Chapter III

Regulatory Framework of Mutual Funds
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REGULATORY FRAMEWORK OF MUTUAL FUNDS

3.1. INTRODUCTION

The Indian capital market has been expanding tremendously during the last few years. With the reforms of economy, reforms of industrial policy, reforms of public sector and reforms of financial sector, the economy has been opened up and many development have been taking place in the Indian money market and capital market. In order to help the small investors, mutual fund industry has come to occupy an important place.

The main objective of this chapter is to review the existing regulations of mutual funds and to suggest suitable measures that would make the mutual fund industry more accountable to the investors.

3.2. NEED FOR REGULATION

Safety of the principal amount is very essential character for any financial instrument. Where safety is not assured there is a possibility of high default risk and investor requires protection. The investors of mutual funds are exposed to high default risk in comparison to investors of other alternative instruments such as bank deposits, debentures and equity shares. The saving instruments promoted by National Savings Organisation through Post Offices are guaranteed by the Government of India. Hence, the saver / investor is protected. The various types of
deposits mobilised by commercial banks are protected by capital adequacy norms laid down by the RBI. Further, the deposit holders are insured through Deposit and Credit Guarantee Corporation. Thus, the investors of bank deposits are protected by capital adequacy and insurance. The various debenture holders of corporate sector are protected by mortgage/security of assets. The equity share holders are also protected by the asset structure of the company – capital adequacy. In contrast, the investors of mutual funds/ unit trusts are exposed to high risk both default and market risk. Hence the need for a strong regulatory frame work.

Before examining the present regulations at length it is appropriate to review the historical developments which led to frame these regulations.

3.3. REGULATIONS FOR MUTUAL FUNDS: A BACKGROUND

In 1986, UTI launched 'Master share', a close ended scheme which was publicised as a mutual fund scheme. An overwhelming response from the investors for this scheme made Banks and other Financial institutions to enter into this area. In June 1987, Government of India by a notification, permitted banks to establish and conduct mutual fund business as a lawful business. In July 1987, RBI advised the Chief Executives of scheduled commercial banks to take prior approval of RBI to conduct or establish Mutual Funds.¹ With this, in 1987, State Bank of India and Canara Bank launched their mutual fund products by

constituting separate trusts. This was followed later by other commercial banks and insurance organisations. Surprisingly, there were no rules or guidelines at that time when these institutions appeared in the market with various products.

There were practically no rules because, the Government wanted the banks and institutions sponsored mutual funds to have some time for the investors to catch up with the concept. But these institutions started assuring returns on the mutual fund schemes and soon this created a race among the mutual funds to surpass each other in assuring returns. With this trend the average investor understood that, mutual funds are alternatives to Bank Deposits, in terms of risk which is incorrect, Here the RBI intervened and issued guidelines for mutual funds in July 1989. Not only that, provisions of the RBI Act casts a duty on the RBI to regulate all types of financial institutions (including mutual funds) to ensure that the financial system operates in the interest of the economy.

The important aspects of RBI guidelines are constitution and management of the fund, investment objectives and policies, prudential exposure ceiling limits (which are restrictions about, maximum investment in each company and in each industry) pricing policy, income distribution,

3. Sec. 45 of the Reserve Bank of India Act.
statement of accounts and disclosures. However, these are only guidelines and are applicable to the banks sponsored institutions, but not for others.\textsuperscript{4}

The Abid Hussain Committee on capital market emphasized on the need for strengthening regulatory framework for mutual funds. It also recommended the setting up of joint sector mutual funds.\textsuperscript{5}

In June 1990, Government of India issued guidelines\textsuperscript{6} on the similar aspects which RBI already covered with certain additions. For the constitution and management of the fund, Government guidelines insisted on approval of the Controller of Capital Issues and registration with the Securities and Exchange Board of India (SEBI). In March 1991, the Government in principle handed over the function of regulating mutual funds to SEBI. SEBI directed all the existing mutual funds to make disclosures in two sets. One for the investors and another for SEBI. With this, for the first time the annual accounts of SBI Mutual Fund and Can Bank Mutual Fund disclosed to public through the newspapers as advertisements. Further, SEBI also issued a code of advertisement requiring mutual funds to mention that “Mutual Funds and security investments are subject to market risks. Past performance is no guarantee for future results”.

\textsuperscript{4} “Guideline for Undertaking Mutual fund business by Banks”, \textit{op.cit.}


The union finance minister in his budget 1991-92 speech, proclaimed that, to encourage a healthy growth of the capital market and further to promote the development of mutual fund activity a comprehensive set of guidelines would be evolved for the operation of mutual funds, including those in the private and joint sectors. As a result an Eleven member committee was set up headed by Dr. S.A. Dave. This committee submitted its report in September 1991 and made recommendations for the orderly functioning of mutual funds.

In October 1991, SEBI issued guidelines for the formation of Asset Management Companies (AMC). The purpose of formation of AMC is to manage the mutual fund schemes. A two-tier structure was developed for mutual funds. One is Trust, and the other AMC.

In February 1992 the Government of India announced a comprehensive set of guidelines, the objective of which was, "to instill a sense of competition, transparency and fair play and spur the mutual funds to a great level of efficiency and investor friendliness". Further,


the Government has also decided to extend the business of mutual funds to the private and joint sectors.

In March 1992, SEBI has issued guidelines for authorisation of mutual funds. The irregularities in transactions in government securities came to light in April 1992. This affected the mutual funds in varying degrees. Mutual funds were prohibited from launching further schemes till they restructured themselves into separate asset management companies, trustees, custodians and developed arms-length relationship with the sponsors. For more than a year there was virtually no new scheme by mutual funds except from UTI. It was during this period that, SEBI notified regulations for mutual funds bringing all mutual funds except UTI, for the first time under a common regulatory frame work.

In January 1993, SEBI has formulated detailed regulations for mutual funds and these regulations - SEBI (Mutual Funds) Regulations came into force with effect from 20th January 1993. These regulations apply to all the public and private sector mutual funds with an exception to money market mutual funds and mutual funds established outside India.


During 1995-96 SEBI prepared an approach paper titled “Mutual Funds 2000”. This paper identified various ways to improve the working and regulations of the mutual fund industry. Based on the recommendations and comments made by market participants SEBI has revised the Regulations of 1993 and notified the new regulations on December 9, 1996. These regulations came into force in 1996 as SEBI (Mutual Funds) Regulations 1996.

3.4. SEBI (MUTUAL FUNDS) REGULATIONS, 1996

A mutual fund is a specialized type of financial institution which acts as investment conduit for investors at large especially the small investors. The authorities are concerned about the investors safeguards. Accordingly regulations are drafted for the registration of mutual fund, constitution and management of mutual fund, floating of schemes of mutual fund, investment and valuation policy of mutual fund, accounts and audit and inspection of mutual funds, advertisement code and general obligations of the mutual funds.

The SEBI (Mutual Funds) Regulations, 1996 contains 10 chapters and 11 schedules. The information contained in the ten chapters are listed below.

Chapter I - Preliminary

Chapter II - Registration of mutual fund

Chapter III - Constitution and management of mutual fund and operation of trustees.
Chapter IV - Constitution and Management of Asset Management Company and Custodian.

Chapter V - Schemes of mutual fund

Chapter VI - Investment objectives and valuation policies

Chapter VII - General obligations

Chapter VIII - Inspection and Audit

Chapter IX - Procedure for Action in case of default

Chapter X - Miscellaneous.

3.4.1. PRELIMINARY

Chapter I of SEBI (Mutual Fund) Regulations 1996 contains the preliminary information and definitions for the various terms used in the regulations.

3.4.2. REGISTRATION OF MUTUAL FUND

Chapter II of SEBI (Mutual Fund) Regulations, 1996 deals with the regulations governing the registration of a mutual fund.

3.4.3. CONSTITUTION OF MUTUAL FUNDS

The constitution and basic requirements of formation of a mutual fund are

I. Sponsor

II. Trustees

III. Asset Management Company (AMC) and

IV. Custodian.
They are briefly stated below in accordance with the SEBI (Mutual Funds) Regulations, 1996 which have replaced the SEBI (Mutual Funds) Regulations, 1993 which had earlier replaced the Guidelines, dated 14.2.1992.

3.4.3.1. SPONSOR

The sponsor is the company which sets up the mutual fund. Eg. Sponsor means any body corporate who acting alone or in combination with another body corporate establishes a mutual fund after initiating and completing the formalities therefor. According to SEBI (Mutual Funds) Regulations, 1993 the sponsor for the mutual fund could be a company registered under the Companies Act, 1956. But under SEBI (Mutual Funds) Regulations, 1996, the sponsor should be a finance company. The company can be a public limited or private limited. One or more public and private limited companies can join to sponsor a mutual fund.

To promote a mutual fund the sponsor has to meet the criteria laid down by the SEBI. These criteria relate to experience, net worth and past track record in terms of fair dealings and integrity. The sponsor should have a sound track record and experience in the relevant field of financial services for a minimum period of five years, professional competence, financial soundness and general reputation of fairness and integrity in all his business transactions.
Sound track record shall mean net worth, dividend paying capacity and profitability of the sponsor. The finance company eligible to sponsor mutual fund, should have “positive net worth” in all immediately five years and the net worth in immediately preceding year should be more than capital contribution of the sponsor in the asset management company and the sponsors had profit after providing for depreciation, interest and tax in three out of the immediately preceding five years including the fifth year.

Only those who qualify in terms of these criteria are permitted by SEBI to set up mutual funds. Besides the above criteria the sponsor company or companies should have a good organisation and management pattern to reflect its reputation and market standing. The sponsor company should be able to contribute at least 40% of the net worth of the asset management company through cash transfer from its/their accumulated resources. The sponsors will not be liable for any loss of the scheme resulting from its operation beyond this initial contribution. In addition to it the company must be able to contribute towards the corpus of the mutual fund trust.

The sponsor company is also required to prove to SEBI that either the sponsor or any of its directors or the principal officers should not have been guilty of fraud or have not been convicted of any offence involving moral turpitude or have not been found guilty of any economic offence.
3.4.3.2. TRUSTEES

Mutual fund trusts is created by the sponsors under the Indian Trust Act, 1882 duly registered under the provisions of Indian Registration Act, 1908 executed by the sponsor in favour of the trustees named in such an instrument.

The management of the mutual fund is subject to the control and superintendence of the Board of Trustees of the fund. The trustees of the mutual fund are eminent persons who have wide experience in investment matters, finance, administration etc.

The Board of Trustees guide the operations of the mutual fund. The trustees carry the crucial responsibility of safeguarding the investors interests. It is their responsibility to see that the AMC always acts in the best interests of the investors. The functions of the trust are not defined in SEBI (Mutual Funds) Regulations, 1996 but the main functions of the mutual fund trust are as follows.

i) Planning and formulating mutual fund schemes

ii) Seeking SEBI’s approval and authorization to these schemes.

iii) Marketing the schemes for public subscription.

iv) Seeking RBI approval in case NRI’s subscription to mutual fund is invited.

v) Attending to trusteeship functions.
A company shall be appointed as a trustee to manage the mutual fund. The SEBI may having regard to special circumstances permit the appointment of a board of trustees as trustees of a mutual fund. The appointment of the trustee shall be subject to the following conditions, namely:

a) No person shall be eligible to be appointed as a trustee unless-
   i) he is a person of ability, integrity and standing; and
   ii) has not been found guilty of moral turpitude; and
   iii) has not been convicted of any economic offence or violation of any securities laws; and
   iv) has furnished particulars as specified in form C.

b) An asset management company or any of its directors, officers or employees shall not be eligible to act as a trustee of any mutual fund;

c) The names of the trustees shall be forwarded to the SEBI;

d) No person who is appointed as a trustee of a mutual fund can be appointed as a trustee of any other mutual fund unless-
   i) such a person is an independent trustee referred to in sub-regulation (5); and
   ii) prior approval of the mutual fund of which he is a trustee has been obtained for such an appointment.

e) No trustee shall retire unless another person is appointed in the place of the retiring trustee;
f) Two thirds of the trustees shall be independent persons and no such trustees shall be an associate or a subsidiary or associated in any manner with the sponsor; (original clause substituted)

g) No person shall be a trustee or a director of a trustee company in more than one mutual fund;

h) In case a company is appointed as a trustee then its directors can act as trustees of any other trust provided that the object of the trust is not in conflict with the object of the mutual fund.

3.4.3.2.1. APPROVAL OF THE BOARD FOR APPOINTMENT OF TRUSTEE

According to Regulation 17(1) no trustee shall initially or any time there after be appointed without prior approval of the Board.

The existing trustees of any mutual fund may form a trustee company to act as a trustee with the prior approval of the Board.

3.4.3.2.2. INSTRUMENT OF TRUST

A mutual fund shall be constituted in the form of a trust and the instrument of trust shall be in the form of a Deed, duly registered under the provisions of the Indian Registration Act, 1908 (16 of 1908) executed by the sponsor in favour of the trustees named in such an instrument and shall contain such clauses which are necessary for safeguarding the interest of the unit holder.
3.4.3.3. ASSET MANAGEMENT COMPANY

The mutual fund will be operated only by separately established Asset Management Companies (AMC). The AMC manages the funds of the various schemes. The AMC plays a key role in running the mutual fund and it operates under the supervision and guidance of the trustees. The AMC is entrusted with the specific task of mobilising funds under the scheme.

Asset Management Company (AMC) means a company formed and registered under the Companies Act, 1956 and approved by the SEBI. The AMC shall be authorised for business by SEBI on the basis of certain criteria and the Memorandum and Articles of Association of the AMC would have to be approved by SEBI. Accordingly, an AMC shall not be registered under the Companies Act without the Memorandum and Articles of Association being approved by SEBI.

3.4.3.3.1. APPOINTMENT OF AN AMC

The sponsor or if so authorised by the trust deed, the trustees shall appoint an AMC which has been approved by SEBI to manage the affairs of the mutual fund and operates the schemes of such fund. The application for the approval of the AMC shall be submitted to the SEBI in Form D. The appointment of an AMC can be terminated by majority of the trustees or by 75% of the unit holders of the scheme and if any change in the appointment of the AMC shall be subject to prior approval of the Board and the unit holders.
3.4.3.3.2. Restrictions on Business of AMC

AMC has only to discharge the functions as fund managers. The following restrictions have been placed on AMC's business activities.

1. The AMC shall not act as a trustee of any mutual fund.

2. The AMC shall not undertake any other business activities except activities in the nature of portfolio management services and advisory services to offshore funds, pension funds, provident funds, venture capital funds, management of insurance funds, financial consultancy and exchange of research on commercial basis if any of such activities are not in conflict with the activities of the mutual fund;

Provided that the AMC may itself or through its subsidiaries undertake such activities if it satisfies the Board that the key personnel of the AMC, the systems, back office, bank and securities accounts are segregated activity-wise and there exist systems to prohibit access to inside information of various activities.

Provided further that AMC shall meet capital adequacy requirements, if any, separately for each such activity and obtain separate approval, if necessary under the relevant regulation.

3. The AMC shall not invest in any of its schemes unless full disclosure of its intention to invest has been made in the offer documents in case of schemes launched after the notification of these regulations.

Provided that an AMC shall not be entitled to charge any fees on its investment in that scheme.
3.4.3.4. CUSTODIAN

The SEBI while granting the authorisation for the setting up of a mutual fund would also approve the custodian as a part of the package. A custodian means a person carrying on the activities of safe keeping of the securities or participating in any clearing system on behalf of the clients to effect deliveries of the securities.

Every mutual fund shall have a custodian. The custodian shall not in any way be associated with the AMC. The sponsor and trustee companies cannot act as custodian. If the sponsor has a custodian division, it can act for other mutual funds not set up by the sponsor. The custodian shall be registered with SEBI. The custodian shall make an application in Form A for registration. A Custodian should have

- a sound track record
- necessary infrastructure
- office space
- during the tenure of office, custodian should not act as sponsor, trustee and associate with AMC and
- he should get permission from SEBI.

3.4.3.4.1. APPOINTMENT OF CUSTODIAN

According to SEBI (MF) Regulations, 1996 every mutual fund shall appoint a custodian to carry out the custodial services for the schemes of the fund and send intimation of the same to the Board within 15 days
of the appointment of the custodian. No custodian in which the sponsor or its associates hold 50% or more of the voting rights of the share capital of the custodian or where 50% or more of the directors of the custodian represent the interest of the sponsor or its associates shall act as custodian for a mutual fund constituted by the same sponsor or any of its associate or subsidiary company.

3.4.3.4.2. Agreement with Custodian

Every mutual fund shall enter into a custodian agreement with the custodian, which shall contain the clauses which are necessary for the efficient and orderly conduct of the affairs of the custodian.

Provided that the agreement, the service contract, terms and appointment of the custodian shall be entered into with the prior approval of the trustees.

Responsibilities to be discharged by the custodians on behalf of mutual funds include receipt and delivery of securities, holding of securities, collecting income, holding and processing cost, corporate actions etc. Functions of custodians widely cover safe keeping of securities bid settlements, corporate actions and transfer agents.

3.4.4. Schemes of Mutual Fund

Regulations 28 to 42 of SEBI (Mutual Funds) Regulations 1996 deal with from the floating of a scheme to the winding up of the scheme of mutual funds. They are presented below.
The AMC appointed by the trustees with the approval of the SEBI shall be responsible for floating the scheme. Any scheme of a mutual fund before it is announced to the public by the AMC shall be approved by the trustees and a copy of the offer document has been filed with the Board.

Every mutual fund shall along with the offer document of each scheme must pay filing fees of Rs.25,000 as specified in the second schedule. To avoid unnecessary delay on the part of SEBI, AMC can announce a scheme if with in 30 days nothing is heard from SEBI. Each scheme is to be approved by SEBI.

The offer document shall contain disclosures which are adequate in order to enable the investors to make informed investment decision including the disclosure on maximum investments proposed to be made by the scheme in the listed securities of the group companies of the sponsor. The Board may in the interest of investors require the asset management company to carryout such modifications in the offer document as it deems fit. In case no modifications are suggested by the Board in the offer document within 21 working days from the date of filing, the asset management company may issue the offer document. No one shall issue any form of application for units of a mutual fund unless the form is accompanied by the memorandum containing such information as may be specified by the board.


3.4.4.1. ADVERTISEMENT MATERIAL

Advertisements in respect of every scheme shall be in conformity with the Advertisement Code as specified in the Sixth Schedule and shall be submitted to the Board within 7 days from the date of issue. The advertisement for each scheme shall disclose the investment objective for each scheme. The offer document and advertisement materials shall not be misleading or contain any statement or opinion which are incorrect or false.

3.4.4.2. LISTING OF CLOSE ENDED SCHEME

Every close ended scheme shall be listed in a recognised stock exchange within six months from the closure of the subscription.

3.4.4.3. REPURCHASE OF CLOSE ENDED SCHEMES

The asset management company may at its option repurchase or reissue the repurchased units of a close ended scheme. The units of close ended scheme referred to in the proviso to regulation 32 may be open for sale or redemption at fixed predetermined intervals without listing if the maximum and minimum amount of sale or redemption of the units and the periodicity of such sale or redemption have been disclosed in the offer document.
3.4.4.4. ALLOTMENT OF UNITS AND REFUNDS OF MONEY

The asset management company shall specify in the offer document,-

a) the minimum subscription amount it seeks to raise under the scheme; and

b) in case of over subscription the extent of subscription it may retain.

Provided that where the asset management company retains the over subscription referred to in clause (b), all the applicants applying upto 5000 units shall be given full allotment subject to the over subscription mentioned in clause (b).

The mutual fund and asset management company shall be liable to refund the application money to the applicants, -

(i) if the mutual fund fails to receive the minimum subscription amount referred to in clause (a) of sub-regulation (1);

(ii) if the moneys received from the applicants for units are in excess of subscription as referred to in clause (b) of sub-regulation (1).

Any amount refundable under sub-regulation (2) shall be refunded within a period of 6 weeks from the date of closure of subscription list, by Registered A.D. and by cheque or demand draft marked “A/c payee” to the applicants. In the event of failure to refund the amounts within the period specified in sub-regulation (3), the asset management company shall be liable to pay interest to the applicants at a rate of 15% per annum on the expiry of 6 weeks from the date of closure of the subscription list.
3.4.4.5. UNIT CERTIFICATES OR STATEMENT OF ACCOUNTS

The asset management company shall issue to the applicant whose application has been accepted, unit certificates or statement of accounts specifying the number of units allotted to the applicant as soon as possible but not later than 6 weeks from the date of closure of the initial subscription list and or from the date of receipt of the request from the unit holders in any open ended scheme.

Provided that if an applicant so desires, the asset management company shall issue the unit certificates to the applicant with in 6 weeks of the receipt of request for the certificate.

3.4.4.6. TRANSFER OF UNITS

According to regulation 37 (1) an unit certificate unless otherwise restricted or prohibited under the scheme, shall be freely transferable by act of parties or by operation of law. The asset management company shall, on production of instrument of transfer together with relevant unit certificates, register the transfer and return the unit certificate to the transferee with in 30 days from the date of such production. Provided that if the units are with the depository such units will be transferable in accordance with the provisions of the SEBI (Depositories and Participants) Regulations, 1996.

3.4.4.7. GUARANTEED RETURNS

No guaranteed return shall be provided in a scheme, -

a. unless such returns are fully guaranteed by the sponsor or the asset management company;
b. unless a statement indicating the name of the person who will guarantee the return, is made in the offer document;

c. the manner in which the guarantee to be met has been stated in the offer document.

3.4.4.8. Winding up

According to Regulation 39(1) a close ended scheme shall be wound up on the expiry of duration fixed in the scheme on the redemption of the units unless it is rolled over for a further period under sub-regulation (4) of regulation 33. A scheme of a mutual fund may be wound up, after repaying the amount due to unit holders,-

a. on the happening of any event which, in the opinion of the trustees, requires the scheme to be wound up, or

b. if 75% of the unit holders of a scheme pass a resolution that the scheme be wound up; or

c. if the Board so directs in the interest of the unit holders.

Where a scheme is to be wound up under sub-regulation (1) or sub-regulation (2), the trustees shall give notice disclosing the circumstances leading to the winding up of the scheme to the Board and in two daily newspapers having circulation all over India, a vernacular newspaper circulating at the place where the mutual fund is formed.

On and from the date of the publication of notice under clause (b) of sub-regulation (3) of regulation 39, the trustee or asset management company as the case may be, shall
a. cease to carry on any business activities in respect of the scheme so wound up;
b. cease to create or cancel units in the scheme;
c. cease to issue or redeem units in the scheme.

3.4.4.9. WINDING UP OF THE SCHEME

After the receipt of the report on winding up from the trustee, the SEBI, if it is satisfied that all measures for winding up of the scheme have been completed, the scheme shall cease to exist.

3.4.5. INVESTMENT OBJECTIVES AND VALUATION POLICIES

Regulations 43-49 of SEBI (Mutual Funds) Regulations, 1996 deal with the investment objectives and valuation policies of the mutual fund schemes. As per Regulation 43 the moneys collected under any scheme of a mutual fund shall be invested only in transferable securities in the money market or in the capital market or in privately placed debentures or securitised debts.

Provided that moneys collected under any money market scheme of a mutual fund shall be invested only in money market instruments in accordance with directions issued by the Reserve Bank of India;

Provided further that in case of securitised debts such fund may invest in asset backed securities excluding mortgaged backed securities.
Any investments to be made under regulation 43 shall be invested subject to the investment restriction specified in the Seventh Schedule. The mutual fund having an aggregate of securities which are worth Rs. 10 crore or more, as on the latest balance sheet date, shall subject to such instructions as may be issued from time to time by the Board settle their transactions entered on or after January 15, 1998 only through dematerialised securities.

The mutual fund shall not borrow except to meet temporary liquidity needs of the mutual funds for the purpose of repurchase, redemption of units or payment of interest or dividend to the unit holders.

Provided that the mutual fund shall not borrow more than 20% of the net assets of the scheme and the duration of such a borrowing shall not exceed a period of 6 months.

The mutual fund shall not advance any loans for any purpose. The mutual fund may lend securities in accordance with the Stock Lending Scheme of the Board.

The funds of a scheme shall not in any manner be used in option trading or in short selling or carry forward transactions.

Provided that mutual funds shall enter into derivatives transactions in a recognised stock exchange for the purpose of hedging and portfolio balancing, in accordance with the guidelines issued by the Board.15

As per regulation 46, mutual funds may enter into underwriting agreement after obtaining a certificate of registration in terms of the SEBI (under writers) Rules and SEBI (under writers) Regulation, 1993 authorising it to carry on activities as underwriters.

3.4.5.1. METHOD OF VALUATION OF INVESTMENTS

Every mutual fund shall compute and carry out valuation of its investments in its portfolio and publish the same in accordance with the valuation norms specified in Eighth schedule.

3.4.5.2. COMPUTATION OF NAV

As per regulation 48 (1) every mutual fund shall compute the Net Asset Value of each scheme by dividing the net assets of the scheme by the number of units outstanding on the valuation date. The Net Asset Value of the scheme shall be calculated and published at least in two daily newspapers at intervals of not exceeding one week:

Provided that the Net Asset Value of any scheme for special target segment or any monthly income scheme which are not mandatorily required to be listed in any stock exchange under Regulation 32, may publish the Net Asset Value at monthly or quarterly intervals as may be permitted by the Board.

3.4.5.3. PRICING OF UNITS

According to regulation 49 the price at which the units may be subscribed or sold and the price at which such units may at any time be repurchased by the mutual fund shall be made available to the investors.
The mutual fund, in case of open ended scheme, shall at least once a week publish in a daily newspaper of all India circulation, the sale and repurchase price of units. While determining the prices of the units, the mutual fund shall ensure that the repurchase price is not lower than 93% of the Net Asset Value and the sale price is not higher than 107% of the Net Asset Value.

Provided that the repurchase price of the units of a close ended scheme shall not be lower than 95% of the Net Asset Value:

Provided further that the difference between the repurchase price and the sale price of the unit shall not exceed 7% calculated on the sale price.

The price of units shall be determined with reference to the last determined Net Asset Value unless the scheme announces the Net Asset Value on a daily basis and the sale price is determined with or without a fixed premium added to the future Net Asset Value which is declared in advance.

3.4.6. GENERAL OBLIGATIONS

Chapter VII, Regulations 50-59 of SEBI (Mutual Fund) Regulations, 1996 explain the general obligations of every mutual fund.

3.4.7. INSPECTION AND AUDIT

SEBI (Mutual Fund) Regulations 61-67 of 1996 deal with the inspection and audit of every mutual fund books and accounts.
3.4.8. PROCEDURE FOR ACTION IN CASE OF DEFAULT

Chapter IX of SEBI (Mutual Fund) Regulations, 1996 deal with the procedure for taking action in case any default arises from the registration of mutual fund to the inspection and audit of the books of accounts of the mutual fund.

3.4.9. MISCELLANEOUS

Chapter X of SEBI (Mutual Fund) Regulations, 1996 contain informations about the power of the Board to issue clarifications etc. Regulation 77 says that in order to remove any difficulties in the application or interpretation of these regulations, the Board shall have the power to issue clarifications and guidelines in the form of notes or circulars which shall be binding on the sponsor, mutual funds, trustees, asset management companies and custodians.