CHAPTER - III

REGULATIONS OF MUTUAL FUNDS
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REGULATIONS OF MUTUAL FUNDS IN INDIA

3.1 SEBI Regulations

SEBI regulates the mutual fund sector in India. Earlier RBI was responsible for regulating money in Money Market Mutual Funds (MMFS), but even this responsibility now vests with SEBI. RBI as a regulator of banks would need to authorize the commencement of mutual fund operations by banking entity. Similarly, since it is the regulator of money supply in the economy, it has control over the money market. The measures that it announces for the money market could impact mutual funds operations also. The guidelines applicable to mutual funds are set out in the SEBI Regulations, 1996 and subsequent amendments. SEBI has prescribed a legal structure with inbuilt checks and balances in the form of independent agencies for the various critical roles, namely trusteeship, asset management and custody of investments.

SEBI in its master circular 2011 has given regulations in 16 chapters which are presented in this chapter. The regulations include information regarding offer documents, conversion and consolidation of schemes, launch of additional plans and new products. These also include the risk management system, disclosure and reporting norms, governance norms, secondary market issues, net asset value, valuation, load, fees and expenses, dividend distribution procedure, investment by schemes, advertisements, investor rights and obligations, certification and registration of intermediaries and transaction in mutual funds.
3.1.1 Regarding Offer Documents

SEBI master circular 2011 prescribed regarding offer document for schemes in Chapter I. Under the regulation 28(1) of SEBI Mutual fund Regulations, mutual fund companies are required to file an offer document so as to provide essential information about the scheme in a way that would assist the investors in making informed decisions about whether to purchase the units being offered. The standard offer document prescribed by SEBI enumerates the minimum disclosure requirements to be contained in the offer document of a scheme. The mutual funds can include additional disclosures, which in the opinion of the trustees/AMCs are material for investors. The Offer Document shall have two parts i.e. Scheme Information Document (SID) and Statement of Additional Information (SAI). SID shall incorporate all information pertaining to a particular scheme. SAI shall incorporate all statutory information on Mutual Fund. The Mutual Funds shall prepare SID and SAI in the prescribed formats. Contents of SID and SAI shall follow the same sequence as prescribed in the format. The Board of the AMC and the Trustee(s) shall exercise necessary due diligence, ensuring that the SID/SAI and the fees paid are in conformity with the Mutual Funds Regulations. All offer documents (ODs) of Mutual Fund schemes shall be filed with SEBI in terms of the following Regulations:

➢ **Regarding key information memorandum (KIM)** - Application forms for schemes of mutual funds shall be accompanied by the KIM in terms of Regulation 29 (4). Mutual Funds shall prepare KIM in the prescribed format.
Regarding Selection of Benchmarks - In case of equity oriented schemes, mutual funds may appropriately select any of the indices available.

New fund offer (NFO) period - In case of open ended and close ended schemes (except ELSS schemes), the NFO should be open for 15 days (from 30 days in case of Open ended schemes and 45 days of close ended scheme), in case of ELSS schemes shall continue to be governed by guidelines issued by Government of India. Mutual Funds/AMCs shall make investment out of the NFO proceeds only on or after the closure of the NFO period. The mutual fund should allot units/refund of money and dispatch statements of accounts within five business days from the closure of the NFO and all the schemes (except ELSS) shall be available for ongoing repurchase/sale/trading within five business days of allotment”.

Regarding fundamental attributes - SEBI in this particular aspect has prescribed about the type of scheme, investment objective and investment pattern. Any changes made have to be done as per the prescribed format and intimated to the investor.

3.1.2 Conversion and Consolidation of Schemes and Launch Of Additional Plans

SEBI regulates the conversion and consolidation of schemes and launch of additional plans. This regulation is divided into three parts. Part I covers conversion of schemes, Part II covers consolidation of schemes and Part III launch of additional plans.
Part I - Conversion of Schemes - Although the procedure for conversion of close ended scheme(s) to open ended scheme(s) has been clearly enumerated in the Mutual Funds Regulations, following requirements are clarified again in the interests of investors: As the scheme(s) would reopen for fresh subscriptions, disclosures contained in the SID shall be revised and updated. A copy of the draft SID shall be filed with the Board as required under Regulation 28(1) of the Mutual Funds Regulations along with filing fees prescribed under Regulation 28(2) of the Mutual Funds Regulations. Instructions issued by the Board for filing of the SID shall also be followed.

Part II - Consolidation of Schemes - Any consolidation or merger of Mutual Fund schemes will be treated as a change in the fundamental attributes of the related schemes and Mutual Funds shall be required to comply with the Mutual Funds Regulations in this regard. Further, in order to ensure that all important disclosures are made to the investors of the schemes sought to be consolidated or merged and their interests are protected; Mutual Funds shall take approval by the Board of the AMC and Trustee(s). Disclose Subsequent to approval from the Board of the AMC and Trustee(s), Mutual Funds shall file the proposal with the Board, along with the draft SID, requisite fees (if a new scheme emerges after such consolidation or merger) and draft of the letter to be issued to the unit holders of all the concerned schemes.

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

- **Merger or Consolidation** - Merger or consolidation shall not be seen as change in fundamental attribute of the surviving scheme if (i) Fundamental attributes of the surviving scheme do not change, (ii) The ‘surviving scheme’ means the scheme which remains in existence after the merger and (iii) Mutual Funds are able to demonstrate that the circumstances merit merger or consolidation of schemes and the interest of the unit holders of surviving scheme is not adversely affected. After approval by the Boards of AMCs and Trustees, the mutual funds shall file such proposal with SEBI. SEBI would communicate its observations on the proposal within the time period prescribed. The letter to unit holders shall be issued only after the final observations communicated by SEBI have been incorporated and final copies of the same have been filed with SEBI.

**Part III – Launch of Additional Plans** - Additional plans sought to be launched under existing open ended schemes which differ substantially from that scheme in terms of portfolio or other characteristics shall be launched as separate schemes in accordance with the regulatory provisions. However, plan(s) which are consistent with the characteristics of the scheme may be launched as additional plans as part of existing schemes by
issuing an addendum. Such proposal should be approved by the Board(s) of AMC and Trustees.

3.1.3 New Products

The regulation details regarding new products are given in the master circular of SEBI. The details are listed below:

- **Fund of Funds Scheme** - The SID and the advertisements pertaining to Fund of Funds Scheme shall disclose that the investors are bearing the recurring expenses of the scheme, in addition to the expenses of other schemes in which the Fund of Funds Scheme makes investments. AMCs shall not enter into any revenue sharing arrangement with the underlying funds in any manner and shall not receive any revenue by whatever means/head from the underlying fund.

- **Commission or brokerage** - Any commission or brokerage received from the underlying fund shall be credited into concerned scheme’s account. Fund of funds mutual fund schemes shall adopt either of the total expense structures laid out in Regulations, which Asset Management Companies shall clearly indicate in the SIDs. Fund of Fund schemes, shall, with the approval of trustees, adopt either of the total expense structures laid out in Regulation and change the total expense structure after giving the unit holders an option to exit in accordance with Regulation.

- **Gold exchange traded fund scheme** - A Gold Exchange Traded Fund (GETF) Scheme shall invest primarily in Gold and Gold related instruments. However investments in gold related instruments shall be
done only after such instruments are specified by the Board. The Valuation of Gold shall be valued based on the methodology provided in Clause 3A of, Schedule Eight of the Mutual Funds Regulations. The Benchmarks for GETF Scheme shall be benchmarked against the price of gold. Physical verification of gold underlying the Gold ETF units shall be carried out by statutory auditors of mutual fund schemes and reported to trustees on half yearly basis. The confirmation on physical verification of gold as above shall also form part of half yearly report by trustees to SEBI.

➢ **Regarding capital protection oriented scheme** - The SID, KIM and advertisements pertaining to Capital Protection Oriented Scheme shall disclose that the scheme is “oriented towards protection of capital” and not “with guaranteed returns.”

➢ **Regarding real estate mutual funds** - A real estate mutual fund scheme can invest in real estate assets in the cities mentioned in List of Million plus Urban Agglomerations/Cities; or list of Million Plus Cities.

### 3.1.4 Risk Management system

SEBI regulation Chapter V covers an Operating Manual for Risk Management regulation which has been developed to ensure minimum standards of due diligence and Risk Management Systems for all the Mutual Funds in various operational areas (for e.g. Fund Management, Operations, Customer Service, Marketing and Distribution, Disaster Recovery and Business Contingency, etc.). SEBI has stipulated
regulations regarding the Risk Management practices covered in the Operating Manual as three categories such as:

- Existing industry practices
- Practices to be followed on Mandatory Basis
- Review of Progress of Implementation by Board of AMC and Trustee(s) - Reviews by Internal Auditors.

3.1.5 Disclosures & Reporting Norms

This part in the SEBI Master circular includes Half yearly disclosure of portfolios, Disclosure of derivatives in half yearly portfolios, Abridged Scheme wise Annual Report Format and Disclosure of large unit holdings. The regulation also includes Portfolio disclosure for debt oriented close-ended and interval schemes/plans, Annual report of the AMC, Submission of bio data of key personnel, Disclosure of investor complaints with respect to mutual Funds and Brokerage and commission paid to associates.

3.1.6 Governance Norms

The regulation regarding governing norms has 4 parts covering the following:

- Part I - Review and Reporting of Transactions
- Part II - Scheme governance
- Part III - Systems Audit of Mutual Funds
- Part IV - Role of Mutual Funds in Corporate Governance of Public Listed Companies.

3.1.7 Secondary Market Issues

The requirement of collecting listing deposit as specified under Circular Letter No. SE/12936 dated April 6, 1992 shall not be
applicable to Mutual Fund schemes seeking listing on the Stock Exchanges. SEBI has given regulations regarding:

- Payment of Margins
- Unique Client Codes For trading in Exchange Traded Derivatives Contracts
- Trading in Interest Rate Derivatives
- Transactions of the Mutual Funds in Government Securities in Dematerialized Form.

3.1.8 Disclosure of Net Asset Value

NAV related issues are stipulated by SEBI in its master circular as the NAV of schemes shall be published on a daily basis by the Mutual Funds at least in two daily newspapers. NAV and sale/repurchase price of all Mutual Fund schemes except for Fund of Fund Schemes shall be updated on AMFI’s website and the Mutual Funds’ websites by 9 p.m. of the same day. Fund of Fund Schemes shall have an extended time up to 10 a.m. of the following business day in this regard and the NAVs shall be published in newspapers with an asterisk to indicate the one day time lag/or the actual time lag. Delay beyond 10 a.m. of the following business day in case of Fund of Fund schemes and 9 p.m. on the same day for all other schemes shall be explained in writing to AMFI and the Board and shall also be reported in the CTR(s) in terms of number of days of non adherence of time limit for uploading NAV on AMFI’s website and the reasons for the same. Corrective steps taken by AMC to reduce the number of occurrences shall also be disclosed. In case the NAVs are not available before the commencement of business hours on the
following day due to any reason, Mutual Funds shall issue a press release giving reasons for the delay and explain when they would be able to publish the NAVs. The Guidelines on Cut off Timings for applicability of Net Asset Value of Mutual Fund scheme(s) and/or plan(s) shall be applicable to all schemes and plans of Mutual Funds except International schemes and Transactions in Mutual Fund units undertaken on a recognized Stock Exchange. Mutual Funds shall reckon the Cut-off Timings for their schemes and plans in compliance with these Guidelines and the same shall be uniformly implemented for all investors.

3.1.9 Valuation

Regulation regarding valuation in the Master Circular includes the Valuation of securities of Traded Securities, Non-Traded /and/or Thinly Traded Securities, Non-traded/ and/or thinly traded equity securities, Non traded/thinly Traded Debt securities. The methodology for Construction of Risk Free Benchmark, Building a Matrix of Spreads for Marking-up the Benchmark Yield, Mark-up/Mark-down Yield, Valuation of securities with Put/Call Options, Valuation of Government Securities and illiquid Securities. Guidelines for Identification and Provisioning for Non Performing Assets (Debt Securities) are given in detail in this chapter. This particular regulation chapter also includes the Provision for NPAs – Debt Securities, Reclassification of assets, Receipt of past dues, Classification of Deep Discount Bonds as NPAs, reschedulement of an asset and disclosure in the half Yearly Portfolio Reports. Information for Investment in Unlisted Equity Shares, Due Diligence Reporting of Compliance, and Valuation of
securities not covered under the current valuation policy, dissemination of information and Consistency regulations are ensured in this regulation.

3.1.10 Loads, Fees and Expenses

This part of the regulation focuses on loads, fees and expenses which are charged by mutual fund companies. SEBI regulates the loads, fees and expenses of mutual funds. It decides which funds can charge the fees, the accounting procedure disclosure of the charges, provision for charging additional fees, restriction on paying brokerage or commission, restriction on charging service tax, Empowering investors through transparency in payment of commission and load structure, No Load on Bonus Units and Units allotted on Reinvestment of Dividend, filing fees and exit load parity. The regulation details of the following are also included which required to be adhered:

- Restriction on Paying Brokerage or Commission
- Restriction on charging Service Tax
- Filing fees
- Exit load parity
- Limits on Fees and Expenses Charged to Schemes

3.1.11 Dividend Distribution Procedure

The regulation includes dividend distribution procedure which permits Mutual Funds to distribute returns including dividend. To introduce uniform practices in dividend distribution, the following guidelines should be followed: regarding unlisted schemes/plans, Liquid / Debt Schemes with frequent dividend distribution, Listed Schemes/Plans and Non availability of Unit Premium Reserve for dividend distribution. These guidelines are
applicable to all Mutual Fund schemes/plans which intend to declare the dividend irrespective of their dates of launch. The dividend distribution regulation covers the details of Unlisted Scheme(s)/ Plan(s), Liquid / Debt Schemes with Frequent Dividend Distribution and Listed schemes/plans and Non Availability of Unit Premium Reserve for Dividend Distribution.

3.1.12 Investment by Schemes

The regulations by SEBI for investments by the asset management company are prescribed in the chapter 12 of the master circular 2011. The chapter covers regulations for the following: Investments by Index Funds, Investments by Liquid Schemes and plans, Investments by close ended debt schemes, Stock Lending Scheme, Approval for Investment in Unrated Debt Instruments, Investments in Units of Venture Capital Funds, Investment limits for Government guaranteed debt securities, Investment Restrictions for Securitised Debt, Investments in Short Term Deposits of Scheduled Commercial Banks, Reconciliation Procedure for Investment in Government Securities, Overseas Investment, Investments in Indian Depository Receipts (IDRs), Investment Restrictions, Recording of Investment Decisions, Norms for investment and disclosure by Mutual Funds in derivatives and Interval Schemes/Plan.

3.1.13 Advertisements

SEBI has prescribed stringent regulations regarding advertisements in its master circular with an objective to promote the standard of disclosures in advertisements, effective implementation of regulatory intent and to remove difficulties in the application of regulations, the following guidelines are being issued after consultation with AMFI, in accordance with regulation
of the SEBI (Mutual funds) Regulations, 1996. The following guidelines are supplementary to the existing Advertisement Code and shall apply to all forms of advertisements, sales literature and communications howsoever released. Advertisements or distribution of Sales Literature must be accompanied or preceded by issue of a SID and SAI, unless stated otherwise and shall be substantiated with the disclosures made in the SID and SAI.

- **Standards of Communications** - The following standards of communication shall be implemented. These shall also be followed in case of activities organized to promote Mutual Funds, the AMC(s) or their schemes:
  
  (i) Communications shall be fair and in good faith.
  
  (ii) No material fact shall be omitted, if such omission will cause the communication to be misread and misunderstood.
  
  (iii) The fact that Mutual Fund investments are prone to risks of fluctuation in NAV, uncertainty of dividend distributions, etc. shall be adequately brought to the notice of unit holders or public in all communications.
  
  (iv) When engaged in public speaking, seminars, TV or Radio shows, interview to the press etc., Mutual Funds and their employees shall observe these Guidelines, even though some of such forms of communications may not amount to advertisement and/or distribution of Sales Literature.
  
  (v) Use of exaggerated or unwarranted claims, superlatives and opinions, not substantiated by available public data shall be refrained from and future forecasts and estimates of growth shall be avoided.
  
  (vi) Disclosure of risks as required by the Mutual Funds Regulations shall not be treated as a
hedge in communications with investors or customers. (vii) Statistical information, charts, graphs, etc., when used, shall be supported by their source, if any. Comparisons shall be refrained from unless essential to the form and content of the advertisement. If used, such comparisons must be clear and unambiguous. All statements made and facts reported in sales literature of a scheme should be substantiated with the disclosures made in the SID & SAI. Sales Literature containing information on performance of schemes must adhere to the following performance advertisement’ guidelines:

- Regarding Misleading Advertisement or Sales Literature or Communication
- Product Launch Advertisement - Performance Advertisement –Impact of Distribution Taxes
- Pay Out of Dividend - Advertisements through Hoardings and/or Posters
- Advertisements through Audio-Visual Media Advertisement through Sales Literature
- Use of Rankings in Advertisements and Sales Literature
- Time Periods
- Multiple Class or Two-Tier Funds
- Indicative Portfolios and Yields in Mutual Funds Schemes
- Disclosure of Risk Factors in the Advertisements

3.1.14 Investor Rights & Obligations

SEBI in its master circular 2011 in chapter 14 prescribed the investor rights and obligations in III parts. Part I deals with Investors rights, part II
deals with Investors obligations and part III deals with investors education. The following are the regulations included in investor rights and obligations.

**Part I – Investor Rights -** Payment of interest for delay in dispatch of redemption and/or repurchase proceeds and/or dividend. In the event of failure to dispatch redemption or repurchase proceeds within 10 working days from the date of receipt of such requests and/or Dividend within the stipulated 30 day period The AMC(s) shall be liable to pay interest @ 15 per cent per annum to the unit holders. AMC(s) must ensure that the interest amount due for the period of delay in dispatch of repurchase or redemption and/or dividend is added to the proceeds when such payments are made to the investors. Such interest shall be borne by the AMC(s). Details of such payments shall be sent to the Board along with the CTR(s). Investors shall also be informed about the rate and amount of interest paid to them. Non compliance with these directions may invite action under the Mutual Funds Regulations.

- **Unclaimed Redemption Amount -** Unclaimed redemption and dividend amounts may be deployed by Mutual Funds in Call Money Market or Money Market instruments, as may be permitted by RBI from time to time. Investors claiming these amounts within three years from the due date shall be paid at the prevailing NAV. At the end of three years, the amount can be transferred to a pool account and investors can claim the amount at the NAV prevailing at the end of the third year. Income earned on such funds can be used for the purpose of investor education. The AMC shall make a continuous effort to remind the investors through letters to take their unclaimed...
amounts. The investment management and advisory fee charged by the AMC for managing unclaimed amounts shall not exceed 50 basis points. Disclosures on above provisions shall be made in the SAI /SID. Disclosure on the unclaimed amounts and the number of such investors for each scheme shall be made in the Annual Report also.

- **Dispatch of Statement of Accounts** - Mutual Funds shall dispatch Statement of Accounts within 5 business days from the closure of the NFO.

- **Systematic Investment Plan (SIP) or Systematic Transfer Plan (STP) Or Systematic Withdrawal Plan (SWP)** - Mutual Funds may dispatch the Statement of Accounts to the unit holders under SIP or STP or SWP, once every quarter ending March, June, September and December within 10 working days of the end of the respective quarter. The first Statement of Accounts shall however be issued within 10 working days of the initial transaction. Mutual funds shall also provide Statement of Accounts to unit holders within 5 working days, without any charges, if specific requests are received from the investors. Further, if so mandated, a soft copy of the Statement of Accounts shall be e-mailed to the unit holders on a monthly basis.

- **Dormant Accountholders** - Mutual Funds shall also provide Statement of Accounts to those unit holders who have not transacted during the last six months prior to the date of generation of the Statement of Accounts. In such cases, the Statement of
Accounts may be issued along with the scheme’s Portfolio Statement or Annual Report and should reflect the last closing balance and value of the units prior to the date of generation of the Statement of Accounts. Further, if so mandated, a soft copy of the Statement of Accounts shall be e-mailed to the unit holders instead of a physical statement.

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

- **Distribution of Proceeds Realized from Illiquid Securities/NPA** - Some of the investments made by Mutual Funds may become non-performing assets (NPAs) or illiquid at the time of maturity/winding up of the scheme(s). In due course of time i.e. after the maturity/winding up of the scheme(s), these NPAs and illiquid securities may be realized by the Mutual Funds. Mutual Funds shall distribute such amounts to the old investors if such amounts are substantial and realized within two years. If the amounts realized are not substantial or are realized after two years, the same may be transferred to the Investor Education Fund maintained by each Mutual Fund. The decision as to the determination of substantial amount shall be taken by the trustees of mutual funds after considering the relevant factors.
➢ **Change of Mutual Fund Distributor** - Incase an investor wishes to change his distributor or wishes to go direct, Mutual Funds/AMC’s shall ensure compliance with the instruction of the investor informing his desire to change his distributor and / or go direct, without compelling that investor to obtain a ‘No Objection Certificate’ from the existing distributor. The Additional mode of payment through Applications Supported by Blocked Amount (hereinafter referred to as “ASBA”) in Mutual Funds is specified in the circular 2011.

➢ **Part II – Investor’s Obligations (Mandatory mentioning of PAN Number)** - For, the requirement of mentioning PAN Number by investors of mutual fund schemes, the applicable SEBI guidelines may be referred Mandatory mentioning of Bank Account by Investors: It shall be mandatory for the investors of the Mutual Funds schemes To mention their bank account numbers in their applications/request for redemption. For this purposes Mutual Funds shall provide space in applications and redemption request forms.

➢ **Part III – Investor Education - SEBI Investors Education Programme – Investments in Mutual Funds** - Board has prepared a brochure in question-answer format explaining the fundamental issues pertaining to mutual funds. The same is enclosed at Annexure 5. The same is also available at website www.sebi.gov.in under the "Mutual Funds" section. AMCs are advised to circulate copies of the brochure among their distributors and agents (including brokers,
banks, post offices) and the investors. AMCs may publish the same as small booklets. In such a case, while the booklets must bear SEBI name and logo, AMC may give their name as publisher. This may also be displayed prominently on their web sites. AMFI may consider including the brochure as a part of study material for their training programmes for investors and for their certification programme conducted for agents and distributors. Board may be kept informed about the steps taken by the AMCs in this regard from time to time.

3.1.15 Certification and Registration of Intermediaries

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

- **Code of Conduct** - Mutual Funds are required to monitor the activities of their distributors, agents, brokers to ensure that they do not indulge in any malpractice or unethical practice while selling or marketing Mutual Funds units. Any non compliance with the Mutual Funds, Regulations and Guidelines pertaining to Mutual
Funds especially guidelines on advertisements and/or sales literature and/or Code of Conduct shall be reported in the periodic meetings of the Board of the AMC and the Trustee(s) and shall also be reported to the Board by the AMC(s) in their CTR(s) and by the Trustees in their Half Yearly Reports. AMFI has prescribed a Code of Conduct for Mutual Fund intermediaries enclosed herewith as Annexure 1. All intermediaries shall follow the Code of Conduct strictly and not indulge in any practice contravening it directly or indirectly. Non compliance with the Code of Conduct shall be reported by the Mutual Funds to the Board and AMFI. Further, no Mutual Fund shall deal with intermediaries contravening the prescribed Code of Conduct.

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

- **Certification Programme for Sale and/or Distribution of Mutual Fund Products** - With effect from June 01, 2010, the certification examination for distributors, agents or any other persons employed or engaged or to be employed or engaged in the sale
and/or distribution of mutual fund products, would be conducted by the National Institute of Securities Markets (NISM). Under the existing instructions, the agent/distributor was exempted from the AMFI certification examination if he had completed fifty years of age and had at least five years of experience in distribution of mutual fund units. As per regulation 4(3) of the Certification Regulations, persons who have attained the age of fifty years or who have at least ten years experience in the securities markets in the sale and/or distribution of mutual fund products as on May 31, 2010, will be given the option of obtaining the certification either by passing the NISM certification examination or qualifying for Continuing Professional Education (CPE) by obtaining such classroom credits as may be specified by NISM from time to time.

3.1.16 Regarding Transaction in Mutual Fund Units

- **Maintenance of Documents** - As per the requirements specified by Board in respect of “Anti Money Laundering (AML) Standards/Combating Financing of Terrorism (CFT) / Obligations of Securities Market Intermediaries under Prevention of Money Laundering Act, 2002 and Rules framed there under”, maintenance of all documentation pertaining to the unit holders/investors is the responsibility of the AMC. Accordingly, vide SEBI Circular No - SEBI/IMD/CIR No.12 /186868 /2009 dated December 11, 2009, AMCs were advised to confirm whether all the investor related documents were maintained/available with the AMC. If not, and to the extent of and relating to such investor accounts/folios where
investor related documentation was incomplete/inadequate/not available or was stated to be maintained by the distributors, then the Trustees were advised to ensure the following: No further payment of any commissions, fees and/or payments in any other mode should be made to such distributors till full compliance/completion of the steps enumerated herein. Take immediate steps to obtain all investor/unit holders’ documents in terms of the AML/CFT, including KYC documents/PoA as applicable. Take immediate steps to obtain all supporting documents in respect of the past transactions. On a one time basis, send statement of holdings and all transactions since inception of that folio in duplicate to the investor and seek confirmation from the unit holders on the duplicate copy. Set up a separate customer services mechanism to handle/address queries and grievance of the above mentioned unit holders. Pending completion of documentation, exercise great care and be satisfied of investor bonafides before authorizing any transaction, including redemption, on such accounts/folios. The Trustees were required forthwith to confirm to Board that the steps had been taken to address the above and also send a status to the Board as and when process was completed to their satisfaction. All mutual funds/AMCs are directed that all new folios/accounts shall be opened only after ensuring that all investor related documents including account opening documents, PAN, KYC, PoA (if applicable), specimen signature are available with AMCs/RTAs and not just with the distributor. For existing folios, AMCs shall be responsible for updation of the investor related
documents including account opening documents, PAN, KYC, PoA (if applicable), specimen signature by November 15, 2010. The trustees shall submit a confirmation after they receive certification from an Independent auditor on completion of the said process latest by November 22, 2010.

- **Facilitating Transactions in Mutual Fund Schemes through the Stock Exchange Infrastructure**
- **Empanelment and Monitoring of Code of Conduct for Brokers acting as Mutual Fund Intermediaries**
- **Time Stamping** - Time stamping as evidenced by confirmation slip given by stock exchange mechanism to be considered sufficient compliance with clause for cut-off timing for liquid scheme and plans, cut-off timing for other schemes and plans and time stamping provisions mandated by Board.
- **Statement of Account** - Where investor desires to hold units in dematerialized form, demat statement given by depository participant would be deemed to be adequate compliance with requirements for account statement prescribed by SEBI
- **Investor Grievance Mechanism**
- **Dematerialization of Existing Units held by Investors**
- **Know your Client (KYC)** - Where investor desires to hold units in dematerialised form, the KYC performed by DP in terms of SEBI requirements would be considered compliance with applicable requirements specified in this regard by Mutual Funds/AMCs. Stock exchanges and mutual funds/AMCs, based on the experience gained may improve the mechanism in the interest of investors. In addition to
the existing facilities of purchasing and redeeming directly with the Mutual Funds and Stock Brokers, the following be noted: Units of mutual funds schemes may be permitted to be transacted through clearing members of the registered Stock Exchanges. Permit Depository participants of registered Depositories to process only redemption request of units held in demat form and strictly adhere to the regulation given by SEBI.

- **Transferability of Mutual Fund Units** - Regulations states that “a unit unless otherwise restricted or prohibited under the scheme, shall be freely transferable by act of parties or by operation of law.” The spirit and intention of this regulation is not to prohibit transferability of units as a general rule or practice. All AMCs shall clarify by way of an addendum that units of all mutual fund schemes held in demat form shall be freely transferable from the date of the issue of said addendum which shall be not later than October 1, 2010. However, restrictions on transfer of units of ELSS schemes during the lock-in period shall continue to be applicable as per the ELSS Guidelines.

- **Securities Lending of Mutual Funds**

- **Regarding Collective Investment Schemes Eligibility for Floating Collective Investment Schemes**

- **Structure and Constitution of Collective Investment Schemes**

### 3.2 Role of AMFI

The Association of Mutual Funds in India (AMFI) is registered with SEBI and follows its suggestions while executing its activities. It represents the Government of India, the Reserve Bank of India and other related higher authority bodies in the mutual fund operations. AMFI reassures the investors of mutual funds that the mutual fund companies
function within the regulatory framework. The different entities such as the AMC and the Custodian operate as per the provisions of the SEBI Mutual Fund Regulation 1996, and the rules and guidelines issued by SEBI. Each of these entities has independent Boards of Directors and separate auditors to monitor the regulatory compliance.

AMFI is engaged in upgrading professional standards and promoting best industry practices in diverse areas such as valuation, disclosure, transparency and also the following:

- By providing professionalism and a proper balance in the mutual fund industry.
- By promoting the highly-efficient business practices as well as the code of conduct in the mutual fund industry among its members and those who are involved in mutual fund investments.
- Training programs to hone the skills of those who are involved in mutual fund investments and also develops a team of efficient and skilled agents.
- Various campaigns and awareness programs to inform the individuals about the basic concept of mutual fund investments.

SEBI keeps a close watch on the mutual funds through periodical reports and each AMC shall submit a quarterly report to SEBI conforming compliance with regulatory provisions. Any deficiency or non-compliance is dealt suitably by SEBI. AMCs are inspected by SEBI once in a year and such inspection is both a detailed scrutiny of operations and a rectification exercise. Thus, the mutual funds and the AMCs are strictly supervised and regulated by SEBI to ensure compliance with its regulation with an aim to match with international standards.