

C. REGISTRATION AND REGULATION OF COLLECTIVE INVESTMENT SCHEMES INCLUDING MUTUAL FUNDS

Registration of mutual funds

During the year, registration was granted to 3 new mutual funds in the private sector out of which 2 were sponsored by foreign entities. With these registrations, there are a total of 40 mutual funds, excluding UTI operating in India as on March 31, 1999. Though UTI is not registered with the SEBI, there is an arrangement of voluntary compliance of regulations by the UTI. It may be mentioned here that there are 3 mutual funds under suspension and have been prohibited from launching new schemes. The number of mutual funds registered with SEBI are given below (Table 3.8).

Table 3.8 : Mutual Funds Registered with SEBI

<i>Sector</i>	<i>As on 31/03/98</i>	<i>As on 31/03/99</i>
Public Sector	9	9
Private Sector	28	31
Total	37	40

Source : SEBI

Regulatory compliance

The emphasis of SEBI during the year has been on compliance of regulations by the mutual funds. Individual meetings were held with the compliance officers of many of the mutual funds to obtain an insight into the performance of the compliance function and to elicit their views regarding the interpretation of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996. Also, the doubts of compliance officers on the interpretation of regulations were clarified during the meetings.

Inspections of all 33 active mutual funds, including UTI, was undertaken during the year to be carried out by independent chartered accountancy firms covering the period till March 1998. A detailed guidance note, including a comprehensive check-list was issued to the independent auditors. They were required to comment on compliance of each regulation in their reports. The terms of reference for the inspections were elaborated and expanded so as to cover the main thrust areas for inspection. The scope of inspection being thus clearly defined, it facilitated the process of inspection and preparation of reports in a uniform manner. Warning and deficiency letters were issued to many mutual funds on the basis of findings of inspection reports and they were advised to take corrective action and report to SEBI.

It was ensured that the grievances of investors against mutual funds are attended on priority basis. The redressal rate of grievances has shown a significant improvement as a result of constant follow-up with the mutual funds. Meetings were held with the investor service officers of various mutual funds.

The in-principle approvals given to thirteen applicants for establishing new mutual funds were revoked during the year. A total of 26 deficiency and warning letters were issued to mutual funds on various issues relating to regulatory norms.

The SEBI has created a data base of key personnel of mutual funds during the year. The data-base includes details regarding educational qualifications, employment record and regulatory violations or convictions, if any. The data-base enables the maintenance of a record of professionals in the mutual fund industry besides throwing up useful information such as mobility of professionals across the industry and general level of experience and qualifications.

Compliance of mutual funds in respect of assured return schemes

The SEBI focused its attention on schemes with assured return and took steps to protect the interest of investors. There have been cases where the schemes have been unable to generate adequate income to meet their obligation of payment of returns as specified in their offer documents. In such cases the SEBI intervened and directed the mutual funds to ensure that the mutual funds meet the commitment of assured returns. Some of these instances where the sponsors have met the commitments of the Funds under the directions of the SEBI are :

- I. Indjyothi Scheme of Indian Bank Mutual Fund, launched prior to the notification of the 1993 Regulations was unable to pay assured returns for the year 1996-97 and 1997-98 to the investors due to inadequacy of profits. SEBI advised the Fund to meet the assurances and the sponsor of the Fund – Indian Bank, agreed to pay the assured returns. Subsequently, an amount of Rs 23.18 crore, paid to the investors of the Scheme.
- II. An assured return scheme of SBI Mutual Fund, Magnum Triple Plus Scheme, faced a shortfall of about Rs. 115 crore. The SEBI took up the matter with SBI Mutual Fund and consequently the sponsor of the Fund, State Bank of India funded the shortfall.
- III. The SEBI also took up the matter of payment of assured returns under Canstar scheme of Canabank Mutual Fund. Subsequently, Canara Bank offered to repurchase the units of Canstar Scheme from those unitholders who could not avail of the offer in the year 1997.
- IV. Bank of India, the sponsor of BOI Mutual Fund, also paid Rs. 27.96 crore towards meeting the repurchase obligations under the Double Square Plus scheme.
- V. A scheme of GIC Mutual Fund, GIC Rise II which was due for redemption faced similar problems in meeting the assured returns. The sponsor, GIC and its subsidiary companies have decided to meet the shortfall by making an arrangement with GIC Mutual Fund. As per this arrangement, GIC MF would allot to GIC on the due date of redemption of the scheme, special units against payment of funds by GIC, which would be equal to the redemption obligations under the schemes.

