ANNEXURES

ANNEXURE 1

Code of Conduct for Intermediaries of Mutual Funds[1]

1. Take necessary steps to ensure that the clients' interest is protected.

2. Adhere to SEBI Mutual Fund Regulations and guidelines issued from time to time related to selling, distribution and advertising practices. Be fully conversant with the key provisions of the Scheme Information Document (SID), Statement of Additional Information (SAI) and Key Information Memorandum (KIM) as well as the operational requirements of various schemes.

3. Provide full and latest information of schemes to investors in the form of SID, performance reports, fact sheets, portfolio disclosures and brochures and recommend schemes appropriate for the client's situation and needs.

4. Highlight risk factors of each scheme, avoid misrepresentation and exaggeration and urge investors to go through SID/ KIM before deciding to make investments.

5. Disclose to the investors all material information including all the commissions (in the form of trail or any other mode) received for the different competing schemes of various Mutual Funds from amongst which the scheme is being recommended to the investors.

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[1] SEBI Cir no – MFD/CIR/06/210/2002 dated June 26, 2002 and SEBI / IMD / CIR No. 8 / 174648 / 2009 dated August 27, 2009

6. Abstain from indicating or assuring returns in any type of scheme, unless the SID is explicit in this regard.

7. Maintain necessary infrastructure to support the AMCs in maintaining high service standards to investors, and ensure that critical operations such as forwarding forms and cheques to AMCs/registrars and despatch of statement of account and redemption cheques to investors are done within the time frame prescribed in the SID/SAI and SEBI Mutual Fund Regulations.

   Note: SID should be read in conjunction with SAI and not in isolation.

8. Avoid colluding with clients in faulty business practices such as bouncing cheques, wrong claiming of dividend/redemption cheques, etc.

9. Avoid commission driven malpractices such as :
   (a) recommending inappropriate products solely because the intermediary is getting higher commissions therefrom.
   (b) encouraging over transacting and churning of Mutual Fund investments to earn higher commissions, even if they mean higher transaction costs and tax for investors.

10. Avoid making negative statements about any AMC or scheme and ensure that comparisons if any, are made with similar and comparable products.

11. Ensure that all investor related statutory communications (such as changes in fundamental attributes, loads, exit options and other material aspects) are sent to investors reliably and on time.

12. Maintain confidentiality of all investor deals and transactions.

13. When marketing various schemes, remember that a client's interest and suitability to their financial needs is paramount and that extra commission or incentive earned should never form the basis for recommending a scheme to the client.

14. Intermediaries will not rebate commission back to investors and avoid attracting clients through temptation of rebate/gifts etc.

15. A focus on financial planning and advisory services ensures correct selling and also reduces the trend towards investors asking for passback of commission.

16. All employees engaged in sales and marketing should obtain AMFI certification. Employees in other functional areas should also be encouraged to obtain the same certification.

ANNEXURE 2

***Operating Manual for Risk Management*[2]**

I. Introduction

Risk management can be defined as the "overall process of identifying and understanding the full spectrum of an organization's risk and taking informed actions to help it achieve its strategic objectives, reduce the likelihood of failure and decrease the uncertainty of overall business performance".

This document sets out an enterprise-wide risk management framework for a Mutual Fund in India. For the purpose of this document, the term "Mutual Fund" is used colloquially to refer to the whole group of entities that constitute the mutual fund organization; i.e. the AMC (including its Board of Directors and employees) and the Board of Trustees. It is not used to refer to a Mutual Fund as per the definition in the SEBI Regulations.

The framework manual is intended to serve as a model which will help Mutual Funds monitor and mitigate all the risks faced by them, and also use risk management to increase value for investors. The risk management practices described are based on current exemplary practices and international best practice as identified in our "Survey of Risk Management Practices in the Indian Mutual Fund Industry", March 2002. It also takes into account the recommendations in the same survey document, duly modified based on feedback from AMFI members and finally approved by the AMFI Board on 3 July 2002. Some of the recommendations are to be mandated by SEBI (*Appendix*

[2] SEBI Cir – MFD/CIR/15/19133/2002 dated September 30, 2002

A, Part 1), others will be issued by AMFI as best practice guidelines *(Appendix A, Part 2).* The mandatory and best practice recommendations have been incorporated in the framework manual.

All measures described in the manual have been categorised as follows:

- to be mandated by SEBI (as per *Appendix A, Part 1*)
- recommended best practice (as per *Appendix A, Part 2*)
- existing industry practice (exemplary practices followed by some/ most Mutual Funds in India as identified in the "Survey of Risk Management Practices in the Indian Mutual Fund Industry, March 2002).

II. Risk Management Framework Overview

The risk management framework described in this document covers all aspects of a Mutual Fund's operations. Risks have been broadly categorised into five areas:

- Fund Management
- Operations
- Customer Service
- Sales and Marketing
- Other Business Risks.

Risk management measures have been described for each of these areas across three dimensions: policies and procedures, systems and organisation. Additionally, measures for specific risks in each area have also been described.

1. Policies and Procedures

Risk management is most effective when it follows a top-down approach. In this approach, the senior management of the Mutual Fund is the main center of power and responsibility. Based on various factors like the risk appetite and business strategy of the organisation, the philosophy regarding risk should be developed. This philosophy should then be transmitted throughout the organisation in the form of concrete and detailed policies, procedures and guidelines. The policy and procedures documents should build a framework for the effective and efficient management of the fund and should include:

- Investment Policy, including Risk Philosophy *(existing industry practice)*
- Operating Procedures *(existing industry practice)*
- Compliance Manual *(existing industry practice)*
- Code of Conduct *(existing industry practice)*
- Disaster Recovery and Business Contingency Plan *(to be mandated by SEBI)*
- Reporting Framework *(existing industry practice)*

2. Systems

The establishment of an enterprise-wise integrated systems architecture will substantially reduce operational risk. The systems of a Mutual Fund should include the following applications:

- Integrated front and back office systems for fund management, dealing, trade confirmation and settlement *(recommended best practice)*
- Fund accounting system for calculation of net asset values (NAVs) *(existing industry practice)*
- Unit-holder administration and servicing systems for customer service *(existing industry practice)*

- Financial accounting and reporting system for the AMC *(existing industry practice)*

Systems should ideally be integrated and developed using open platform architecture. They should facilitate straight-through processing and also be capable of generating the necessary reports to monitor and manage risks. Security features such as access control, firewalls and virus protection measures should also be established.

3. Organisation

The Mutual Fund organisation should be designed taking into account the following risk management principles:

- Segregation of front office and back office in the AMC *(existing industry practice)*
- Independent verification of data input *(existing industry practice)*
- Establishment of Committees for Investment, Valuation and Audit *(existing industry practice)*
- Development of a second line for key positions *(existing industry practice)*
- Establishment of a risk management function *(to be mandated by SEBI)*

The responsibility of understanding the risks run by the Mutual Fund and ensuring that they are appropriately managed ultimately rests with the Board of Trustees. The Board of Trustees must approve all the risk management and should delegate to the AMC the responsibility of the day-to-day execution of these policies.

Risk Management Function (To be Mandated by SEBI)

The Mutual Fund should have an independent risk management function consisting of one or more risk managers. This function will be responsible for identifying, evaluating or measuring all risks inherent in a mutual fund organisation, as well as establishing controls to mitigate such risks. The risks include:

- *Fund Management*: volatility in performance, style drift and portfolio concentration, interest rate movements, liquidity issues, credit risk
- *Operations:* deal errors, settlement problems, NAV and fund pricing errors, inaccurate financial reporting, fraud, failure of mission critical systems and infrastructure, obsolete systems
- *Customer Service:* errors in deal processing, other investor services, fraud
- *Marketing and Distribution:* new product development, selling and distribution
- *Other Business Risks:* critical knowledge loss, skills shortage, non-compliance, third party risks.

The function should be separate from fund management and should report to the Chief Executive Officer of the AMC. The function could be carried out in a number of ways:

- As an additional function of an existing employee of the AMC, e.g. the Compliance Officer or Internal Auditor;
- Through a Risk Management Committee;
- Outsourced to an external agency; or
- As the Trustees of the mutual fund may deem fit.

III. Fund Management

Policies and Procedures
Existing Industry Practice The Mutual Fund should have a documented investment policy. This should: ▪ articulate its investment strategy and risk philosophy (i.e. its attitude towards risk, and the amount of risk it is willing to take as part of its investment strategy) ▪ define the objectives of the Mutual Fund schemes, asset allocation targets and model portfolios (if used) ▪ define the investment process ▪ define limits and mechanisms for monitoring limits at various levels : asset class, industry sector, security, counterparty (these should be consistent with SEBI Regulations, where applicable) ▪ define exceptions and their monitoring ▪ include an approved list of brokers ▪ provide guidelines for transactions with associate companies and inter-scheme transfers ▪ define investment norms for debt instruments based on credit ratings.

Systems
Recommended Best Practice The Mutual Fund should ideally implement a front office system which is integrated with the back office system. This will facilitate: ▪ setting up of parameters such as asset allocation limits, counter parties, securities, associate classifications and authority levels

- straight-through processing (i.e. the flow of order and trade information from the front office to the back office without any manual intervention) to allow one time capture of investment decisions
- system check on preset parameters and reporting of breaches e.g. whether investments have been made in permitted securities or limits on deal size, etc. have been exceeded
- automatic time-stamping of deals
- maker-checker authorisations
- exception reporting
- monitoring of outstanding confirmations, settlements and payments
- access controls and firewall
- decision support capabilities and portfolio modelling (e.g. scenario analysis, what-if analysis)
- risk-adjusted performance measurement (e.g., Value at Risk (VaR) analysis)
- reporting on target vs. actual portfolio.

Organisation

Existing Industry Practice

- The Mutual Fund should establish an Investment Committee. This committee will be responsible for:
  - laying down the Mutual Fund's investment policy and philosophy with regard to different asset classes, sectors, counterparties, etc., as defined in the Investment Policy Manual
  - reviewing performance and positions with regard to the objectives of the schemes

○ researching and reviewing counterparties and debt issuers with regard to credit risk. ▪ The front office (fund management) and back office functions must be segregated. *Recommended Best Practice* ▪ The Mutual Fund should ideally have segregated research, portfolio management and dealing teams in the front office. *To be Mandated by SEBI* ▪ The risk management function should be responsible for risk measurement, management and monitoring.

Specific Risk Management Measures for Fund Management

Risks	Impact	Risk Management Measures
a. Volatility in performance	• Inconsistent or low returns leading to loss of investor confidence. • Erosion of assets under management leading to loss of revenue.	
i. Unexpected change in market conditions		*Existing Industry Practice* • The Mutual Fund should, at the minimum, adhere to all SEBI regulations relating to investment limits. • The Mutual Fund should carry out daily or weekly

		performance measurement, comparing Mutual Fund performance to a specified benchmark or peer group. • The Trustees should review the portfolio on a quarterly basis as required by SEBI Regulations. *Recommended Best Practice* • *Funds should consider using portfolio management tools for risk measurement, in keeping with international trends. These tools should be used to manage risks more effectively, and should be capable of carrying out the following analytics:* • Quantification of exposure using measures such as Value at Risk (VaR), duration, and tracking error • Risk adjusted performance measurement using Sharpe Ratios, Treynor Measures and Sortino Ratios • Risk benchmarking, i.e. the exposure arising between the actual managed portfolio and the benchmark portfolio

		• Stress testing and back testing of exposure calculations.e.g., Sharpe's Ratio, Treynor Measures, beta, FAMA decomposition, VaR, etc). • The mutual funds should consider using equity derivatives for hedging and rebalancing.
i. Quality of investment research, facilities, people, procedures		*Existing Industry Practice* • The Mutual Fund should document the rationale for an investment decision as required by the SEBI regulations. • Ideally, the Mutual Fund should have a dedicated research team. • The Mutual Fund should hire qualified and experienced portfolio managers, research analysts and dealers with adequate experience in the industry. They should be provided continuous training to understand new products, skills, markets and sectors. • The fund management and research teams should have

		access to research from multiple sources: both internal and external.
i. Execution of deals at sub optimal prices		*Recommended Best Practice* • As the industry matures and the volumes increase, the Mutual Fund should consider having a dedicated dealing function. • The Mutual Fund should ideally establish clear guidelines for best execution. Independent verification procedures for all deals should be established. Rates and prices for verification should be obtained from independent sources.
i. "Back to back" transactions in debt securities of associates or associate companies (as defined in the SEBI (Mutual Funds) Regulations, 1996 ii. Internal deals		*Existing Industry Practice* • All SEBI regulations regarding restrictions on associate transactions and investments as well as requirements for disclosure must be adhered to. • All SEBI regulations regarding the execution of the deal at the market price and the documentation of justification for the inter-scheme deal

between schemes or portfolios iii. Investments in securities issued by associates; purchases of securities owned by associates; sales of securities to associates. iv. Joint ventures with associates		must be adhered to. • The inter-scheme deal should be independently verified by Compliance.
a. Style drift and portfolio concentration	• Inconsistent / low returns vis-à-vis similar schemes in the market leading to low investor confidence. • Non-compliance with SEBI regulations.	*Existing Industry Practice* • All SEBI regulations with regard to investment limits must be adhered to at the time of making the investment. • The Investment Committee should review the portfolio on a regular basis to ensure compliance with regulations. • The compliance officer should monitor the portfolio and review all exceptions.

		• The Investment Committee should review on a daily or weekly basis the actual portfolio vis-à-vis the model portfolio. • The Investment Committee should have a stated strategy and action plan for rebalancing the portfolio.
a. Interest rate movements	• Inconsistent / low returns vis-à-vis similar schemes in the market	*Existing Industry Practice* • The Mutual Fund should have daily profit-and-loss reporting at securities and portfolio levels to the Investment Committee. *Recommended Best Practice* • The Mutual Fund should consider using interest rate derivatives to manage risk and rebalance portfolios.
a. Liquidity issues	• Delays or inability to meet redemptions leading to non-compliance with SEBI regulations • Low investor confidence leading to erosion of assets under management.	*Existing Industry Practice* • All SEBI regulations with regard to redemption periods for different scheme types must be adhered to. • The Investment Committee should monitor the portfolio on a daily basis and periodically review it to track illiquid assets and take

		corrective action. • The Mutual Fund should segregate corporate and retail investors and require the corporate investors to give prior notice of redemptions. • The Registrar & Transfer (R&T) agent should promptly inform the Mutual Fund of any large redemption. • The Mutual Fund should use tools such as stress-testing of redemptions on portfolios and asset-liability matching to assess liquidity risks. • With due allowance for the Mutual Fund's particular characteristics, the Mutual Fund's marketing efforts should strive to broaden its base so as to reduce its vulnerability to redemption surges. *Recommended Best Practice* • Funds should make suitable in-principle arrangements in advance for borrowing to deal with unexpected redemptions, in order to avoid delays and difficulties in resorting to

		borrowing when the need arises. The borrowing should not exceed SEBI limits of 20% of net assets under management.
a. Credit risk	• The issuer may default on principal / interest • Defaults may lead to low investor confidence and hence erosion of assets under management.	*Existing Industry Practice* • The Investment Committee should research and review issuers with regard to credit risk. • The Mutual Fund must adhere to all SEBI restrictions regarding investments in rated and unrated debt securities. • The Investment Committee should monitor the ratings of all debt issuers that the Mutual Fund has invested in.

IV. Operations Risks

Policies and Procedures
To be mandated by SEBI • The Mutual Fund must buy insurance cover against third party losses arising from errors and omissions. Third party liabilities refer to liabilities arising out of financial loss to investors or any other third party, incurred due to errors and omissions of directors, officers, employees, trustees, R&T agents, etc. The level

and type of cover should be determined by the Trustees, subject to a minimum level of Rs 5 crores. However, Mutual Funds with assets of less than Rs.100 Cr may take insurance cover for an amount of less than Rs.5 Cr as determined by their trustees. The premium for this cover may be paid for in accordance with SEBI regulations.

- Custodians must also buy separate insurance cover for errors and omissions.

Existing Industry Practice

- The Mutual Fund should purchase insurance to cover first party losses. First party losses are those which impact the insured and include asset based losses (due to natural or unnatural disasters such as fire, flood, burglary, etc.) as well as financial or data losses. They also include losses due to acts of infidelity by employees of the insured and computer based crimes such as hacking or virus attacks that may impact the data of the Mutual Fund.
- Compliance should review all trading activities at frequent intervals.
- Operating procedures should lay down reconciliation activities and their frequency:
    - End-of-day broker confirmations with records of deals
    - End-of-day reconciliation of positions with custodian data
    - At least once a week complete reconciliation of fund accounting system records with custodian records
    - Daily reconciliation between Mutual Fund and others (banks, counterparty, etc).
- The Mutual Fund should establish a personal trading policy and a code of conduct for employees.

Systems

Recommended Best Practice
• The Mutual Fund should consider implementing integrated front and back office systems which will facilitate:
  o Straight-through processing to allow one-time capture of trade details
  o Pre-trade compliance checking
  o Automatic time-stamping of deals
  o Maker-checker authorisations
  o Exception reporting
  o Generation of deal confirmations
  o Monitoring of outstanding confirmations, settlements and payments
  o Cash management
  o Access controls and firewalls, virus protection and other security functionality such as locking of trade data
  o Integrated reporting across the Mutual Fund.
Existing Industry Practice
• The Mutual Fund should ensure that the fund accounting systems used (in-house or by the fund accountant to whom this activity has been outsourced) facilitate:
  o Validation of NAV calculations
  o Automated and manual price feeds
  o Identification of missing prices
  o Flagging of price variances beyond pre-established tolerance levels.

Organisation
Existing Industry Practice

• The Mutual Fund should segregate duties to ensure that an independent person or department carries out matching of trade confirmations. • The Mutual Fund should appoint a Valuation Committee which meets periodically to review valuation policies.

Specific Risk Management Measures for Operations

Risks	**Impact**	**Risk Management Measures**
a. Deal errors	• Incorrect execution of deals in terms of price, volume or asset class, potentially leading to failure of settlement, financial loss or non-compliance with regulations.	*Recommended Best Practice* • The back office system should be integrated with the front office system to facilitate: • straight-through processing • one-time capture of trade details • maker-checker authorisations • in-built checks and validations. *Existing Industry Practice* • The Mutual Fund should not allow dealing through personal cell phones of dealers. • The Mutual Fund

		should have recording facilities in the dealing room.
a. Settlement problems	• Failure to provide securities or payment for securities leading to financial loss and/or reputation loss. • Unsettled deals can have an adverse impact on portfolio performance.	*Existing Industry Practice* • The Mutual Fund and its Investment Committee should maintain and proactively monitor credit information on all counterparties and establish counterparty lists and limits to avoid default on settlements. • The Mutual Fund should receive daily position reports from the custodian. • The Mutual Fund should establish service level agreements with custodians, including clauses that protect the fund and its investors from settlement errors by the custodian. • The Mutual Fund should move towards trading on the Negotiated Dealing

		System (NDS) for government securities. *Recommended Best Practice* • The back office system should facilitate daily fund projections to ascertain liquidity and settlement requirements.
a. NAV and fund pricing errors	• Incorrect NAV's lead to units being bought and sold at the wrong price and investors may be disadvantaged. • Misleading performance information to the investors. • Non-compliance with regulations.	*Existing Industry Practice* • The Mutual Fund must adhere to all SEBI regulations relating to valuation norms and daily or weekly disclosure of NAVs. • The Mutual Fund should appoint a Valuation Committee which meets periodically to review valuation policies. • The Mutual Fund should maintain documentation of all NAV procedures and methodologies and ensure that the documentation identifies all elements critical to

		NAV calculation. • The Mutual Fund should should ensure that the fund accounting systems used (in-house or by the fund accountant to whom this activity has been outsourced) facilitate: ○ validation of NAV calculations ○ automated and manual price feeds ○ identification of missing prices ○ flagging of price variances beyond pre-established tolerance levels. • The Mutual Fund should carry out periodic compliance and audit checks on the NAV calculation methodology to ensure accuracy of calculations and their compliance with the regulatory requirements.
a. Inaccurate	• Non-compliance with	*Existing Industry Practice*

financial reporting	regulations and loss of investor confidence on account of incorrect projection of financial health.	• All financial reporting should be subject to audits by internal and external auditors as well as the compliance officer, at quarterly intervals. • The Trustees should review all financial reporting to ensure transparency and accuracy. • The Mutual Fund should ensure that adequate disclosure is made with regard to derivative transactions, off-balance sheet items and contingent liabilities.
a. Fraud	• Non-compliance with regulations, financial loss, reputation loss.	*Existing Industry Practice* • The Mutual Fund should adhere to all SEBI regulations and guidelines with regard to personal trading, insider trading and front-running. • The Mutual Fund should establish a

		personal trading policy and code of conduct, which should be signed off by all employees at regular intervals. • The Mutual Fund should send continuous reminders about personal trading policies and possible action in case of violation of these policies, to its employees. • The Mutual Fund ideally should consider mandating use of a designated broker or its own dealing room for execution of personal trades of employees. • All customer assets must be maintained with the custodian. • The Mutual Fund should periodically provide training and information to all employees on compliance issues and policies on personal

		trading and fraud.
a. Failure of mission critical systems and infrastructure	• Failure to complete critical end-of-day operations such as NAV calculation, redemptions and settlement of trades leading to non-compliance and loss of reputation.	*To be Mandated by SEBI* • The Mutual Fund, and its Registrar and Transfer (R&T) agents and custodians, should have an off-site back up facility and a Business Contingency Plan that is tested and evaluated on a regular basis. The business contingency plan should be comprehensive and should cover information technology, infrastructure and personnel requirements. Such a contingency plan should allow the AMC to perform, at the bare minimum, the critical functions of mutual fund operations on "Day 1". These should include: ○ Calculation of daily NAVs ○ Redemption processing

		○ Outstanding trade settlements. *Existing Industry Practice* • The Mutual Fund should address issues of security and virus protection by using firewalls, access controls and appropriate virus control procedures for its systems and servers. • The Mutual Fund should carry out due diligence on all third-party systems before engaging them and ensure that they have appropriate business contingency plans in place.
a. Obsolete systems	• Operational errors, delay in meeting regulatory requirements, inefficient processing of customer related processes.	*Existing Industry Practice* • The Mutual Fund should carry out a periodic systems audit to ensure required functionality vis-à-vis products and regulatory requirements. • The Mutual Fund

		should carry out periodic stress testing of systems to ensure the ability to process large volumes at acceptable speeds. • The Mutual Fund should implement applications that are developed using open architecture in order to facilitate interfacing and integrating with other applications.

V. Customer Service

Policies and Procedures

Existing Industry Practice
• The Mutual Fund should define service levels with regard to investors and incorporate these in the service level agreements with the R&T agent.
• The Mutual Fund should establish reconciliation procedures with regard to:
  ○ matching of cash receipts to issue of units and cash payments to redemption of units
  ○ end-of-day reconciliation to ensure correct allotment, transfer, or redemption of units to investors
  ○ end-of-day reconciliation to ensure payment of commissions to all agents

- periodic reconciliation between the fund accounting system, R&T system and bank account.

- The Mutual Fund should purchase insurance to cover customer litigation.
- The service level clauses with the R&T agent should include a liability clause in case of errors and omissions.
- The Mutual Fund should have documented policies with regard to complaints handling.
- The Mutual Fund should conduct a periodic audit of all investor-related activities, carried out both by the Mutual Fund and the R&T agent, to ensure that all allotments, redemptions, income distributions and commission distributions have been accurate and timely. This audit should also include the dispatch of statements and annual reports.

To be Mandated by SEBI

- The R&T agent should be required to take separate cover for errors and omissions.

Systems

Existing Industry Practice

- The R&T system should ideally have the following functionality:
    - imaging and bar-coding of applications
    - automatic generation of customer confirmations
    - maker-checker authorizations
    - workflow based processing
    - in-built checks on price and units
    - flagging units that are pledged
    - interface capabilities with fund accounting system
    - automatic calculation of income and redemption amounts
    - automatic calculation of agent commissions with in-built checks for accuracy

◦ automatic printing of confirmations, statements, income and commission vouchers ◦ exception generation and reporting ◦ auto-update of account information ◦ interface capabilities with sales and marketing database ◦ support of customer and account relationship data model ◦ in-built checks to ensure all statements are printed. • The Mutual Fund should ideally establish electronic interfaces its with banking systems to allow for automatic instructions for payment and reconciliation.

Specific Risk Management Measures for Customer Service

Risks	**Impact**	**Risk Management Measures**
a. Errors in deal processing	• Failure to correctly and timely process customer transactions leading to loss of investor confidence and non-compliance.	*Existing Industry Practice* • The Mutual Fund should establish procedures for accepting applications and sending out end-of-day confirmations for transactions. Procedures should include scanning of all customer applications. The Mutual Fund should also consider tools such as bar-coding, optical character recognition (OCR),

		intelligent character recognition (ICR) and the use of pre-filled forms. • The R&T system should facilitate maker-checker authorizations. • The R&T system should facilitate reconciliation of cash and units. • The Mutual Fund should establish controls for alternate channels of distribution such as the telephone and Internet, if used. For transactions carried out over the telephone, call scripts should include confirmations of transaction details. Transactions via the Internet will transfer the responsibility of data entry and its accuracy to the investor.
a. Other investor services	• Failure to meet with regulatory standards leading to non-compliance.	*Existing Industry Practice* • All SEBI regulations with regard to investor servicing and complaint

	• Failure to satisfactorily meet investor complaints and queries, to calculate correct income and distribute it on time, and to provide comprehensive and accurate financial information leading to loss of investor confidence. • Failure to correctly calculate commissions for agents or to make payments to agents leading to loss of agent confidence in the Mutual Fund.	resolution, and its reporting, must be adhered to. • The complaint resolution system should facilitate: ○ tracking of complaint resolution ○ automatic update of complaints log and forwarding of complaints to the compliance officer. • All complaint resolution processes should be controlled by the compliance officer and the complaint log should be regularly reviewed for assessing the quality and timeliness of resolution. • The Mutual Fund should carry out an audit of all income calculations and commission calculations to ensure accuracy of payments. • The Mutual Fund

		should adopt the practice of direct debits to customers' and agents' bank accounts.
a. Fraud	• Financial loss to the Mutual Fund leading to erosion of per unit NAV.	*Existing Industry Practice* • All investor units should only be issued in dematerialized form. • The Mutual Fund should conduct periodic audits of customer account set-up and credit checks on customer accounts to prevent the setting-up of fraudulent accounts. • In instances where physical unit certificates are issued, the Mutual Fund should consider the use of bar coding, invisible ink or other tools to prevent the possibility of fraudulent certificates being redeemed. *Recommended Best Practice* • *Cash applications should not be permitted* • Redemptions should

		only be made to a bank account For any change in address request, the R&T agent should confirm the change to both the old and new addresses.

VI. Marketing & Distribution

Specific Risk Management Measures for Marketing and Distribution

Risks	**Impact**	**Risk Management Measures**
a. New product development	• Non-compliance with regulations, loss of market reputation and poor customer service leading to loss of investor confidence.	*Existing Industry Practice* • A new scheme should adhere to all required SEBI regulations which require every new scheme to be approved by the Trustees and the Board of Directors, and the offer document to be reviewed by SEBI. • The Mutual Fund should have a new product process in place. • All new schemes have to obtain clearance of the compliance officer and

		the regulator before they are launched. • Comprehensive market research should be undertaken by the Mutual Fund before the launching of a new product in order to assess the product's viability in the market. • The launch of a new product should have close involvement of the R&T agent and the IT teams, to enable evaluation of all infrastructure for its capacity to handle unexpectedly large volumes generated by a new scheme. Contingency arrangements should be made to handle overflow volumes.
a. Selling and distribution	• Financial loss or delayed returns to investors due to mis-selling, loss of reputation to the	*Existing Industry Practice* • The Mutual Fund should continuously pursue training and certification of all its distributors. It

	Mutual Fund.	should adopt strict polices and guidelines with regard to selling of its products and enforce these policies by getting the distributor to sign a declaration of adherence to a code of conduct. • The compliance officer should vet all marketing material and brochures given to the distributor. • The Mutual Fund should follow AMFI's Three Part Program for Distributors, comprising Training, Certification and Registration. • The Mutual Fund should use the services of only those distributors who have obtained certification. The Mutual Fund should empanel brokers based on specific criteria, including certification criteria. • The Mutual Fund should use techniques such as "mystery shoppers" and

		investor surveys to evaluate the adherence of distributors to the code of conduct. It should continuously carry out such checks on its distributors.

VII. Other Business Risks

Policies and Procedures
Existing Industry Practice • The Mutual Fund should have documented Human Resources (HR) policies and procedures. The policies and procedures should address issues such as: o attracting and retaining key skilled staff o succession planning o career development plan o training plan to equip new employees with relevant skills and to update skills of existing employees; training could be delivered in-house or through external institutions. • The Mutual Fund should have a well documented and comprehensive compliance manual as required by SEBI regulations, and an operations manual, which are accessible to all employees.

Organisation
Existing Industry Practice • The Mutual Fund should have qualified HR and administration staff with a sound knowledge of HR. • The Trustees Board composition should have a majority of

independent Trustees as specified by the SEBI regulations. • The compliance officer should have a direct reporting line to the Trustees.

Specific Risk Management Measures for Other Business Risks

Risks	**Impact**	**Risk Management Measures**
a. Critical knowledge loss	• Poor performance of the Mutual Fund in the market vis-à-vis other mutual funds.	*Existing Industry Practice* • The Mutual Fund should have documented HR policies and procedures addressing issues such as attracting and retaining key skilled staff. Incentives such as stock options, performance bonuses and competitive salaries should be considered. • The Mutual Fund should have well documented policies and procedures. • The HR plan should aim to identify and build a second line for key positions.

		The HR plan should also cover holiday planning in case of key employees going on leave.
a. Skills shortage	- Low growth and poor performance vis-à-vis other mutual funds in the market. - Lack of knowledgeable personnel in the organisation leading to a lackluster or negative image of the Mutual Fund in the market.	*Existing Industry Practice* - The Mutual Fund should have a training plan for employees to update their existing skills and equip them with new skills. The training plan should identify both in-house and external institutions training requirements. - The Mutual Fund should ideally have a dedicated knowledge management function within the organization to disseminate knowledge on new products, markets and developments. This function should maintain links to important information sources relevant for the industry.
a. Non-	Inability to meet with	*Existing Industry Practice*

compliance	regulatory requirements leading to a loss of reputation and loss of investor confidence.	• The compliance officer should adhere to all SEBI regulations with regard to the immediate reporting to SEBI of any instance of non-compliance by the Mutual Fund as well as periodic reporting to Trustees. • The Mutual Fund should have a well documented and comprehensive compliance manual, as required by SEBI regulations. This manual should be accessible to all employees. • All new employees should be made to undergo compliance training. • Trustees should adhere to all SEBI regulations regarding their responsibilities. • The Independent directors on the Mutual

		Fund Board and the Audit Committee should actively review functioning of the Mutual Fund. • The Compliance Department of the Mutual Fund should be staffed with people having legal, regulatory, accounting and other required expertise. • The compliance officer should have a direct reporting line to the Trustees. *Recommended Best Practice* • Trustees should update themselves with the general and specific roles and responsibilities expected of them, including the proposed Risk Management Framework.
a. Third party risks (R&T agent misuses	• Customer information gets shared with competitors. • Disruption to operations	*Existing Industry Practice* • The Mutual Fund should carry out due diligence on R&T agent

access to client information, R&T agent gets bought by a customer or goes out of business, custodian goes out of business).	• Financial loss to investors.	and custodians before selection. The service level agreements (SLA) should prohibit the misuse of client information. The Mutual Fund should conduct periodic audits of R&T and custodian activities. • The Mutual Fund should periodically review the arrangement with the R&T agent and the custodian, and also survey other service providers in the market.

APPENDIX A: FINAL RECOMMENDATIONS AS APPROVED BY THE AMFI BOARD ON 3 JULY 2002

PART 1: RECOMMENDATIONS TO BE MANDATED BY SEBI

1. Risk Management Function

We recommend that all funds should have an independent risk management function. This function will be responsible for identifying, evaluating or measuring all risks inherent in a mutual fund organisation, as well as establishing controls to mitigate such risks. The risks include:

- Fund Management: volatility in performance, style drift and portfolio concentration, interest rate movements, liquidity issues, credit risk
- Operations: deal errors, settlement problems, NAV and fund pricing errors, inaccurate financial reporting, fraud, failure of mission critical systems and infrastructure, obsolete systems
- Customer Service: errors in deal processing, other investor services, fraud
- Marketing and Distribution: new product development, selling and distribution
- Other Business Risks: critical knowledge loss, skills shortage, non-compliance, third party risks.

The function should be separate from fund management and should report to the Chief Executive Officer of the AMC. The function could be carried out in a number of ways:

- As an additional function of an existing employee of the AMC, e.g. the Compliance Officer or Internal Auditor;
- Through a Risk Management Committee;
- Outsourced to an external agency; or
- As the Trustees of the mutual fund may deem fit.

A Risk Management Framework manual detailing the policies and procedures, systems, organisation controls and specific risk management measures for the above risks will be prepared by AMFI.

The creation of such a function should be mandated by SEBI, with an implementation time frame of 3 months from the date of such mandate, or 1st January 2003, whichever is later.

1. Disaster Recovery and Business Contingency Plans

All funds, and their Registrar and Transfer (R&T) agents and custodians, should have an off-site back up facility and a Business Contingency Plan that is tested and evaluated on a regular basis. The business contingency plan should be comprehensive and should cover information technology, infrastructure and personnel requirements. Such a contingency plan should allow the AMC to perform, at the bare minimum, the critical functions of mutual fund operations on "Day 1". These should include:

1. Calculation of daily NAVs
2. Redemption processing
3. Outstanding trade settlements.

SEBI should mandate the above with an implementation time frame of 6 months from the date of such mandate.

1. Insurance

We recommend that funds should be required to buy insurance cover against third party losses arising from errors and omissions. The level and type of cover should be determined by the Trustees, subject to a minimum level of Rs 5 crores. However, Mutual Funds with assets of less than Rs.100 crores may take insurance cover for an amount of less than Rs.5 crore as determined by their trustees. The premium for this cover may be paid for in accordance with Chapter VII, Section 52 (4) (b) (x) of the Securities and Exchange Board of India (Mutual Fund) Regulations, 1996. R&T agents and custodians should also be required to take separate cover for errors and omissions.

PART 2: RECOMMENDATIONS TO BE ISSUED AS BEST PRACTICE GUIDELINES BY AMFI

These are recommended best practice measures that should be adopted as the industry matures and the operations of individual players grow in size and complexity.

1. Liquidity Risks

Funds should make suitable in-principle arrangements in advance for borrowing to deal with unexpected redemptions, in order to avoid delays and difficulties in resorting to borrowing when the need arises.

2. Use of Risk Measurement Tools in Portfolio Management

Mutual Funds should consider using one or more of the following portfolio management tools for risk measurement, in keeping with international trends. These tools should be used to manage risks more effectively, and should be capable of carrying out the following analytics:

- Quantification of exposure using measures such as Value at Risk (VaR), duration, and tracking error
- Risk adjusted performance measurement using Sharpe Ratios, Treynor Measures and Sortino Ratios
- Risk benchmarking, i.e. the exposure arising between the actual managed portfolio and the benchmark portfolio
- Stress testing and back testing of exposure calculations.

1. Front Office and Dealing Systems

Funds should consider implementing integrated front and back office systems which will facilitate straight-through processing, thereby reducing the possibility of input errors at any stage in the investment, dealing and settlement process. More importantly, a front office system with a robust compliance module will facilitate pre-trade compliance checks, thereby reducing the possibility of regulatory or internal limits being breached.

2. Dealing and Best Execution

Currently, most players are too small to warrant a segregation of duties between fund managing and dealing. However, as the industry matures and volumes increase, this will be an area that should be looked at more closely, with a view to setting clear guidelines for best execution.

3. Money Laundering

In the absence of any money laundering regulation in India, funds should, at a minimum, adopt the following measures:

- Cash applications should not be permitted
- Redemptions should only be made to a bank account
- For any change in address request, the R&T agent should confirm the change to both the old and new addresses.

ANNEXURE 3

Investment Valuation Norms for Mutual Funds[3]

All mutual funds shall provide transaction details of various types of debt securities like NCDs, Mibor linked floaters and CPs on daily basis in the format below to the agency recommended by AMFI. Submission of data would help in daily matrix generation, would improve uniformity and accuracy of valuation in the mutual funds industry.

Date Of Transaction	Coupon	Security Name	Security Type	Staggered Redemption/Maturity Dates	Staggered Redemption /Maturity Values	Rating	Put/Call Option Dates	Put/Call Option Values	Interest Payment Dates	Volume (in Rs. Crs)	Clean Price	YTM (Annualised)
			NCD									
			Mibor Linked									
			CP									

[3] SEBI Cir No - MFD/CIR.No 23 / 066 /2003 dated March 7, 2003

ANNEXURE 4

List of Million Plus Cities for investments by REMF[4]

Census of India 2001 (Provisional)

S.No.	**Name of City**	**Civic Status**	**State/Union Territory**
1	2	3	4
1	Greater Mumbai	M.Corp.	Maharashtra
2	Delhi Municipal Corporation (Urban)	M.Corp.	Delhi
3	Kolkata	M.Corp.	West Bengal
4	Bangalore	M.Corp.	Karnataka
5	Chennai	M.Corp.	Tamil Nadu
6	Ahmedabad	M.Corp.	Gujarat
7	Hyderabad	M.Corp.	Andhra Pradesh
8	Pune	M.Corp.	Maharashtra
9	Kanpur	M.Corp.	Uttar Pradesh
10	Surat	M.Corp.	Gujarat
11	Jaipur	M.Corp	Rajasthan
12	Lucknow	M.Corp.	Uttar Pradesh
13	Nagpur	M.Corp.	Maharashtra
14	Indore	M.Corp.	Madhya Pradesh
15	Bhopal	M.Corp.	Madhya Pradesh
16	Ludhiana	M.Corp.	Punjab
17	Patna	M.Corp	Bihar
18	Vadodara	M.Corp.	Gujarat
19	Thane	M.Corp.	Maharashtra
20	Agra	M.Corp.	Uttar Pradesh
21	Kalyan-Dombivli	M.Corp.	Maharashtra
22	Varanasi	M.Corp.	Uttar Pradesh
23	Nashik	M.Corp.	Maharashtra
24	Meerut	M.Corp.	Uttar Pradesh
25	Faridabad	M.Corp.	Haryana
26	Haora	M.Corp.	West Bengal
27	Pimprichinchwad	M.Corp.	Maharashtra

[4] SEBI/IMD/CIR No.4/124477/08 dated May 2, 2008

Total:

Note:

M. Corp. stands for Municipal Corporation

List of Million Plus UAs Cities for investments by REMF

Urban Agglomerations/Cities having population of more than one million in 2001

Rank in 2001	Urban Agglomeration/City (1,000,000 + population)	Civic Status
1	2	3
1	Greater Mumbai	UA
2	Kolkata	UA
3	Delhi	UA
4	Chennai	UA
5	Bangalore	UA
6	Hyderabad	UA
7	Ahmadabad	UA
8	Pune	UA
9	Surat	UA
10	Kanpur	UA
11	Jaipur	M.Corp.
12	Lucknow	UA
13	Nagpur	UA
14	Patna	UA
15	Indore	UA
16	Vadodara	UA
17	Bhopal	UA
18	Coimbatore	UA
19	Ludhiana	M.Corp.
20	Kochi	UA
21	Visakhapatnam	UA
22	Agra	UA
23	Varanasi	UA
24	Madurai	UA
25	Meerut	UA
26	Nashik	UA
27	Jabalpur	UA
28	Jamshedpur	UA
29	Asansol	UA
30	Dhanbad	UA
31	Faridabad	M.Corp.

32	Allahabad	UA
33	Amritsar	UA
34	Vijayawada	UA
35	Rajkot	UA
	TOTAL	

ANNEXURE 5

SECURITIES AND EXCHANGE BOARD OF INDIA

SEBI INVESTOR EDUCATION PROGRAMME[5]

(INVESTMENTS IN MUTUAL FUNDS)

Introduction

Different investment avenues are available to investors. Mutual funds also offer good investment opportunities to the investors. Like all investments, they also carry certain risks. The investors should compare the risks and expected yields after adjustment of tax on various instruments while taking investment decisions. The investors may seek advice from experts and consultants including agents and distributors of mutual funds schemes while making investment decisions.

With an objective to make the investors aware of functioning of mutual funds, an attempt has been made to provide information in question-answer format which may help the investors in taking investment decisions.

What is a Mutual Fund?

Mutual fund is a mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with objectives as disclosed in offer document.

Investments in securities are spread across a wide cross-section of industries and sectors and thus the risk is reduced. Diversification

[5] MFD / CIR No.13 /370 /02 dated January 16, 2002

reduces the risk because all stocks may not move in the same direction in the same proportion at the same time. Mutual fund issues units to the investors in accordance with quantum of money invested by them. Investors of mutual funds are known as unitholders.

The profits or losses are shared by the investors in proportion to their investments. The mutual funds normally come out with a number of schemes with different investment objectives which are launched from time to time. A mutual fund is required to be registered with Securities and Exchange Board of India (SEBI) which regulates securities markets before it can collect funds from the public.

What is the history of Mutual Funds in India and role of SEBI in mutual funds industry?

Unit Trust of India was the first mutual fund set up in India in the year 1963. In early 1990s, Government allowed public sector banks and institutions to set up mutual funds.

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 risks associated with the schemes launched by the mutual funds sponsored by these entities are of similar type.

How is a mutual fund set up?

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 unitholders. 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.

What is Net Asset Value (NAV) of a scheme?

The performance of a particular scheme of a mutual fund is denoted by

Net Asset Value (NAV).

Mutual funds invest the money collected from the investors in securities markets. In simple words, Net Asset Value is the market value of the securities held by the scheme. Since market value of securities changes every day, NAV of a scheme also varies on day to day basis. The NAV per unit is the market value of securities of a scheme divided by the total number of units of the scheme on any particular date. For example, if the market value of securities of a mutual fund scheme is Rs 200 lakhs and the mutual fund has issued 10 lakhs units of Rs. 10 each to the investors, then the NAV per unit of the fund is Rs.20. NAV is required to be disclosed by the mutual funds on a regular basis - daily or weekly - depending on the type of scheme.

What are the different types of mutual fund schemes?

Schemes according to Maturity Period:

A mutual fund scheme can be classified into open-ended scheme or close-ended scheme depending on its maturity period.

Open-ended Fund/ Scheme

An open-ended fund or scheme is one that is available for subscription and repurchase on a continuous basis. These schemes do not have a fixed maturity period. Investors can conveniently buy and sell units at Net Asset Value (NAV) related prices which are declared on a daily basis. The key feature of open-end schemes is liquidity.

Close-ended Fund/ Scheme

A close-ended fund or scheme has a stipulated maturity period e.g. 5-7 years. The fund is open for subscription only during a specified period at the time of launch of the scheme. Investors can invest in the scheme at the time of the initial public issue and thereafter they can buy or sell the units of the scheme on the stock exchanges where the units are listed. In order to provide an exit route to the investors, some close-ended funds give an option of selling back the units to the mutual fund through periodic repurchase at NAV related prices. SEBI Regulations stipulate that at least one of the two exit routes is provided to the investor i.e. either repurchase facility or through listing on stock exchanges. These mutual funds schemes disclose NAV generally on weekly basis.

Schemes according to Investment Objective:

A scheme can also be classified as growth scheme, income scheme, or balanced scheme considering its investment objective. Such schemes may be open-ended or close-ended schemes as described earlier. Such schemes may be classified mainly as follows:

Growth / Equity Oriented Scheme

The aim of growth funds is to provide capital appreciation over the medium to long- term. Such schemes normally invest a major part of their corpus in equities. Such funds have comparatively high risks. These schemes provide different options to the investors like dividend option, capital appreciation, etc. and the investors may choose an option depending on their preferences. The investors must indicate the option in the application form. The mutual funds also allow the investors to change the options at a later date. Growth schemes are good for investors having a long-term outlook seeking appreciation over a period of time.

Income / Debt Oriented Scheme

The aim of income funds is to provide regular and steady income to investors. Such schemes generally invest in fixed income securities such as bonds, corporate debentures, Government securities and money market instruments. Such funds are less risky compared to equity schemes. These funds are not affected because of fluctuations in equity markets. However, opportunities of capital appreciation are also limited in such funds. The NAVs of such funds are affected because of change in interest rates in the country. If the interest rates fall, NAVs of such funds are likely to increase in the short run and vice versa. However, long term investors may not bother about these fluctuations.

Balanced Fund

The aim of balanced funds is to provide both growth and regular income as such schemes invest both in equities and fixed income securities in the proportion indicated in their offer documents. These are appropriate for investors looking for moderate growth. They generally invest 40-60% in equity and debt instruments. These funds are also affected because of fluctuations in share prices in the stock markets. However, NAVs of such funds are likely to be less volatile compared to pure equity funds.

Money Market or Liquid Fund

These funds are also income funds and their aim is to provide easy liquidity, preservation of capital and moderate income. These schemes invest exclusively in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money, government securities, etc. Returns on these schemes fluctuate much less compared to other funds. These funds are appropriate for corporate and individual investors as a means to park their surplus funds for short periods.

Gilt Fund

These funds invest exclusively in government securities. Government securities have no default risk. NAVs of these schemes also fluctuate due to change in interest rates and other economic factors as is the case with income or debt oriented schemes.

Index Funds

Index Funds replicate the portfolio of a particular index such as the BSE Sensitive index, S&P NSE 50 index (Nifty), etc These schemes invest in the securities in the same weightage comprising of an index. NAVs of such schemes would rise or fall in accordance with the rise or fall in the index, though not exactly by the same percentage due to some factors known as "tracking error" in technical terms. Necessary disclosures in this regard are made in the offer document of the mutual fund scheme.

There are also exchange traded index funds launched by the mutual funds which are traded on the stock exchanges.

What are sector specific funds/schemes?

These are the funds/schemes which invest in the securities of only those sectors or industries as specified in the offer documents. e.g. Pharmaceuticals, Software, Fast Moving Consumer Goods (FMCG), Petroleum stocks, etc. The returns in these funds are dependent on the performance of the respective sectors/industries. While these funds may give higher returns, they are more risky compared to diversified funds. Investors need to keep a watch on the performance of those sectors/industries and must exit at an appropriate time. They may also seek advice of an expert.

What are Tax Saving Schemes?

These schemes offer tax rebates to the investors under specific provisions of the Income Tax Act, 1961 as the Government offers tax incentives for investment in specified avenues. e.g. Equity Linked Savings Schemes (ELSS). Pension schemes launched by the mutual funds also offer tax benefits. These schemes are growth oriented and invest pre-dominantly in equities. Their growth opportunities and risks associated are like any equity-oriented scheme.

What is a Fund of Funds (FoF) scheme?

A scheme that invests primarily in other schemes of the same mutual fund or other mutual funds is known as a FoF scheme. An FoF scheme enables the investors to achieve greater diversification through one scheme. It spreads risks across a greater universe.

What is a Load or no-load Fund?

A Load Fund is one that charges a percentage of NAV for entry or exit. That is, each time one buys or sells units in the fund, a charge will be payable. This charge is used by the mutual fund for marketing and distribution expenses. Suppose the NAV per unit is Rs.10. If the entry as well as exit load charged is 1%, then the investors who buy would be required to pay Rs.10.10 and those who offer their units for repurchase to the mutual fund will get only Rs.9.90 per unit. The investors should take the loads into consideration while making investment as these affect their yields/returns. However, the investors should also consider the performance track record and service standards of the mutual fund which are more important. Efficient funds may give higher returns in spite of loads.

A no-load fund is one that does not charge for entry or exit. It means the investors can enter the fund/scheme at NAV and no additional charges are payable on purchase or sale of units.

Can a mutual fund impose fresh load or increase the load beyond the level mentioned in the offer documents?

Mutual funds cannot increase the load beyond the level mentioned in the offer document. Any change in the load will be applicable only to prospective investments and not to the original investments. In case of imposition of fresh loads or increase in existing loads, the mutual funds are required to amend their offer documents so that the new investors are aware of loads at the time of investments.

What is a sales or repurchase/redemption price?

The price or NAV a unitholder is charged while investing in an open-ended scheme is called sales price. It may include sales load, if applicable.

Repurchase or redemption price is the price or NAV at which an open-ended scheme purchases or redeems its units from the unitholders. It may include exit load, if applicable.

What is an assured return scheme?

Assured return schemes are those schemes that assure a specific return to the unitholders irrespective of performance of the scheme.

A scheme cannot promise returns unless such returns are fully guaranteed by the sponsor or AMC and this is required to be disclosed in the offer document.

Investors should carefully read the offer document whether return is assured for the entire period of the scheme or only for a certain period. Some schemes assure returns one year at a time and they review and change it at the beginning of the next year.

Can a mutual fund change the asset allocation while deploying funds of investors?

Considering the market trends, any prudent fund managers can change the asset allocation i.e. he can invest higher or lower percentage of the fund in equity or debt instruments compared to what is disclosed in the offer document. It can be done on a short term basis on defensive considerations i.e. to protect the NAV. Hence the fund managers are allowed certain flexibility in altering the asset allocation considering the interest of the investors. In case the mutual fund wants to change the asset allocation on a permanent basis, they are required to inform the unitholders and giving them option to exit the scheme at prevailing NAV without any load.

How to invest in a scheme of a mutual fund?

Mutual funds normally come out with an advertisement in newspapers publishing the date of launch of the new schemes. Investors can also contact the agents and distributors of mutual funds who are spread all over the country for necessary information and application forms. Forms can be deposited with mutual funds through the agents and distributors who provide such services. Now a days, the post offices and banks also distribute the units of mutual funds. However, the investors may please note that the mutual funds schemes being marketed by banks and post offices should not be taken as their own schemes and no assurance of returns is given by them. The only role of banks and post offices is to help in distribution of mutual funds schemes to the investors.

Investors should not be carried away by commission/gifts given by agents/distributors for investing in a particular scheme. On the other hand they must consider the track record of the mutual fund and should take objective decisions.

Can non-resident Indians (NRIs) invest in mutual funds?

Yes, non-resident Indians can also invest in mutual funds. Necessary details in this respect are given in the offer documents of the schemes.

How much should one invest in debt or equity oriented schemes?

An investor should take into account his risk taking capacity, age factor, financial position, etc. As already mentioned, the schemes invest in different type of securities as disclosed in the offer documents and offer different returns and risks. Investors may also consult financial experts before taking decisions. Agents and distributors may also help in this regard.

How to fill up the application form of a mutual fund scheme?

An investor must mention clearly his name, address, number of units applied for and such other information as required in the application form. He must give his bank account number so as to avoid any fraudulent encashment of any cheque/draft issued by the mutual fund at a later date for the purpose of dividend or repurchase. Any changes in the address, bank account number, etc at a later date should be informed to the mutual fund immediately.

What should an investor look into an offer document?

An abridged offer document, which contains very useful information, is required to be given to the prospective investor by the mutual fund. The application form for subscription to a scheme is an integral part of the offer document. SEBI has prescribed minimum disclosures in the offer document. An investor, before investing in a scheme, should carefully read the offer document. Due care must be given to portions relating to main features of the scheme, risk factors, initial issue expenses and recurring expenses to be charged to the scheme, entry or exit loads, sponsor's track record, educational qualification and work experience of key personnel including fund managers, performance of other schemes launched by the mutual fund in the past, pending litigations and penalties imposed, etc.

When will the investor get certificate or statement of account after investing in a mutual fund?

Mutual funds are required to despatch certificates or statements of accounts within six weeks from the date of closure of the initial subscription of the scheme. In case of close-ended schemes, the investors would get either a demat account statement or unit certificates as these are traded in the stock exchanges. In case of open-ended schemes, a statement of account is issued by the mutual fund within 30 days from the date of closure of initial public offer of the scheme. The procedure of repurchase is mentioned in the offer document.

How long will it take for transfer of units after purchase from stock markets in case of close-ended schemes?

According to SEBI Regulations, transfer of units is required to be done within thirty days from the date of lodgment of certificates with the mutual fund.

As a unitholder, how much time will it take to receive dividends/repurchase proceeds?

A mutual fund is required to despatch to the unitholders the dividend warrants within 30 days of the declaration of the dividend and the redemption or repurchase proceeds within 10 working days from the date of redemption or repurchase request made by the unitholder.

In case of failures to despatch the redemption/repurchase proceeds within the stipulated time period, Asset Management Company is liable to pay interest as specified by SEBI from time to time (15% at present).

Can a mutual fund change the nature of the scheme from the one specified in the offer document?

Yes. However, no change in the nature or terms of the scheme, known as fundamental attributes of the scheme e.g. structure, investment pattern, etc. can be carried out unless a written communication is sent to each unitholder and an advertisement is given in one English daily having nationwide circulation and in a newspaper published in the language of the region where the head office of the mutual fund is situated. The unitholders have the right to exit the scheme at the prevailing NAV without any exit load if they do not want to continue with the scheme. The mutual funds are also required to follow similar procedure while converting the scheme form close-ended to open-ended scheme and in case of change in sponsor.

How will an investor come to know about the changes, if any, which may occur in the mutual fund?

There may be changes from time to time in a mutual fund. The mutual funds are required to inform any material changes to their unitholders.

Apart from it, many mutual funds send quarterly newsletters to their investors.

At present, offer documents are required to be revised and updated at least once in two years. In the meantime, new investors are informed about the material changes by way of addendum to the offer document till the time offer document is revised and reprinted.

How to know the performance of a mutual fund scheme?

The performance of a scheme is reflected in its net asset value (NAV) which is disclosed on daily basis in case of open-ended schemes and on weekly basis in case of close-ended schemes. The NAVs of mutual funds are required to be published in newspapers. The NAVs are also available on the web sites of mutual funds. All mutual funds are also required to put their NAVs on the web site of Association of Mutual Funds in India (AMFI) www.amfiindia.com and thus the investors can access NAVs of all mutual funds at one place

The mutual funds are also required to publish their performance in the form of half-yearly results which also include their returns/yields over a period of time i.e. last six months, 1 year, 3 years, 5 years and since inception of schemes. Investors can also look into other details like percentage of expenses of total assets as these have an affect on the yield and other useful information in the same half-yearly format.

The mutual funds are also required to send annual report or abridged annual report to the unitholders at the end of the year.

Various studies on mutual fund schemes including yields of different schemes are being published by the financial newspapers on a weekly basis. Apart from these, many research agencies also publish research reports on performance of mutual funds including the ranking of various schemes in terms of their performance. Investors should study these reports and keep themselves informed about the performance of various schemes of different mutual funds.

Investors can compare the performance of their schemes with those of other mutual funds under the same category. They can also compare the performance of equity oriented schemes with the benchmarks like BSE Sensitive Index, S&P CNX Nifty, etc.

On the basis of performance of the mutual funds, the investors should decide when to enter or exit from a mutual fund scheme.

How to know where the mutual fund scheme has invested money mobilised from the investors?

The mutual funds are required to disclose full portfolios of all of their schemes on half-yearly basis which are published in the newspapers. Some mutual funds send the portfolios to their unitholders.

The scheme portfolio shows investment made in each security i.e. equity, debentures, money market instruments, government securities, etc. and their quantity, market value and % to NAV. These portfolio statements also required to disclose illiquid securities in the portfolio, investment made in rated and unrated debt securities, non-performing assets (NPAs), etc.

Some of the mutual funds send newsletters to the unitholders on quarterly basis which also contain portfolios of the schemes.

Is there any difference between investing in a mutual fund and in an initial public offering (IPO) of a company?

Yes, there is a difference. IPOs of companies may open at lower or higher price than the issue price depending on market sentiment and perception of investors. However, in the case of mutual funds, the par value of the units may not rise or fall immediately after allotment. A mutual fund scheme takes some time to make investment in securities. NAV of the scheme depends on the value of securities in which the funds have been deployed.

If schemes in the same category of different mutual funds are available, should one choose a scheme with lower NAV?

Some of the investors have the tendency to prefer a scheme that is available at lower NAV compared to the one available at higher NAV. Sometimes, they prefer a new scheme which is issuing units at Rs. 10 whereas the existing schemes in the same category are available at much higher NAVs. Investors may please note that in case of mutual funds schemes, lower or higher NAVs of similar type schemes of different mutual funds have no relevance. On the other hand, investors should choose a scheme based on its merit considering performance track record of the mutual fund, service standards, professional management, etc. This is explained in an example given below.

Suppose scheme A is available at a NAV of Rs.15 and another scheme B at Rs.90. Both schemes are diversified equity oriented schemes. Investor has put Rs. 9,000 in each of the two schemes. He would get 600 units (9000/15) in scheme A and 100 units (9000/90) in scheme B. Assuming that the markets go up by 10 per cent and both the schemes perform equally good and it is reflected in their NAVs. NAV of scheme A would go up to Rs. 16.50 and that of scheme B to Rs. 99. Thus, the market value of investments would be Rs. 9,900 (600* 16.50) in scheme A and it would be the same amount of Rs. 9900 in scheme B (100*99). The investor would get the same return of 10% on his investment in each of the schemes. Thus, lower or higher NAV of the schemes and allotment of higher or lower number of units within the amount an investor is willing to invest, should not be the factors for making investment decision. Likewise, if a new equity oriented scheme is being offered at Rs.10 and an existing scheme is available for Rs. 90, should not be a factor for decision making by the investor. Similar is the case with income or debt-oriented schemes.

On the other hand, it is likely that the better managed scheme with higher NAV may give higher returns compared to a scheme which is available at lower NAV but is not managed efficiently. Similar is the case of fall in NAVs. Efficiently managed scheme at higher NAV may not fall as much as inefficiently managed scheme with lower NAV. Therefore, the investor should give more weightage to the professional management of a scheme instead of lower NAV of any scheme. He may get much higher number of units at lower NAV, but the scheme may not give higher returns if it is not managed efficiently.

How to choose a scheme for investment from a number of schemes available?

As already mentioned, the investors must read the offer document of the mutual fund scheme very carefully. They may also look into the past track record of performance of the scheme or other schemes of the same mutual fund. They may also compare the performance with other schemes having similar investment objectives. Though past performance of a scheme is not an indicator of its future performance and good performance in the past may or may not be sustained in the future, this is one of the important factors for making investment decision. In case of debt oriented schemes, apart from looking into past returns, the investors should also see the quality of debt instruments which is reflected in their rating. A scheme with lower rate of return but having investments in better rated instruments may be safer. Similarly, in equities schemes also, investors may look for quality of portfolio. They may also seek advice of experts.

Are the companies having names like mutual benefit the same as mutual funds schemes?

Investors should not assume some companies having the name "mutual benefit" as mutual funds. These companies do not come under the purview of SEBI. On the other hand, mutual funds can mobilise funds from the investors by launching schemes only after getting registered with SEBI as mutual funds.

Is the higher net worth of the sponsor a guarantee for better returns?

In the offer document of any mutual fund scheme, financial performance including the net worth of the sponsor for a period of three years is required to be given. The only purpose is that the investors should know the track record of the company which has sponsored the mutual fund. However, higher net worth of the sponsor does not mean that the scheme would give better returns or the sponsor would compensate in case the NAV falls.

Where can an investor look out for information on mutual funds?

Almost all the mutual funds have their own web sites. Investors can also access the NAVs, half-yearly results and portfolios of all mutual funds at the web site of Association of mutual funds in India (AMFI) www.amfiindia.com. AMFI has also published useful literature for the investors.

Investors can log on to the web site of SEBI www.sebi.gov.in and go to "Mutual Funds" section for information on SEBI regulations and guidelines, data on mutual funds, draft offer documents filed by mutual funds, addresses of mutual funds, etc. Also, in the annual reports of SEBI available on the web site, a lot of information on mutual funds is given.

There are a number of other web sites which give a lot of information of various schemes of mutual funds including yields over a period of time. Many newspapers also publish useful information on mutual funds on daily and weekly basis. Investors may approach their agents and distributors to guide them in this regard.

Can an investor appoint a nominee for his investment in units of a mutual fund?

Yes. The nomination can be made by individuals applying for / holding units on their own behalf singly or jointly. Non-individuals including society, trust, body corporate, partnership firm, Karta of Hindu Undivided Family, holder of Power of Attorney cannot nominate.

If mutual fund scheme is wound up, what happens to money invested?

In case of winding up of a scheme, the mutual funds pay a sum based on prevailing NAV after adjustment of expenses. Unitholders are entitled to receive a report on winding up from the mutual funds which gives all necessary details.

How can the investors redress their complaints?

Investors would find the name of contact person in the offer document of the mutual fund scheme whom they may approach in case of any query, complaints or grievances. Trustees of a mutual fund monitor the activities of the mutual fund. The names of the directors of asset management company and trustees are also given in the offer documents. Investors should approach the concerned Mutual Fund / Investor Service Centre of the Mutual Fund with their complaints,

If the complaints remain unresolved, the investors may approach SEBI for facilitating redressal of their complaints. On receipt of complaints, SEBI takes up the matter with the concerned mutual fund and follows up with it regularly. Investors may send their complaints to:

Securities and Exchange Board of India

Office of Investor Assistance and Education (OIAE)

Exchange Plaza, “G” Block, 4th Floor,

Bandra-Kurla Complex,

Bandra (E), Mumbai – 400 051.

Phone: 26598510-13

What is the procedure for registering a mutual fund with SEBI?

An applicant proposing to sponsor a mutual fund in India must submit an application in Form A along with a fee of Rs.1lakh. The application is examined and once the sponsor satisfies certain conditions such as being in the financial services business and possessing positive net worth for the last five years, having net profit in three out of the last five years and possessing the general reputation of fairness and integrity in all business transactions, it is required to complete the remaining formalities for setting up a mutual fund. These include inter alia, executing the trust deed and investment management agreement, setting up a trustee company/board of trustees comprising two-thirds independent trustees, incorporating the asset management company (AMC), contributing to at least 40% of the net worth of the AMC and appointing a custodian. Upon satisfying these conditions, the registration certificate is issued subject to the payment of registration fees of Rs.25 lakhs. For details, see the SEBI (Mutual Funds) Regulations, 1996.

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ANNEXURE 6[6]

THE GAZETTE OF INDIA
EXTRAORDINARY
PART - III - SECTION 4
PUBLISHED BY AUTHORITY
NEW DELHI, MAY 31, 2010
SECURITIES AND EXCHANGE BOARD OF INDIA
NOTIFICATION
Mumbai, the 31st May, 2010

Notification under regulation 3 of the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007.

In terms of sub-regulation (1) of regulation 3 of the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007 (the Regulations), the Board is empowered to require, by notification, any category of associated persons as defined in the Regulations to obtain requisite certification.

Accordingly, it is notified that with effect from June 01, 2010, the following category of associated persons, i.e., distributors, agents or any persons employed or engaged or to be employed or engaged in the sale and/or distribution of mutual fund products, shall be required to have a valid certification from the National Institute of Securities Markets (NISM) by passing the certification examination as mentioned in the NISM communiqué NISM/Certification/Series-V-A: MFD/2010/01 dated May 05, 2010.

Provided that if the said associated person possesses a valid certificate by passing before June 01, 2010, the AMFI Mutual Fund (Advisors) Module, he shall be exempted from the requirement of the aforementioned NISM certification examination.

LAD-NRO/GN/2010-11/09/6422

C. B. BHAVE
CHAIRMAN
SECURITIES AND EXCHANGE BOARD OF INDIA

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[6] SEBI Cir no Cir / IMD / DF / 5 / 2010 dated June 24 , 2010