

## **INVESTMENTS IN MUTUAL FUNDS - FAQs**

### **FAQs for Investors**

#### **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 returns after adjustment of tax on various instruments while taking investment decisions. The investors may seek advice from experts 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 money 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 diversified because all stocks may not move in the same direction in the same proportion at the same time. Mutual funds issue 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 investors in proportion to their investments. Mutual funds normally come out with a number of schemes which are launched from time to time with different investment objectives. A mutual fund is required to be registered with Securities and Exchange Board of India (SEBI) 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 late 1980s, 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, regulates and supervises mutual funds to protect the interest of the investors. SEBI notified regulations for 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 through circulars to 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.

### **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. AMC approved by SEBI manages the funds by making investments in various types of securities. Custodian, who is required to be 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 investors in securities markets. In simple words, NAV 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 INR 200 lakh and the mutual fund has issued 10 lakh units of INR 10 each to the investors, then the NAV per unit of the fund is INR 20 (i.e. 200 lakh/10 lakh). NAV is required to be disclosed by the mutual funds on a daily basis.

The NAV per unit of all mutual fund schemes have to be updated on AMFI's website and the Mutual Funds' website by 9 p.m. of the same day. Fund of Funds are allowed time till 10 a.m. the following business day to update the information.

### **How is the applicable NAV determined?**

#### *Liquid schemes – Subscription*

1. Where the application is received up to 2.00 p.m. on a day and funds are available for utilization before 2:00 p.m. without availing any credit facility, the closing NAV of the day immediately preceding the day of receipt of application.
2. Where the application is received after 2.00 p.m. on a day and funds are available for utilization on the same day without availing any credit facility, the closing NAV of the day immediately preceding the next business day; and

3. Irrespective of the time of receipt of application (before or after 2:00 p.m. on a day), where the funds are not available for utilization before 2:00 p.m. without availing any credit facility, the closing NAV of the day immediately preceding the day on which the funds are available for utilization.

#### *Liquid schemes – Redemption*

1. Where the application is received up to 3.00 pm – the closing NAV of day immediately preceding the next business day; and
2. Where the application is received after 3.00 pm – the closing NAV of the next business day.

#### *Other than Liquid Schemes – Subscription*

##### For amount less than INR 2 lakh

1. Where the application is received up to 3:00 p.m., closing NAV of the day on which the application is received.
2. Where the application is received after 3:00 p.m., closing NAV of the next business day.

##### For amount equal to or more than INR 2 lakh

1. Where the application is received up to 3:00 p.m. and funds are available for utilization before 3:00 p.m., closing NAV of the day on which the application is received.
2. Where the application is received after 3:00 p.m. and funds are available for utilization, closing NAV of the next business day.
3. Irrespective of the time of receipt of application (before or after 3:00 p.m.), where the funds are not available for utilization, closing NAV of the day on which the funds are available for utilization.

#### *Other than Liquid Schemes – Redemption*

1. Where the application is received up to 3.00 pm – closing NAV of the day on which the application is received; and
2. Where the application is received after 3.00 pm – closing NAV of the next business day.

## **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) per unit which is 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. 3-5 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 new fund offer 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.

### 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, growth, 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.

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/Hybrid Scheme*

The aim of balanced schemes 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 Schemes*

These schemes are also income schemes and their aim is to provide easy liquidity, preservation of capital and moderate income.

These schemes invest exclusively in 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 with other funds. These funds are appropriate for corporate and individual investors as a means to park their surplus funds for short periods.

### *Gilt Funds*

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 (Sensex), 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.

### **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, Information Technology (IT), Banks, 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 with 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, for example, Equity Linked Savings Schemes (ELSS) under section 80C and Rajiv Gandhi Equity Saving Scheme (RGESS) under section 80CCG of the Income Tax Act, 1961. Pension schemes launched by 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. A FoF scheme enables the investors to achieve greater diversification through one scheme. It spreads risks across a greater universe.

## **What are Exchange Traded Funds (ETFs)?**

ETFs are mutual fund units that investors can buy or sell at the stock exchange. This is in contrast to a normal mutual fund unit that an investor buys or sells from the AMC (directly or through a distributor). In the ETF structure, the AMC does not deal directly with investors or distributors. Units are issued to a few designated large participants called Authorised Participants (APs). The APs provide buy and sell quotes for the ETFs on the stock exchange, which enable investors to buy and sell the ETFs at any given point of time when the stock markets are open for trading.

ETFs therefore trade like stocks and experience price changes throughout the day as they are bought and sold. Buying and selling ETFs requires the investor to have demat and trading accounts.

## **What is a capital protection-oriented scheme?**

A capital protection-oriented scheme is typically a hybrid scheme that invests significantly in fixed-income securities and a part of its corpus in equities. These are close-ended schemes that come in tenors of fixed maturity e.g. three to five years.

### *Structure of the scheme - Example*

If the fund collects INR 100, it invests INR 80 in fixed-income securities and INR 20 in equities or equity related instruments. The money is invested in such a way that the INR 80 portion is expected to grow to become INR 100 in three years (assuming that the scheme has a maturity period of three years). Thus, the aim is to preserve the INR 100 capital till maturity of the scheme.

Thus, the scheme is oriented towards protection of capital and not with guaranteed returns. Further, the orientation towards protection of capital originates from the portfolio structure of the

scheme and not from any bank guarantee or insurance cover. Investors are neither offered any guaranteed/indicated returns nor any guarantee on repayment of capital by the scheme.

### **What is a Load or no-load Fund?**

A Load Fund is one that charges a percentage of NAV for entry or exit and the load structure in a scheme has to be disclosed in its offer documents. Suppose the NAV per unit is INR 10. If the entry as well as exit load charged is 1%, then the investors who buy would be required to pay INR 10.10 (10 + 1% of 10) per unit and those who offer their units for repurchase to the mutual fund will get only INR 9.90 (10 – 1% of 10) per unit. Currently, in India, the exit load charged is credited to the scheme. The investors should take the loads into consideration while making investment as these affect their returns. However, the investors should also consider the performance track record and service standards of the mutual fund which are more important. 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.

SEBI has mandated that no entry load can be charged for any mutual fund scheme in India.

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

Mutual funds cannot increase the exit 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. As no entry load can be charged for mutual fund schemes in India, no change can be made with respect to entry load.

### **What is sale and repurchase/redemption price?**

The price or NAV a unit holder is charged while investing in an open-ended scheme is called sales price.

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

### **What is expense ratio?**

Expense ratio represents the annual fund operating expenses of a scheme, expressed as a percentage of the fund's daily net assets. Operating expenses of a scheme are administration, management, advertising related expenses, etc.

An expense ratio of 1% per annum means that each year 1% of the fund's total assets will be used to cover expenses. Information on expense ratio that may be applicable to a scheme is mentioned in the offer document. Currently, in India, the expense ratio is fungible, i.e., there is no limit on any particular type of allowed expense as long as the total expense ratio is within the

prescribed limit. For limits on expense ratio, refer to regulation 52 of the SEBI (Mutual Funds) Regulations, 1996.

### **What is a consolidated account statement (CAS)?**

A CAS details all the transactions and investor's holding at the end of the month including transaction charges paid to the distributor, across all schemes of all mutual funds, by an investor.

A CAS for each calendar month is issued to the investors in whose folios transactions have taken place during that month.

A CAS every half yearly (September/ March) is issued, detailing holding at the end of the six month, across all schemes of all mutual funds, to all such investors in whose folios no transaction has taken place during that period.

### **Do I need to pay anything to the distributor who sells me mutual fund schemes?**

As stated above, no entry load can be charged for any mutual fund scheme. An investor can choose to pay a distributor based on the investor's assessment of various factors including the service rendered by the distributor. However, for investments made through a distributor, commission is paid directly by AMC to the distributor such that the total expense ratio for an investor is within the limits on expense ratio specified under regulation 52 of the SEBI (Mutual Funds) Regulations, 1996. Hence, the cost borne by investors remains within the limit prescribed under SEBI Regulations.

#### *Transaction Charge:*

Further, a transaction charge of INR 150 and INR 100 per subscription of INR 10,000 and above by a new and an existing investor, respectively, can be levied by distributor. This transaction charge can be levied only if a distributor has opted in to levy transaction charge for that type of mutual fund scheme. Further, the transaction charge, if any, is to be deducted by the AMC from the subscription amount and paid to the distributor; and the balance is to be invested.

### **How does an investor know how much commission the distributor is earning and what is the TER being charged in a scheme?**

From 01 October 2016, the Consolidated Account Statement (CAS) issued to investors is required to provide information in terms of total purchase value/cost of investment in each scheme. Further, CAS issued for the half-year (ended September/March) shall also provide the amount of actual commission paid by AMCs/Mutual Funds to distributors (in absolute terms) during the half-year period against the concerned investor's total investments in each Mutual Fund scheme. The term 'commission' here refers to all direct monetary payments and other payments made in the form of gifts/rewards, trips, event sponsorships etc. by AMCs/MFs to distributors. Further, a mention may be made in such CAS indicating that the commission



disclosed is gross commission and does not exclude costs incurred by distributors such as service tax (wherever applicable, as per existing rates), operating expenses, etc.

Such half-yearly CAS shall be issued to all MF investors, excluding those investors who do not have any holdings in MF schemes and where no commission against their investment has been paid to distributors, during the concerned half-year period.

Such half-yearly CAS are also required to disclose the scheme's average Total Expense Ratio (in percentage terms) for the half year period for each scheme's applicable plan (regular or direct or both) where the concerned investor has actually invested in.

### **Where and how can I access information with respect to the remuneration of key executives of a Mutual Funds /AMC?**

All Mutual Funds /AMCs are required to make the following disclosures pertaining to a financial year on the Mutual Funds /AMC website under a separate head – 'Remuneration':

1. Name, designation and remuneration of Chief Executive Officer (CEO), Chief Investment Officer (CIO) and Chief Operations Officer (COO) or their corresponding equivalent by whatever name called.
2. Name, designation and remuneration received by top ten employees in terms of remuneration drawn for that financial year.
3. Name, designation and remuneration of every employee of Mutual Fund/AMC whose:
  - a. Annual remuneration was equal to or above one crore and two lakh rupees for that financial year.
  - b. Monthly remuneration in the aggregate was not less than eight lakh and fifty thousand rupees per month, if the employee is employed for a part of that financial year
4. The ratio of CEO's remuneration to median remuneration of Mutual Funds /AMC employees.
5. Mutual Fund's total AAUM, debt AAUM and equity AAUM and rate of growth over last three years.

Further,

1. Investor in any scheme of an AMC can ask for the information and is entitled to receive it.
2. Unhelpful and unnecessary filters in providing the information should not be applied.
3. Remuneration is to be treated as per Income Tax and ESOPs or incentives pertaining to other years may be indicated separately as an explanation.

A Mutual Fund/AMC may require an investor to provide information such as folio no., PAN, etc. on the Mutual Fund/AMC website to be able to ascertain that the person seeking the data is an investor in a scheme of the particular Mutual Fund.

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

Considering the market trends, any prudent fund manager 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 unit holders and give them option to exit the scheme at prevailing NAV without any load.

### **How to invest in a scheme of a mutual fund?**

Investors can contact the agents and distributors of mutual funds who are spread all over the country for necessary information and application forms. Investors must ensure that they invest through Association of Mutual Funds in India (AMFI) registered distributors and that the distributor has a valid AMFI Registration Number (ARN).

Whether a distributor is AMFI registered or not and whether he/she has been suspended/terminated from doing mutual fund business may be checked at <http://www.amfiindia.com/locate-the-nearest-financial-advisor>. An employee of a corporate distributor is also required to have an Employee Unique Identification Number (EUID).

The distributors are required to disclose all the commissions (in the form of trail commission or any other mode) payable to them for the different competing schemes of various mutual funds from amongst which the scheme is being recommended to the investor.

Forms can be deposited with mutual funds through the agents and distributors who provide such services. These days, post offices and banks also distribute the units of mutual funds. However, the investors may please note that the mutual fund 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, if any, given by agents/distributors for investing in a particular scheme. On the other hand, they must consider the track record of the mutual fund/scheme and should take objective decisions.

Investors also have the option to invest directly with the mutual fund either by visiting the mutual fund branch or online through Mutual Fund website.

Investors should also refer to the product labelling of the scheme. All the mutual funds are required to label their schemes on the following parameters:

- a. Nature of scheme such as to create wealth or provide regular income in an indicative time horizon (short/ medium/ long term).
- b. A brief about the investment objective (in a single line sentence) followed by kind of product in which investor is investing (Equity/Debt).
- c. Level of risk depicted by a pictorial meter (known as a riskometer) as under:
  - Low - principal at low risk
  - Moderately Low - principal at moderately low risk
  - Moderate - principal at moderate risk

- Moderately High - principal at moderately high risk
- High - principal at high risk

However, investors should consult their financial advisers if they are not clear about the suitability of the product.

Product label is prominently disclosed in:

- a. Front page of initial offering application forms, Key Information Memorandum (KIM) and Scheme Information Documents (SIDs).
- b. Common application form – along with the information about the scheme.
- c. Scheme advertisements.

### **What is application supported by blocked amounts (ASBA)?**

ASBA is a facility provided by banks to investors in new fund offers (NFOs) of mutual funds. If you apply for an NFO via ASBA, your application amount gets blocked in your bank account. While the amount stays in your account, it cannot be used until the MF unit allotment is done. For more information, refer to FAQs on ASBA available on SEBI website at [http://www.sebi.gov.in/cms/sebi\\_data/commondocs/asbaprocess1\\_p.pdf](http://www.sebi.gov.in/cms/sebi_data/commondocs/asbaprocess1_p.pdf).

### **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. Know your Customer (KYC) documents need to be submitted by a first time investor.

### **What is a direct plan?**

SEBI has mandated mutual funds to compulsorily launch a direct plan for direct investments, i.e., investments not routed through a distributor, from 01 January 2013. Such separate plan has a lower expense ratio excluding distribution expenses, commission, etc., and no commission is to be paid from such plans. The plan also has a separate NAV.

Investment can be made in lump sum, i.e. a onetime payment, or through a Systematic Investment Plan (SIP).

### **What is a Systematic Investment Plan (SIP)?**

A SIP allows an investor to invest regularly. One puts in a small amount every month that is invested in a mutual fund.

A SIP allows one to take part in the stock market without trying to second-guess its movements.

### **For example**

X decides to invest INR 1,000 per month for a year.

When the market price of shares fall, X benefits by purchasing more units; and is protected by purchasing less when the price rises as explained below.

<b>Date</b>	<b>NAV</b>	<b>Approx number of units you will get at 1000</b>
1-Jan	10	100
1-Feb	10.5	95.24
1-Mar	11	90.91
1-Apr	9.5	105.26
1-May	9	111.11
1-Jun	11.5	86.96
1-Jul	11	90.91
1-Aug	10.5	95.24
1-Sep	10	100
1-Oct	9.5	105.26
1-Nov	10	100
1-Dec	9.5	105.26
		1186.15

Within one year, X has 1,186 units by investing just INR 1,000 every month at an average cost of  $12000/1186.15 = 10.1170$ . This is as against  $12,000/10 = 1,000$  units or  $12000/11.5 = 1043.5$  units or  $12000/9 = 1,333.3$  units if X had invested lump sum on 1 Jan, 1 Jun or 1 May, respectively.

### **Can I invest in Cash?**

Yes, cash investments up to INR 50,000 per investor, per mutual fund, per financial year can be made in mutual funds. However, any repayment (redemption/dividend) is made only through bank channel.

### **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.

### **What should an investor look into an offer document?**

An abridged offer document [known as Key Information Memorandum (KIM)], 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. Mutual fund investments are subject to market risks. An investor should carefully read all the scheme related documents. Due care must be given to portions relating to main features of the scheme, risk factors and recurring expenses to be charged to the scheme, 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 five working days 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 five working days from the date of closure of initial public offer of the scheme and/or from the date of receipt of the request from the unitholders. The procedure of repurchase is mentioned in the offer document.

Also, AMCs are required to send confirmation specifying the number of units allotted to the applicant by way of email and/or SMS's to the applicant's registered email address and/or mobile number as soon as possible but not later than five working days from the date of closure of the initial subscription list and/or from the date of receipt of the request from the unitholders.

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

A mutual fund is required to dispatch 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 unit holder.

In case of failures to dispatch 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) for the period of delay.

**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 unit holder and an advertisement is given in one English daily newspaper 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 unit holders 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 from close-ended to open-ended scheme.

## **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 unit holders. Apart from it, many mutual funds send quarterly newsletters to their investors. At present, Scheme Information Document (SID) is required to be revised and updated at least once a year. 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 NAV which is disclosed on daily basis. The NAVs of mutual funds are required to be published 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](http://www.amfiindia.com) and thus the investors can access NAVs of all mutual funds at one place. Also, each MF is required to have a dashboard on its website providing performance and key disclosures pertaining to each scheme managed by AMC.

The mutual funds are also required to publish their performance in the form of half-yearly results which also include their returns 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 effect on the return 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.

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, 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 the money mobilized from investors?**

The mutual funds are required to disclose full portfolios of all of their schemes on a monthly basis on their website. Portfolio disclosure on a half yearly basis is published in the newspapers. Mutual funds may also send the disclosure of half-yearly 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 are also required to disclose illiquid securities in the portfolio, investment made in rated and unrated debt securities, non-performing assets (NPAs), etc.

### **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. Initial Public Offering (IPO) is offered by a company to directly raise money for the company as per the stated objective. In the case of mutual funds, the money garnered is used for investing in eligible securities such as equity and debt instruments of companies, money market instruments, gold, etc. Thus, a mutual fund acts as an intermediary between investors and companies.

### **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 INR 10 whereas the existing schemes in the same category are available at much higher NAVs. Investors may please note that in case of mutual fund schemes, lower or higher NAVs of similar type of 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 INR 15 and another scheme B at INR 90. Both schemes are diversified equity oriented schemes. Investor has put INR 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% and both the schemes perform equally good and it is reflected in their NAVs. NAV of scheme A would go up to INR 16.50 and that of scheme B to INR 99.

Thus, the market value of investments would be INR 9,900 ( $600 * 16.50$ ) in scheme A and it would be the same amount of INR 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 INR 10 and an existing scheme is available for INR 90, NAV 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. 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 mobilize funds from the investors by launching schemes only after getting registered with SEBI as mutual funds.

### **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 of all mutual funds at the web site of Association of mutual funds in India (AMFI) [www.amfiindia.com](http://www.amfiindia.com).

Investors can log on to the web site of SEBI [www.sebi.gov.in](http://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, etc. Also, in the annual reports of SEBI available on the web site, 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 returns over a period of time. Many newspapers also publish useful information on mutual funds on daily and weekly basis.

Investors may also approach their financial experts and distributors to guide them in this regard.

### **Where can I check whether there is any unclaimed amount (dividend/redemption) in my name lying with a mutual fund?**

Mutual Funds provide on their website, the list of names and addresses of investors in whose folios there are unclaimed amounts (dividend/redemption). The information provided herein shall contain name of investor, address of investor and name of Mutual Fund/s with whom unclaimed amount lies.

The website of Mutual Funds is also required to provide information on the process of claiming the unclaimed amount and the necessary forms/documents required for the same.



The information on unclaimed amount alongwith its prevailing value (based on income earned on deployment of such unclaimed amount) is separately disclosed to investors through the periodic statement of accounts/CAS sent to the investors.

### **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 investors redress their complaints?**

Investors would find the name of contact person in the offer document of the mutual fund scheme who 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 AMC 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)

Plot No.C4-A , "G" Block, 1<sup>st</sup> Floor,

Bandra-Kurla Complex,

Bandra (E), Mumbai – 400 051.

Phone: 26449199-88-77

Investors can also lodge their complaint on [scores.gov.in](http://scores.gov.in)

### **What is SEBI Complaints Redress System (SCORES)?**

SEBI takes up complaints against Mutual Funds registered with it and related issues. [SCORES](http://scores.gov.in) facilitates an investor to lodge his/her complaint online with SEBI and subsequently view its status.

## **FAQs for Intermediaries**

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

#### **A. How to get registered as a Mutual Fund?**

An applicant proposing to sponsor a mutual fund (MF) in India must submit an application in Form A [first schedule of the SEBI (Mutual Funds) Regulations, 1996 (hereinafter, referred to as the Regulations)] along with a non-refundable fee of INR 5 lakh. The application is examined and once the sponsor satisfies the eligibility criteria, it is required to complete the remaining formalities for setting up a MF. 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 INR 25 lakh.

#### **B. Main requirements under SEBI (Mutual Funds) Regulations, 1996:**

The following are the eligibility criteria for grant of a certificate of registration as per Regulation 7 of SEBI (Mutual Funds) Regulations, 1996 (Please see SEBI web site [www.sebi.gov.in](http://www.sebi.gov.in))

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

- a) The sponsor should have a sound track record and general reputation of fairness and integrity in all his business transactions.

Explanation: For the purposes of this clause "sound track record" shall mean the sponsor should,-

1. Be carrying on business in financial services for a period of not less than five years; and
2. The net worth is positive in all the immediately preceding five years; and
3. The net worth in the immediately preceding year is more than the capital contribution of the sponsor in the asset management company; and
4. The sponsor has profits after providing for depreciation, interest and tax in three out of the immediately preceding five years, including the fifth year.

- b) The applicant is a fit and proper person.
- c) 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;
- d) The sponsor has contributed or contributes atleast 40% to the net worth of the asset management company;

Provided that any person who holds 40% or more of the net worth of an asset management company shall be deemed to be a sponsor and will be required to fulfil the eligibility criteria specified in these regulations.

- e) The sponsor or any of its directors or the principle officer to be employed by the mutual fund should not have been guilty of fraud or has not been convicted of an offence involving moral turpitude or has not been found guilty of any economic offence.
- f) Appointment of trustees to act as trustees for the mutual fund in accordance with the provisions of the regulations;
- g) Appointment of asset management company to manage the mutual fund and operate the scheme of such funds in accordance with the provisions of these regulations;
- h) Appointment of custodian in order to keep custody of the securities or gold and gold related instrument or other assets of the mutual fund held in terms of these regulations, and provide such other custodial services as may be authorised by the trustees

### **C. Application for Registration:**

An applicant should apply for registration in form A prescribed under Schedule I of SEBI (Mutual Funds) Regulations 1996. It may be noted here that as per the proviso to Reg. 7 (c) of the Regulations, any person who holds 40% or more of the net worth of an asset management company shall be deemed to be a sponsor and will be required to apply in Form A.

While applying, please ensure that the main objects of the memorandum of the sponsor company permit it to carry on mutual fund activities. An applicant should also submit the following additional information for the sponsor as well as for the other shareholders in the proposed asset management company.

1. A complete list of Names of the associate organizations/group companies/subsidiaries, etc. registered with SEBI in any capacity, also indicate the capacity in which they are registered and the SEBI Registration number. In case of foreign sponsors, details of registration of sponsor/any of its associate / group companies with any regulatory agency abroad You may also refer to SEBI (Mutual Funds) Regulations for the definition of 'associates', 'group' and 'control'.)
2. Whether any of the sponsor or its group/associate companies are listed in any of the recognised stock exchange(s) in India. If so, please furnish the details.
3. Whether there have been any instances of violation of or non-adherence to any securities related regulations and whether any action has been taken against you or any of your associate/group companies in this regard, by a regulatory agency in India or abroad; (please provide the following information)
  - a) Top 10 monetary penalties in case of foreign entities and all monetary penalties in case of Indian entities, imposed against the sponsor or any associate of the sponsor (for irregularities/ violations in the financial services sector or for defaults in respect of shareholders / debenture holders and depositors, by any financial regulatory body or government authority or settlement arrived with any financial regulatory body during the last five years and details thereof. Penalties awarded for economic offences may be disclosed only in case of sponsor.
  - b) Details of all cases of suspensions and cancellation of certificate of registration (for irregularities/ violations in financial services sector or for defaults in respect of shareholders, debenture holders and depositors) of the sponsor or any associate of the sponsor shall be disclosed for the last 10 years.

- c) All disclosures on penalties and action taken as per (a) and (b) above against foreign entities may be limited to the jurisdiction of the country where the principal activities (in terms of income/ revenue) of the sponsors/ associate companies are carried out or where the headquarter is situated.
4. Declaration in terms of Regulation 7(d) of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 that your sponsor company or any of your directors have not been found guilty of fraud or have not been convicted of an offence involving moral turpitude or have not been found guilty of any economic offence. If there are such cases, full details should be provided.
  5. Details of registration of your company/associate/group companies, which are registered/ required to be registered with Reserve Bank of India (RBI) as a Banking company or Non-Banking Finance Company or in any other capacity.
  6. Details of disciplinary action taken by RBI/other Regulators against you or any of your group/associate companies. Please also inform us in case there is any default in repayment of deposits by you or any of your group / associate companies.
  7. Details of the RBI/ other Regulator's approval, if any required, for the purpose of sponsoring a mutual fund.
  8. Whether any of the directors or employees of your company or your group / associate companies were ever associated with any organisation as a director or an employee against whom SEBI had initiated action of suspension or cancellation of certificate of registration or initiated any other action under the provisions of SEBI Act or launched any prosecution for acts committed during their association. If so, please furnish details.
  9. The application shall be accompanied by a business plan.
  10. Undertaking from the sponsor to provide additional capital to the AMC, if required, till its operations breakeven, to protect the interest of the unitholders.

**D. Onsite Due diligence of Sponsor by SEBI**

SEBI may conduct an on-site due-diligence of the existing businesses of the sponsor to study the following:

1. Existing infrastructure for client servicing, complaints handling;
2. Track record of complaint / grievance handling; and
3. Compliance philosophy and practice.

**E. Communication by SEBI:**

1. At any stage of registration, the applicant has to provide all required information within 30 days from the date of receipt of any communication from SEBI for the said purpose, failing which the case may be considered as closed from SEBI.

2. SEBI will examine the application and a communication will be sent to you about your eligibility status. If you are found eligible, you will be required to undertake the following steps within a period of 12 months from the date of communication, failing which you will be required to submit a fresh application for registration.

**a. Incorporation of the Asset Management Company and the Trustee Company/Board of trustees:**

For this purpose, you may submit two copies of the completed Memorandum and Articles of Association of the Asset Management Company and the Trustee Company for our forwarding to the Registrar of Companies.

Please ensure that these documents contain a clause that “notwithstanding anything mentioned in these documents, only those activities will be carried out which are permitted under the SEBI (Mutual Funds) Regulations. All the provisions of the SEBI (Mutual Funds) Regulations, 1996 and the Guidelines issued from time to time shall be applicable.”

Please also indicate the address of the ROC where these companies would be incorporated.

**b. Auditor’s certificate:**

After incorporation of the AMC and the Trustee Company, please submit a certificate from a Chartered Accountant certifying that:

1. The sponsor has contributed at least 40% to the net worth of the AMC (Regulation 7 (c)).
2. The AMC has a net worth of not less than INR Fifty Crore (500 million), (the net worth should be furnished in the following format):

Particulars	Amount (INR)
Paid-up capital	
Add: Free reserves of the company	
Less: miscellaneous expenditure to the extent not written-off	
Less: accumulated losses, if any	
Less: intangible assets, if any	
Total Net worth	

**c. Filing of executed copies of Trust Deed and Investment Management Agreement.**

Please file executed copies of trust deed and Investment Management Agreement along with a check list clearly mentioning where you have incorporated the clauses of contents of the trust deed and Investment Management agreement as per third schedule and fourth schedule of SEBI (Mutual Funds) Regulations.

#### **d. Setting up of Infrastructure by the Applicant**

After complying with the above requirements, a detailed note on the infrastructure facilities available with the Asset Management Company should be sent to SEBI, providing the following specific details:

1. Details of the office premises and address.
2. Organization chart of the AMC, clearly specifying the responsibilities of various personnel.
3. Profile of the key personnel including the fund managers and equity research personnel.
4. Justification of adequacy of personnel in fund management, equity research and other operational areas considering the expected size of mutual fund. At what stage, the number of key personnel will be reviewed, should be indicated.
5. Systems support in terms of hardware and software.
6. Arrangement made for investor services.
7. Establishing the financial viability of sponsoring a Mutual Fund giving details of expected size of mutual fund over a period of time,
8. Internal systems and control procedures developed to check insider trading and front running
9. Size of funds which the AMC feels competent to manage and the expertise available with the sponsor/AMC etc.
10. Whether the compliance manual has been prepared to ensure that all provisions of SEBI (Mutual Funds) Regulations and Guidelines are complied with. (All guidelines issued to mutual funds are available on SEBI web site).
11. Submission of completed Form C and Form D, providing details of Trustee Company and AMC, as given in First Schedule of SEBI (Mutual Funds) Regulations.
12. Bio-data of the directors of the trustee company and the AMC in the prescribed format (Please refer to SEBI circular dated December 20, 2001 available on web site).
13. Bio data of key personnel in hard and soft copies (Please refer to SEBI circular dated May 7, 1997)
14. Any other information relevant for application for registration.

#### **e. Grant of Certificate of Registration**

1. Once all above requirements have been complied with and a requisite fee as per Second Schedule of Regulations has been paid, SEBI will grant certification of registration as a mutual fund. SEBI may also conduct infrastructure inspection of the applicant before grant of certificate of registration.
2. Further, it may be noted that in case no Mutual Fund scheme is launched within 12 months from the date of registration, the registration granted would be treated as cancelled.

### **What is the annual fee payable by a MF/AMC?**

A mutual fund shall pay before the 15th April each year an annual fee as specified under for every financial year from the year following the year of registration:

Average Assets under Management (AAUM) as on 31 March	Annual Fee
AAUM up to INR 10,000 crore	0.0015% of the AAUM
Part of AAUM above INR 10, 000 crore	0.0010% of the portion of AAUM in excess of INR 10,000 crore

Subject to a minimum of INR 2, 50,000 and a Maximum of INR 1, 00, 00,000.

### **What is the filing fee for an offer document?**

The filing fee for an offer document is 0.005% of the amount raised in the new fund offer or by way of private placement, as the case may be, subject to a minimum of INR 2 lakh and a maximum of INR 50 lakh.

### **What are the limitations on the fees and expenses that can be charged to a scheme?**

- A. The AMC may charge the scheme with investment and advisory fees which shall be fully disclosed in the offer document.
- B. In addition to the fees mentioned In point A, the asset management company may charge the scheme with the following recurring expenses, including:
  - a) marketing and selling expenses including agents' commission, if any;
  - b) brokerage and transaction cost;
  - c) registrar services for transfer of units sold or redeemed;
  - d) fees and expenses of trustees;
  - e) audit fees;
  - f) custodian fees;
  - g) costs related to investor communication;
  - h) costs of fund transfer from location to location;
  - i) costs of providing account statements and dividend/redemption cheques and warrants;
  - j) insurance premium paid by the fund;
  - k) winding up costs for terminating a fund or a scheme;
  - l) costs of statutory advertisements;
  - m) in case of a gold exchange traded fund scheme, recurring expenses incurred towards storage and handling of gold;
  - n) in case of a capital oriented scheme, rating fees;
  - o) in case of a real estate MF scheme, insurance premia and costs of maintenance of the real estate assets (excluding costs of development of such assets) over and

above the expenses specified in regulation 52 to the extent disclosed in the offer document;

- p) listing fees, in case of schemes listed on a recognised stock exchange;
- q) Such other costs as may be approved by the Board.

Any expense other than those specified above shall be borne by the AMC or trustee or sponsors.

C. The total expenses of the scheme excluding issue or redemption expenses, whether initially borne by the MF or by the AMC, but including the investment management and advisory fee shall be subject to the following limits:

- a) in case of a fund of funds scheme, the total expenses of the scheme including weighted average of charges levied by the underlying schemes shall not exceed 2.50% of the daily net assets of the scheme
- b) in case of an index fund scheme or exchange traded fund, the total expenses of the scheme including the investment and advisory fees shall not exceed 1.5% of the daily net assets;
- c) in case of any other scheme-
  - i. on the first INR 100 crore of the daily net assets 2.5%;
  - ii. on the next INR 300 crore of the daily net assets 2.25%;
  - iii. on the next INR 300 crore of the daily net assets 2.0%;
  - iv. on the balance of the assets 1.75%:

In respect of a scheme investing in bonds such recurring expenses shall be lesser by at least 0.25% of the daily net assets outstanding in each financial year.

In addition to the limits specified above, the following costs or expenses may be charged to the scheme, namely:

- a) brokerage and transaction costs which are incurred for the purpose of execution of trade and is included in the cost of investment, not exceeding 0.12% in case of cash market transactions and 0.05% in case of derivatives transactions;
- b) expenses not exceeding of 0.30% of daily net assets, if the new inflows from such cities as specified by the Board from time to time are at least:
  - i. 30% of gross new inflows in the scheme, or;
  - ii. 15% of the average assets under management (year to date) of the scheme, whichever is higher:

If inflows from such cities are less than the higher of sub-clause (i) or sub-clause (ii), such expenses on daily net assets of the scheme shall be charged on proportionate basis.

Expenses charged under this clause shall be utilised for distribution expenses incurred for bringing inflows from such cities.



The amount incurred as expense on account of inflows from such cities shall be credited back to the scheme in case the said inflows are redeemed within a period of one year from the date of investment.

- c) Additional expenses, incurred towards different heads mentioned under A and B above, not exceeding 0.20% of daily net assets of the scheme.

Any expenditure in excess of the limits specified above shall be borne by the AMC or by the trustee or sponsors.

### **Is service tax included in the limit of expenses?**

- A. AMC(s) can charge Service Tax, as per applicable taxation laws, to the scheme(s) within the limits prescribed under the Regulations.
- B. MFs/AMCs may charge service tax on investment and advisory fees to the scheme in addition to the maximum limit of TER as prescribed in the Regulations.
- C. Service tax on other than investment and advisory fees, if any, shall be borne by the scheme within the maximum limit of TER as per the Regulations.
- D. Service tax on exit load, if any, shall be paid out of the exit load proceeds and exit load net of service tax, if any, shall be credited to the scheme.
- E. Service tax on brokerage and transaction cost paid for execution of trade, if any, shall be within the limit prescribed under the Regulations.

### **What is the duration of validity of SEBI observations on SID?**

The scheme shall be launched within six months from the date of the issuance of final observations from SEBI. If the AMC intends to launch the scheme at a date later than six months, it shall refile the SID with SEBI along with filing fees.

### **What is the procedure for Change in the Controlling Interest of the Asset Management Company?**

#### **A. Requirement of Regulations**

According to Regulation 22(e) of SEBI (Mutual Funds) Regulations, 1996, no change in the controlling interest of the asset management company can be made unless:-

1. prior approval of the trustees and the Board (i.e. SEBI) is obtained;

2. a written communication about the proposed change is sent to each unitholder and an advertisement is given in one English daily newspaper having nationwide circulation and in a newspaper published in the language of the region where the Head Office of the mutual fund is situated; and
3. The unitholders are given an option to exit on the prevailing Net Asset Value without any exit load.

All the conditions prescribed above are required to be complied with. It is advised that the mutual funds should give at least 30 days time period to the unitholders to exercise the exit option.

## **B. New Sponsors**

In case the applicant proposing to take the control of the mutual fund is not an existing mutual fund registered with SEBI, it should apply to SEBI for registration under SEBI (Mutual Funds) Regulations, 1996. The entire procedure for registration under SEBI (Mutual Funds) Regulations, 1996 is given above under the heading, "What is the procedure for registering a mutual fund with SEBI?"

## **Undertakings by new trustees/Sponsors**

In case of new sponsors or in case of taking over of the schemes by an existing mutual fund, the undertakings on the following lines are required to be given in the interest of unitholders:

1. Taking full responsibility of the management and the administration of the schemes including the matters relating to the reconciliation of accounts (as if the schemes had been floated by the new trustees on the date of taking over).
2. Assumption of the trusteeship of the assets and liabilities of the schemes including unclaimed dividends and unclaimed redemptions.
3. Assuming all responsibilities and obligations relating to the investor grievances, if any, in respect of the schemes taken over, in accordance with and pursuant to the SEBI (Mutual Funds) Regulations.

## **C. Disclosures to Unitholders**

While seeking the approval of SEBI for change in the controlling interest of the asset management company, the mutual fund handing over the control to another person, should also file the draft letter to be sent to the unitholders.

The draft letter to the unitholders should include the following information –

1. The activities of the new sponsor and its financial performance as prescribed in the standard offer document;
2. In case of taking over of the schemes by an existing mutual fund registered with SEBI, the draft letter should also include the condensed financial information of all the schemes in the format prescribed in the standard offer document;
3. The amount of unclaimed redemption and dividend and also the procedure for claiming such amount by the unitholders.

#### **D. Communication by SEBI**

While approving the change in controlling interest of the AMC, SEBI may communicate any further observations, as necessary.

#### **E. Revision of Offer Documents**

The information given in the offer documents of existing schemes shall be revised and updated pursuant to the change in controlling interest of the mutual fund. Such addendum shall also be filed with SEBI, as required under the SEBI (Mutual Funds) Regulations and Guidelines.

#### **F. Other Situations**

In case of any other situation like indirect control of the asset Management Company or change in the promoters of the sponsor, etc, the mutual fund should provide full information to SEBI for advice on the further course of action.

In case of any difficulty, SEBI will guide the applicant step by step after getting application for change in the controlling interest of the asset management company. Normally, all replies are sent within 21 working days from the date of getting each communication from the applicant during the process of change in the controlling interest of the asset management company.

#### **SEBI (MUTUAL FUNDS) REGULATIONS, 1996**

[http://www.sebi.gov.in/cms/sebi\\_data/commondocs/mutualfundupdated06may2014.pdf](http://www.sebi.gov.in/cms/sebi_data/commondocs/mutualfundupdated06may2014.pdf)

#### **MASTER CIRCULAR FOR MUTUAL FUNDS**

[http://www.sebi.gov.in/cms/sebi\\_data/attachdocs/1412152811369.pdf](http://www.sebi.gov.in/cms/sebi_data/attachdocs/1412152811369.pdf)

#### **FORMATS**

<http://www.sebi.gov.in/circulars/2010/mastercircular/formats.pdf>