a part of study material for their training programmes for investors and for their certification programme conducted for agents and distributors.

(P) CERTIFICATION AND REGISTRATION OF INTERMEDIARIES

No Mutual Fund is required to deal with any intermediary (i.e. distributors, agents, brokers, sub brokers or called by any other name, whether individuals or belonging to any other organization structure) in relation to selling and marketing of Mutual Fund units unless they have cleared the certification examination conducted by AMFI. No Mutual Fund is required to engage/employ employee(s) interacting with investors (i.e. those working in investors relations, call centers, employees engaged in sales and marketing *etc*) unless they have cleared the certification examination conducted by AMFI. Further, such intermediaries and employees are required to also adhere to the Guidelines specified by the Board and AMFI.

Code of Conduct:

Mutual Funds are required to monitor the activities of their distributors, agents, brokers to ensure that they do not indulge in any malpractice or unethical practice while selling or marketing Mutual Funds units. Any non compliance with the Mutual Funds Regulations and Guidelines pertaining to Mutual Funds especially guidelines on advertisements and/ or sales literature and/or Code of Conduct is required to report in the periodic meetings of the Board of the AMC and the Trustee(s) and is also required to reported to the Board by the AMC(s) in their CTR(s) and by the Trustees in their Half Yearly Reports.

AMFI has prescribed a Code of Conduct for Mutual Fund intermediaries. All intermediaries are required to follow the Code of Conduct strictly and not indulge in any practice contravening it directly or indirectly.

Non compliance with the Code of Conduct is required to report by the Mutual Funds to the Board and AMFI. Further, no Mutual Fund is required to deal with intermediaries contravening the prescribed Code of Conduct.

Empanelment of Intermediaries by Mutual Funds

Empanelment of intermediaries by Mutual Funds, payment of commissions, brokerage and/or sub-brokerage *etc.* is required to in accordance with parameters and guidelines specified by the Board and AMFI from time to time. Mutual Funds is required to monitor the compliance of these guidelines and Code of Conduct by their intermediaries in terms of business done across all Mutual Funds. In case of non-compliance, Mutual Funds are suspended further business and payment of commissions, *etc.* until full compliance by the empanelled intermediary.

(Q) TRANSACTION IN MUTUAL FUNDS UNITS

- **Maintenance of documents**

As per the requirements specified by Board in respect of "Anti Money Laundering (AML) Standards/Combating Financing of Terrorism (CFT) / Obligations of Securities Market Intermediaries under Prevention of Money Laundering Act, 2002 and Rules framed there under" maintenance of all documentation pertaining to the unit holders/ investors is the responsibility of the AMC.

Accordingly, AMCs were advised to confirm whether all the investor related documents were maintained/ available with the AMC. If not, and to the extent of and relating to such investor accounts/folios where investor related documentation was incomplete/inadequate/not available or was stated to be maintained by the distributors, then the Trustees were advised to ensure the following: No further payment of any commissions, fees and / or payments in any other mode should be made to such distributors till full compliance/ completion of the steps enumerated herein, Take immediate steps to obtain all investor/ unit holders documents in terms of the AML/ CFT, including KYC documents / PoA as applicable, Take immediate steps to obtain all supporting documents in respect of the past transactions, On a one time basis, send statement of holdings and all transactions since inception of that folio in duplicate to the investor and seek confirmation from the unit holders on the duplicate copy, Set up a separate customer services mechanism to handle/ address queries and grievance of the above mentioned unitholders.

Pending completion of documentation, exercise great care and be satisfied of investor bonafides before authorizing any transaction, including redemption, on such accounts / folios.

The Trustees were required forthwith to confirm to Board that the steps had been taken to address the above and also send a status to the Board as and when process was completed to their satisfaction.

- **Facilitating transactions in Mutual Fund schemes through the Stock Exchange infrastructure**

Stock Exchange terminals can be used for facilitating transactions in mutual fund schemes. Units of mutual fund schemes may be permitted to be transacted through registered stock brokers of recognized stock exchanges and such stock brokers are required to eligible to be considered as official points of acceptance.

In this regard, Mutual Funds/AMC is advised that:

Empanelment and monitoring of Code of Conduct for brokers acting as mutual fund intermediaries

a. The stock brokers intending to extend the transaction in Mutual Funds through stock exchange mechanism is required to comply with the requirements of passing the AMFI certification examination. All such stock brokers would then be considered as empanelled distributors with mutual fund/AMC.

b. These stock brokers is required to also comply with Code of Conduct for intermediaries of Mutual Funds, and applicable SEBI guidelines applicable to intermediaries engaged in selling and marketing of mutual fund units.

c. It is clarified that, stock exchanges is required to monitor the compliance of the code of conduct specified regarding empanelment of intermediaries by mutual funds.

Time stamping

Time stamping as evidenced by confirmation slip given by stock exchange mechanism is considered sufficient compliance with clause for cut–off timing for liquid scheme and plans, cut-off timing for other schemes and plans and time stamping provisions mandated by Board.

Statement of Account

Where investor desires to hold units in dematerialized form, demat statement given by depository participant is deemed to be adequate compliance with requirements for account statement prescribed by SEBI.

Investor grievance mechanism

Stock exchanges are required to provide for investor grievance handling mechanism to the extent they relate to disputes between brokers and their client.

Dematerialization of existing units held by investors

In case investors desire to convert their existing physical units (represented by statement of account) into dematerialized form, mutual funds / AMCs is required to take such steps in coordination with Registrar and Transfer Agents, Depositories and Depository participants (DPs) to facilitate the same.

Know your client (KYC).

Where investor desires to hold units in dematerialized form, the KYC performed by DP in terms of SEBI requirements would be considered compliance with applicable requirements specified in this regard by Mutual Funds /AMCs.

Para 2.3.1 discussed the regulatory framework/ guidelines by the Securities and Exchange Board of India (SEBI). The following para discusses the role of AMFI in mutual fund industry.

2.3.2 THE ASSOCIATION OF MUTUAL FUNDS IN INDIA (AMFI):

As the number of MF players were increasing in the India, soon it became inevitable to have an organization which monitors or regulates all the MF's and weave them together in a family. The need of a nonprofit organization to govern the MF industry gave birth to AMFI. AMFI, the apex body of all the registered Asset Management Companies, was incorporated on August 22, 1995, as a non-profit organization when all the mutual funds, except the UTI, came together realizing the need for a common forum for addressing the issues that affect the mutual fund industry as a whole. AMFI functions under the supervision and guidance of a Board of Directors. The AMFI is dedicated to developing the Indian mutual fund industry on professional, health, and ethical lines and to enhance and maintain standards in all areas with a view to promoting and protecting the interests of mutual funds and their unit holders.

OBJECTIVES OF AMFI

- To define and maintain high professional and ethical standards in all areas of operation of mutual fund industry
- To recommend and promote best business practices and code of conduct to be followed by members and others engaged in the activities of mutual fund and

asset management including agencies connected or involved in the field of capital markets and financial services.

- To interact with the Securities and Exchange Board of India (SEBI) and to represent to SEBI on all matters concerning the mutual fund industry.
- To represent to the Government, Reserve Bank of India and other bodies on all matters relating to the Mutual Fund Industry.
- To develop a cadre of well trained Agent distributors and to implement a programme of training and certification for all intermediaries and other engaged in the industry.
- To undertake nationwide investor awareness programme so as to promote proper understanding of the concept and working of mutual funds.
- To disseminate information on Mutual Fund Industry and to undertake studies and research directly and/or in association with other bodies.

AMFI continues to play its role as a catalyst for setting new standards and refining existing ones in many areas, particularly in the sphere of valuation of securities. Based on the recommendations of the AMFI, detailed guidelines have been issued by the SEBI for valuation of unlisted equity shares.

A major initiative of the AMFI during the year 2001-02 was the launching of registration of AMFI Certified Intermediaries and providing recognition and status to the distributor agents. More than 30 corporate distributors and a large number of agent distributors have registered with the AMFI. The AMFI Guidelines and Norms for Intermediaries (AGNI) released in February 2002, gives a framework of rules and guidelines for the intermediaries and for the conduct of their business.

AMFI maintains a liaison with different regulators such as the SEBI, the IRDA, and the RBI to prevent any over regulation that may stifle the growth of the industry. AMFI has set up a working group to formulate draft guidelines for pension scheme by mutual funds for submission to IRDA. It holds meetings and discussions with the SEBI regarding matters relating to the mutual fund industry. Moreover, it also makes representations to the government for removal of constraints and bottlenecks in the growth of the mutual fund industry.

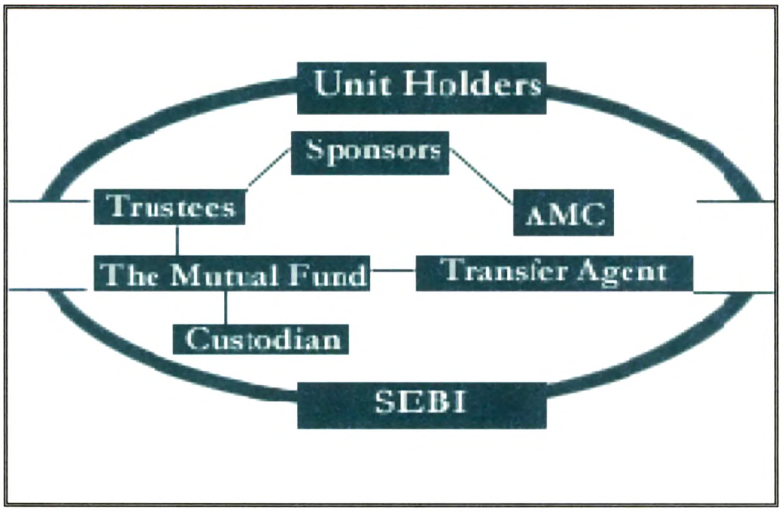
AMFI conducts investor awareness programmes regularly. AMFI also conducts intermediaries' certification examination.

AMFI also publicizes two sets of bulletin on monthly and quarterly basis which acts as a vital source of information for investors and they know about their investment.

ORGANIZATION STRUCTURE OF AMFI

There are many entities involved and the Figure 2.3 below illustrates the organizational set up of a mutual fund:

Figure 2.3 : Organization Structure of AMFI



Source: AMFI

MF has a typical organization comprising of key players which are usually formed by sponsors or investment advisor who selects or appoints trustees which then hire or contracts Asset Management Companies (AMC) which is run by a professional manager. The portfolio is managed by AMC which conducts regular research. It is responsible for managing, redeeming, and floating all the schemes and charges a fee. The custodian holds the responsibility of coordinating with brokers, storage of stocks, actual transfer and handling the instrument of trust. Transfer agent does the task involved in transfer of this instrument and also coordinated with custodian. For all instances, custodian is responsible and answerable to AMC. Every MF offered by a sponsor has to be set up as a trust under Indian trust Act 1882 and all mutual funds have to be registered with SEBI. It is very much essential that all the components of this structure works closely hand in hand to reduce conflicts of interest and to safeguard the interest of its investors.

2.4 GROWTH AND PERFORMANCE OF MUTUAL FUNDS IN INDIA

Indian MF industry has faced its ups and down like various other industries in the country but still looks promising and holds a bright future ahead. This is evident from the continuous growing AUM combined with low level of penetration relative to global market. The Indian mutual fund industry has grown tremendously in the last decade.

Table 2.6 : Average Assets Under Management (AAUM) For the Quarter of January- March 2011 (Rs In Lakhs)			
		Average AUM	
Sr. No.	Mutual Fund Name	Excluding Fund of Funds - Domestic But Including Fund of Funds - Overseas	Fund of Funds - Domestic
1	AIG Global Investment Group Mutual Fund	79589.78	0
2	Axis Mutual Fund	830169.78	0
3	Baroda Pioneer Mutual Fund	258479.18	0
4	Benchmark Mutual Fund	340363.29	0
5	Bharti Axa Mutual Fund	28857.55	0
6	Birla Sun Life Mutual Fund	6369619.52	3708.76
7	BNP Paribas Mutual Fund	467418.11	0
8	Canara Robeco Mutual Fund	782363.49	0
9	Daiwa Mutual Fund	24390.25	0
10	Deutsche Mutual Fund	818660.04	0
11	DSP Blackrock Mutual Fund	3060071.21	0
12	Edelweiss Mutual Fund	18196.96	0
13	Escorts Mutual Fund	19685.4	0
14	Fidelity Mutual Fund	907440.44	12482.29
15	Franklin Templeton Mutual Fund	3788271.74	169889.49
16	HDFC Mutual Fund	8628224.46	0
17	HSBC Mutual Fund	445219.73	0
18	ICICI Prudential Mutual Fund	7346610.81	8583.88
19	IDBI Mutual Fund	352780.47	0
20	IDFC Mutual Fund	2101865.66	83243.47
21	ING Mutual Fund	130132.46	16966.38
22	JM Financial Mutual Fund	591783.18	0
23	J P Morgan Mutual Fund	340957.1	0
24	Kotak Mahindra Mutual Fund	3220247.1	5018.86
25	L&T Mutual Fund	402984.3	0
26	LIC Nomura Mutual Fund	1119557.16	0
27	Mirae Asset Mutual Fund	37950.32	0
28	Morgan Stanley Mutual Fund	207609.65	0
29	Motilal Oswal Mutual Fund	30051.9	0
30	Peerless Mutual Fund	420214.03	0
31	Pramerica Mutual Fund	162936.5	0
32	Principal Mutual Fund	524622.65	0
33	Quantum Mutual Fund	12359.94	210.98
34	Reliance Mutual Fund	10157660.46	14134.76

Sr. No.	Mutual Fund Name	Average AUM	
		Excluding Fund of Funds - Domestic But Including Fund of Funds - Overseas	Fund of Funds - Domestic
35	Religare Mutual Fund	1150495.91	0
36	Sahara Mutual Fund	17920.9	0
37	Sbi Mutual Fund	4167180.19	0
38	Sundaram Mutual Fund	1447858.09	0
39	Tata Mutual Fund	2268110.53	0
40	Taurus Mutual Fund	255976.85	0
41	UTI Mutual Fund	6718882.58	0
	Grand Total	**70053769.67**	**314238.87**

Source : AMFI Quarterly

Table 2.6 reveals that there are 41 mutual funds with average asset under management of Rs.7,00,538 crore for the quarter January-March, 2011. Asset Under Management (AUM) crossed Rs.1,00,000 crore during the year 1999-2000 recording a growth rate of 65 per cent. However, in the subsequent year, i.e. 2000-01, AUM sharply declined by about 20 per cent to Rs. 90,587 crore due to extreme volatility in the market and depressed equity market conditions. There was a turnaround in the year 2001-02. The AUM grew by 11 per cent to Rs. 1,00,592 crore. During the year 2001-02 while there was an increase in AUM by 11 per cent; UTI lost more than 11 per cent in AUM. It is evident that UTI is losing out to other private sector players. The AUM of private sector mutual funds rose by around 60 per cent during the year 2001-02. AUM grew by 22 per cent in 2003-04 and amounted to Rs. 1,49,600 crore in 2004-05. Now, in 2010-11 the total AUM of mutual fund industry is Rs.5,92,250 crore. Thus, it is evident that the Indian mutual fund industry growing very sharply.

Same is also confirmed by the following Table 2.7. Table 2.7 shows the number of schemes launched by mutual funds from year April 1997- March 1998 to April 2010-March 2011. It can be seen that the open-ended schemes are increased sharply year by year. That is in the year 1997-98 total open-ended schemes were 63 and now in the year 2010-11 it is 727. One can say that the popularity of the open-ended schemes increased over the period because of the liquidity feature of the schemes. Same way in close-ended schemes, there is no much increase in the number of schemes launched from year 1997-98 to 2001-03. But during year 2001-02 to 2004-05, there is a sharp decline in the close-ended schemes. Thereafter, from the year 2005-06, it again started increasing and currently in the year 2010-11, the total close-ended schemes are 368.

Table 2.7 : Number of Schemes Launched by Mutual Funds					
Year	**Open-ended schemes**	**Close-ended schemes**	**Assured Return schemes**	**Interval schemes**	**Total**
April 1997 -March 1998	63	125	47	-	235
April 1998 -March 1999	102	146	29	-	277
April 1999 -March 2000	168	128	41	-	337
April 2000 -March 2001	240	118	35	-	393
April 2001 -March 2002	304	87	26	-	417
April 2002 -March 2003	329	47	6	-	382
April 2003 -March 2004	363	40	-	-	403
April 2004 -March 2005	403	48	-	-	451
April 2005 -March 2006	463	129	-	-	592
April 2006 -March 2007	486	270	-	-	756
April 2007 -March 2008	592	364	-	-	956
April 2008 -March 2009	589	344	-	68	1001
April 2009 -March 2010	641	202	-	39	882
April 2010 -March 2011	727	368	-	36	1131
Source : AMFI Quarterly Updates					

There were other scheme also i.e. assured return schemes. But from the year 2003-04, these schemes were withdrawn from the market. From the year 2008-09, Interval schemes are introduced in the market. During the period 2008-09, the total interval schemes were 68, but after that there is almost 50 per cent decline in the number of schemes and currently in the year 2010-11 the total interval schemes are 36. Overall it can be deduced from the table that from the year 1997-98 to 2010-11, the number of schemes launched by the mutual funds increased immensely. As more and more number of schemes is introduce in the market, which shows that the demand for the mutual fund schemes are increased in the market and also one of the preferred financial investment by the investors.

Investors preferred mutual funds as mutual funds offer tax benefits in the form of exemption on tax on both dividends and long-term capital gains. Reliance Capital Asset management Ltd. is the leader in the mutual fund industry going by the asset under its management of Rs.101,577 crore as on March 31,2011.

Mutual funds offered improved quality of service with AMFI making it mandatory for MF agents to undergo and pass its training programme for enabling them to explain the schemes to the customers properly.

As on March 31, 2010 there are a total number of 4.77 crores investor accounts holding units of Rs. 616,966.72 crores. Out of this total number of investors accounts, 4.63 crores are individual investors accounts, accounting for 97.07% of the total number of investors accounts and contribute Rs. 2,45,390.28 crores which is 39.77% of the total net assets. However, Corporate and institutions who form only 0.95% of the total number of investors accounts in the mutual funds industry, contribute a sizeable amount of Rs.337,812.58 crores which is 54.75% of the total net assets in the mutual funds industry. The NRIs and FIIs constitute a very small percentage of investors accounts (1.98%) and contribute Rs. 33,763.85 crores (5.47%) of net assets.

The details of unit holding pattern are presented in the Table 2.8:

Table 2.8 : Unit holding Pattern of Mutual Funds Industry (As on March 31, 2010)

Category	Number of Investors Accounts	% to Total Investors Accounts	Net Assets (Rs. Crore)	% to Total Net Assets
Individuals	46,327,683	97.07%	245,390.28	39.77%
NRIs	943,482	1.98%	27,428.86	4.45%
FIIs	216	0.00%	6,335.00	1.03%
Corporates/Institutions/ Others	452,330	0.95%	337,812.58	54.75%
Total	**47,723,711**	**100.00%**	**616,966.72**	**100.00%**

Source: SEBI

From the analysis of data on unit holding pattern of Private Sector Mutual Funds and Public Sector Sponsored Mutual Funds, the following observations are made:-

Out of a total of 4.77 crore investors accounts in the mutual funds industry, 3.12 crore investors accounts i.e. 65.41% of the total investors accounts are in private sector mutual funds whereas the 1.65 crore investors accounts i.e. 34.59% are with the public sector sponsored mutual funds which includes UTI Mutual Fund. However, the private sector mutual funds manage 77.97% of the net assets whereas the public sector sponsored mutual funds own only 22.03% of the assets.

Details of unit holding pattern of private sector and public sector sponsored mutual funds are given in the following Table 2.9 and Table 2.10:

Table 2.9 : Unit holding Pattern of Private Sector MFs (As on March 31, 2010)				
Category	**Number of Investors Accounts**	**% to Total Investors Accounts**	**Net Assets (Rs. Crore)**	**% to Total Net Assets**
Individuals	30,041,859	96.24%	191,172.34	39.74%
NRIs	787,791	2.52%	24,703.76	5.13%
FIIs	211	0.00%	6,204.35	1.29%
Corporates/Institutions/Others	385,856	1.24%	258,997.02	53.84%
Total	**31,215,717**	**100.00%**	**481,077.47**	**100.00%**
Source: SEBI				

Table 2.10 : Unit holding Pattern of Public Sector MFs (As on March 31, 2010)				
Category	**Number of Investors Accounts**	**% to Total Investors Accounts**	**Net Assets (Rs. Crore)**	**% to Total Net Assets**
Individuals	16,285,824	98.65%	54,217.94	39.90%
NRIs	155,691	0.95%	2,725.1	2.00%
FIIs	5	0.00%	130.65	0.10%
Corporates/Institutions/Others	66,474	0.40%	78,815.56	58.00%
Total	**16,507,994**	**100.00%**	**135,889.25**	**100.00%**
Source: SEBI				

The mutual Fund industry has been remarkably resilient over the last decade in spite of varying economic conditions, capital market scams, and increasing competition. A steep fall in stock prices on account of the global economic crisis and investor panic exerted redemption pressure on mutual funds during 2008-09. The net resource mobilized by private sector mutual fund and UTI turned negative. The stock market revival and availability of easy liquidity enabled mutual funds to garner large resources. At present, 1131 schemes are offered by the mutual funds in India.

The Indian fund managers are active fund managers whereby each mutual fund manager builds up his own portfolio and have been in a position to beat the index, thereby delivering returns in excess of market returns. This industry has grown 47 per cent annually since 2003 and the asset under management as at the end of December 2007 being $92 bn. Thus, the Indian mutual fund industry has a huge potential. According to a study by McKinsey, an international consulting firm, the Indian mutual fund industry will grow at least 33 per cent annually in the next five years. The main driver for this growth will be the retail segment, expected to grow at 36-42 per cent annually on account of rising incomes and increasing demand for wealth management services. It has been observed that Indians are very future conscious and have a very high saving pattern in comparison to other countries like Japan, France and China. Investors are more and more opting for MF because they are finding it better in terms of variety and risk calculations. It is suitable for both experienced as well as budding investor. And the institutional investor segment expected to grow at 29 per cent annually. This will make the size of the asset under management $440 billion by 2012.

Mutual funds are expanding to various parts of the country with a large number of collection centers and franchise offices. The Indian MF industry currently can be compared with a bud which is still to blossom completely and that depends on correct weather and water. This industry can thus be placed in the phase of growth stage in context to product life cycle.

2.5 SUMMARY AND CONCLUSIONS

The journey of MF industry is categorized into four major phases: Phase I (1964-1987), Phase II (1987-1993), Phase III (1993-2003), and Phase IV (since February 2003). The MF industry of India has been started in 1964 with formation of UTI. The second phase (1987-1993) witnessed the entry of mutual fund companies sponsored by nationalized banks and insurance companies. During this period not only increase in the net resources mobilized by mutual funds, but also the number of schemes launched by them increased appreciably. The third phase begun in 1993 with the entry of private sector funds and remains prevalent till 2003. During this period MF industry saw many changes like mergers, acquisitions, foreign players entering Indian market and more MF houses growing. The fourth phase started since February 2003 and was bitter for UTI which split into two entities following the repeal of UTI Act 1963.

The objectives of mutual funds are to provide continuous liquidity and higher returns with high degree of safety to investors. The popularity of the mutual fund investment also increased over the years due to over hundreds of mutual funds schemes offered for investment and also because of many advantages of mutual fund investment.

On the regulation side SEBI plays a vital role. SEBI formulates policies and regulates the mutual funds to protect the interest of the investors. SEBI regulates structure, market and investor-related activities of mutual funds. Issues concerning the ownership of the AMCs by banks fall under the regulatory preview of the RBI. As the

number of MF players were increasing in the India, soon it became inevitable to have an organization which monitors or regulates all the MF's and weave them together in a family. The need of a nonprofit organization to govern the MF industry gave birth to AMFI. AMFI, the apex body of all the registered Asset Management Companies, was incorporated on August 22, 1995, as a non-profit organization when all the mutual funds, except the UTI, came together realizing the need for a common forum for addressing the issues that affect the mutual fund industry as a whole. AMFI continues to play its role as a catalyst for setting new standards and refining existing ones in many areas, particularly in the sphere of valuation of securities. Based on the recommendations of the AMFI, detailed guidelines have been issued by the SEBI for valuation of unlisted equity shares. A major initiative of the AMFI during the year 2001-02 was the launching of registration of AMFI Certified Intermediaries and providing recognition and status to the distributor agents. The AMFI Guidelines and Norms for Intermediaries (AGNI) released in February 2002, gives a framework of rules and guidelines for the intermediaries and for the conduct of their business. AMFI maintains a liaison with different regulators such as the SEBI, the IRDA, and the RBI to prevent any over regulation that may stifle the growth of the industry.
According to a study by McKinsey, an international consulting firm, the Indian mutual fund industry will grow at least 33 per cent annually in the next five years. The main driver for this growth will be the retail segment, expected to grow at 36-42 per cent annually on account of rising incomes and increasing demand for wealth management services. The Indian MF industry at present can be compared with a bud which is still to blossom completely and that depends on correct weather and water.

Having discussed the background of Mutual Fund Industry in India, the following chapter presents the 'Review of Literature' to examine the kind of the studies carried out in India and abroad.

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