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Mutual Funds and SEBI Regulations

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ABSTRACT:

A Mutual Fund is a form of collective investment that pools money from many investors and invests the money in stocks, bonds, short-term money market instruments, and/or other securities. Now a day's these Mutual funds are very popular because they provide an excellent way for anyone to direct a portion of their income towards a particular investment. In order to help the small investors, mutual fund industry has come to occupy an important place. Mutual funds provide an easy way for small investors to make long-term, diversified, professionally managed investments at a reasonable cost. The purpose and objective of this article is to study meaning and nature of Mutual funds, procedure, importance of SEBI and its mechanism in India, and also examine the growth of mutual funds and analyze the operations of mutual funds and suggest some measures to make it a successful scheme in India.

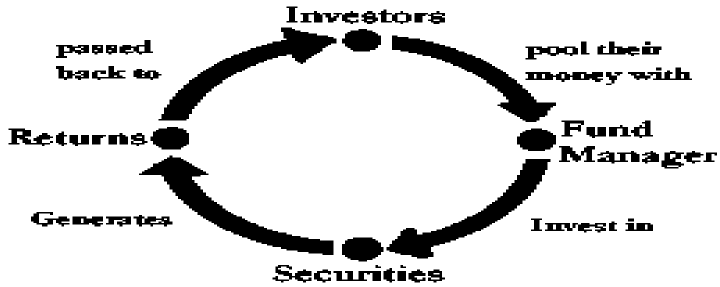
Keywords: *Mutual Fund, Investment, Long Term, Short Term, Investor, Securities, SEBI.*

I. INTRODUCTION:

A Mutual Fund is a form of collective investment that pools money from many investors and invests the money in stocks, bonds, short-term money market instruments, and/or other securities. In a Mutual Fund, the fund manager trades the fund's underlying securities, realizing capital gains or loss, and collects the dividend or interest income.

The investment proceeds are then passed along to the individual investors. The value of a share of the Mutual Fund, known as the net asset value (NAV), is calculated daily based on the total value of the fund divided by the number of shares purchased by investors.

Mutual funds enable hundreds, and in some cases even millions, of investors to pool their money together in order to make investments. Investors in Mutual Funds entrust their investment decisions to a professional money manager and his/her staff. Most Mutual Funds have clearly defined investment practices and objectives for their investments. With nearly 10,000 different funds now available, there is most likely a fund that will cater to just about any investment objective you might have.



In above figure it show the stages that how the process of investment start from investors and end with investors and how the fund manger generate money from securities and profit get from investment .

Mutual funds can be broken down into two basic categories: equity and bond funds. Equity funds invest primarily in common stocks, while bond funds invest mainly in various debt instruments. Within each of these sectors, investors have a myriad of choices to consider, including: international or domestic, active or indexed, and value or growth, just to name a few. We will cover these topics shortly. First, however, we're going to focus our attention on the "nuts and bolts" of how mutual funds operate.

II. WHY ARE MUTUAL FUNDS SO POPULAR?

Mutual funds provide an easy way for small investors to make long-term, diversified, professionally managed investments at a reasonable cost. If an investor only has a small amount of money with which to invest, then he/she will most likely not be able to afford a professional money manager, a diversified basket of stocks, or have access to low trading fees. With a Mutual Fund, however, a large group of investors can pool their resources together and make these benefits available to the entire group. There are no “perks” for the largest investor and no penalties to the smallest--all Mutual Fund holders pay the same fees and receive the same benefits.

Mutual funds are also popular because they provide an excellent way for anyone to direct a portion of their income towards a particular investment objective. Whether you're looking for a broad-based fund or a narrow industry-focused niche fund, you're almost certain to find a fund that meets your needs.

If you look in history of Indian Mutual Fund the UTI mutual fund is the first Mutual Fund comes in 1963. Unit Trust of India (UTI) was established in 1963 by an Act of Parliament control by the reserve bank of India. There was governing by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978 UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. Body was reserve bank of India .but in 1993 constituted of securities and exchange board of India(SEBI) The SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996.

For the purpose of research, the project has been divided into ten Chapters. In the first chapter the concept of mutual fund. The second chapter is relating to the History of mutual fund and the origin of mutual fund in America and how mutual fund spread in whole word. And how mutual fund concept came in to exist in India. In third chapter I discussed about today’s mutual fund industry in India. In fourth chapter I discussed the advantages and disadvantages of mutual fund. Then in fifth chapter how mutual fund makes money from securities market. Then in sixth chapter I discussed about standard offer document of mutual fund. In seventh chapter I discussed about risk management in mutual fund and what is role of risk management in mutual fund and in last chapter conclusion and some cases of mutual fund.

III. SEBI (MUTUAL FUND) REGULATIONS 1996:

In exercise of the powers conferred by section 30 of the Securities and Exchange Board of India Act, 1992, the Board, with the previous approval of Central Government, makes regulations relating to regulation of mutual fund. Chapter I of regulations is the preliminary, R. 1 contains sort title, application and commencement and R 2 deals with definitions. Chapter II deals with registration of mutual fund. Chapter III of regulations discuss about the constitution and management of mutual fund and operation of trustees etc. chapter IV deals with constitution and management of asset management company and custodian \in chapter v schemes of mutual fund.

Here the following some important definition and word that use in mutual fund.

Money Market Instruments:- includes commercial papers, commercial bills, treasury bills, Government securities having an unexpired maturity up to one year, call or notice money, certificate of deposit, usance bills, and any other like instruments as specified by the Reserve Bank of India from time to time;
Money Market Mutual Fund: **-** means a scheme of a mutual fund which has been set up with the objective of investing exclusively in money market instruments;

"mutual fund" means a fund established in the form of a trust to raise monies through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market instruments [or gold or gold related instruments];
Offer Document: **-** means any document by which a mutual fund invites public for subscription of units of a scheme;
Open-Ended Scheme: **-** means a scheme of a mutual fund which offers units for sale without specifying any duration for redemption;
Scheme: **-** means a scheme of a mutual fund launched under Chapter V;
Schedule: **-** means any of the schedules annexed to these regulations;
Securities Laws: **-** means the Securities & Exchange Board of India Act, 1992 (15 of 1992), the Securities Contracts (Regulation) Act, 1956 (42 of 1956) and the Depositories Act, 1996 (22 of 1996) including their amendments and such other laws as may be enacted from time to time;

Sponsor: **-** means any person who, acting alone or in combination with another body corporate, establishes a mutual fund;
Trustee: - means the Board of Trustees or the Trustee Company who hold the property of the Mutual Fund in trust for the benefit of the unit holders.]
Unit: **-** means the interest of the unit holders in a scheme, which consists of each unit representing one undivided share in the assets of a scheme;
Unit Holder: **-** means a person holding unit in a scheme of a mutual fund.
Application for Registration: **-** An application for registration of a mutual fund shall be made to the Board in Form A by the sponsor

IV. ELIGIBILITY CRITERIA:

For the purpose of grant of a certificate of registration, the applicant has to fulfill the condition that the sponsor should have a sound track record and general reputation of fairness and integrity in all his business transactions. 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. The sponsor has contributed or contributes at least 40% to the net worth of the asset management company.

V. TRUST DEED TO BE REGISTERED UNDER THE REGISTRATION ACT:

A mutual fund shall be constituted in the form of a trust and the instrument of trust shall be in the form of a deed, duly registered under the provisions of the Indian Registration Act, 1908 (16 of 1908) executed by the sponsor in favor of the trustees named in such an instrument.

VI. APPOINTMENT OF AN ASSET MANAGEMENT COMPANY:

The sponsor or, if so authorized by the trust deed, the trustee shall, appoint an asset management company, which has been approved by the Board. The appointment of an asset management company can be terminated by majority of the trustees or by seventy five per cent of the unit-holders of the scheme. Any change in the appointment of the asset management company shall be subject to prior approval of the Board and the unit holders.

VII. APPOINTMENT OF CUSTODIAN:

The mutual fund shall appoint a custodian to carry out the custodial services for the schemes of the fund and sent intimation of the same to the Board within fifteen days of the appointment of the custodian. 38* "Provided that in case of a gold or gold exchange traded fund scheme, the assets of the scheme being gold or gold related instruments may be kept in custody of a bank which is registered as a custodian with the Board. No custodian in which the sponsor or its associates hold 50% or more of the voting rights of the share capital of the custodian or where 50% or more of the directors of the custodian represent the interest of the sponsor or its associates shall act as custodian for a mutual fund constituted by the same sponsor or any of its associate or subsidiary company.

VIII. PROCEDURE FOR LAUNCHING OF SCHEMES:

No scheme shall be launched by the asset management company unless such scheme is approved by the trustees and a copy of the offer document has been filed with the Board. Every mutual fund shall along with the offer document of each scheme pay filing fees as specified in the Second Schedule.

IX. WINDING UP:

A close-ended scheme shall be wound up on the expiry of duration fixed in the scheme on the redemption of the units unless it is rolled-over for a further period under sub-regulation (4) of regulation 33.
A scheme of a mutual fund may be wound up, after repaying the amount due to the unit holders, -
(a) On the happening of any event which, in the opinion of the trustees, requires the scheme to be wound up; or
(b) If seventy five per cent of the unit holders of a scheme pass a resolution that the scheme be wound up; or
(c)If the Board so directs in the interest of the unit-holders.

(3) Where a scheme is to be wound up under sub-regulation (2), the trustees shall give notice disclosing the circumstances leading to the winding up of the scheme: -
(a) To the Board; and (b) In two daily newspapers having circulation all over India, a vernacular newspaper circulating at the place where the mutual fund is formed.

X. TO MAINTAIN PROPER BOOKS OF ACCOUNTS AND RECORDS, ETC.:

(1) Every asset management company for each scheme shall keep and maintain proper books of accounts, records and documents, for each scheme so as to explain its transactions and to disclose at any point of time the financial position of each scheme and in particular give a true and fair view of the state of affairs of the fund and intimate to the Board the place where such books of accounts, records and documents are maintained.

(2) Every asset management company shall maintain and preserve for a period of [eight] years its books of accounts, records and documents.

(3) The asset management company shall follow the accounting policies and standards as specified in Ninth Schedule so as to provide appropriate details of the scheme wise disposition of the assets of the fund at the relevant accounting date and the performance during that period together with information regarding distribution or accumulation of income accruing to the unit holder in a fair and true manner.

XI. CONCLUSION:

Mutual fund have three tier –structure; a sponsor, an asset management company and a trustee company. The board of director of the AMC and the board of the trustee company are the two key levels of check and balance to safeguard the interest of the investors. Periodic report–weekly and monthly have to be provided by the AMC to the trustee company and by both to SEBI .such a structure is also intended to keep the fund operations within the confines of the law.

The SEBI has recently put up the report titled; reform of mutual fund industry prepared in association with A.F. Ferguson and company for public comments. In a press release SEBI pointed out that asean development bank on behalf of the finance government of India appointed a consultant to review the various aspects of the mutual fund industry in India. Inviting public comments /view report SEBI has noted that SEBI neither approves nor disapproves content accuracy of the report.

The report noted that the ownership of Indian mutual fund is dominated by corporation which it is estimated account for between 60 to 80 % of the total value of assets under management .this has led to practice like dividend stripping or offering a favorable NAV pricing for instance that knew towards these investor s. as a result the turnover of mutual fund units has reached epic proportion. sales and redemption of units as a % of average NAV stands at 4.28 times compared to 0.38 ND 0.51 times for mutual fund in UK and US respectively .because of this the portfolio turnover of the scheme is high than portfolio turnover as a % of average NAV was more than 10 times in 2001-02 the highest being 14.65 times.

The regulation governing mutual fund have been developed over time and are fairly comprehensive .this development has been through periodic amendments to the regulation themselves and also through a continuous series of notification and circulars issued by SEBI. There is thus no unified corpus of regulation that is easy to grasp.

In the light of recommendation of mutual fund it seemed to make some appropriate to reconstruct the regulation as they would apply to AMCs, PTCs and to mutual fund themselves .each set should be designed to be comprehensive and classified clearly under various heads. Whenever a change is effected in order to meet new circumstances or to tighten investors protection then the relevant chapter should be replaced so that at all times the handbook is up to date and whatever guidance is required on all matters relating to compliance is available at once place. There should prepare a series of models and have reviewed key issues with SEBI. the some improvement in the regulation that committee felt that there were gaps or weaknesses or where the regulation to be brought up to best international standard .they have been drafted as if the detailed recommendation made had been accepted.

In regulatory authority SEBI has built up its capability over a period of time and appear to be supervising the mutual fund as well as it can. Some recommendations are like this

i. The AMC should be more directly supervised by SEBI as opposed to the significant reliance now placed on sponsor's trustees. With the introduction of PTC –SEBI will need to supervise these as well.
ii. A more hands –on approach to supervision should be adopted.
iii. A selective or risk based inspection routine should be adopted whereby the historically more compliant mutual fund are inspected less frequently than the less compliant smaller or newer mutual funds.
iv. Personnel with more hands on industry experience should ideally be recruited .if this proves difficulty then a system of secondment to the industry could be considered for SEBI personnel to acquire the hands –on experience .
v. The system of job rotation followed by SEBI resulted in experienced personnel being moved into other areas .SEBI should try and see if long term career prospects can be achieved its executives by promote in within the same division .

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