INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

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   REVIEW OF LITERATURE

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   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

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- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

REGULATION OF INDIAN MUTUAL INDUSTRY

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ABSTRACT

Mutual fund is a professionally managed type of collective investment scheme that pools money from investors and invest the money collected in bonds, short-term money market instruments and other securities. Mutual funds are managed by the professionals who choose the best portfolio on behalf of the investors. Mutual funds plays very important role in the development of an economy as they helps in financial development and capital formation. The aim of this study is to see how Indian Mutual Fund industry is regulated. I have also reviewed the regulatory changes taken by the SECURITIES AND EXCHANGE BOARD OF INDIA. Over a period of time SEBI has taken many steps to promote the growth of mutual funds in India. I have presented all the regulatory steps taken by SEBI on yearly basis, this will help the reader to understand how Indian Mutual Fund Industry has witnessed growth over a period of time and how the Regulatory body, SEBI has taken steps to stimulate this growth.

KEYWORDS
Exchange Traded Funds, Money Market Mutual Funds, Mutual funds, Regulatory changes.

LIST OF ABBREVIATIONS

MFs	Mutual Fund
AMC	Asset Management Company
UCC	Unique Client Code
RBI	Reserve Bank of India
GOI	Government of India
LTCG	Long Term Capital Gain
UTI	Unit Trust of India
MMMF	Money Market Mutual Fund
CIS	collective investment schemes
CISM	Certified Information Security Manager
CISA	Certified Information System Auditor
ASBA	Application Supported by Blocked Amount
QFIs	Qualified Foreign Investors
IDFs	Infrastructure Debt Funds
NFO	New Fund Offer
FoFs	Fund of Funds

INTRODUCTION

A mutual fund is a professionally managed type of collective investment scheme that pools money from investors and invest their money in bonds, short-term money market instruments and other securities. Mutual funds have a fund manager who invests the money on behalf of the investors by buying / selling stocks, bonds etc. Mutual funds serve as a key financial intermediary. They pool investments by individual investors and use the funds to accommodate financing needs of government and corporations in the primary market. They also frequently invest in secondary market.

A mutual fund hires portfolio managers to invest in a portfolio of securities that satisfies the desires of investors. Like other portfolio managers, the managers of mutual funds analyze economic and industry trends and forecasts and assess the potential impact of various conditions on companies. They adjust the compositions of their portfolio in response to changing economic conditions.

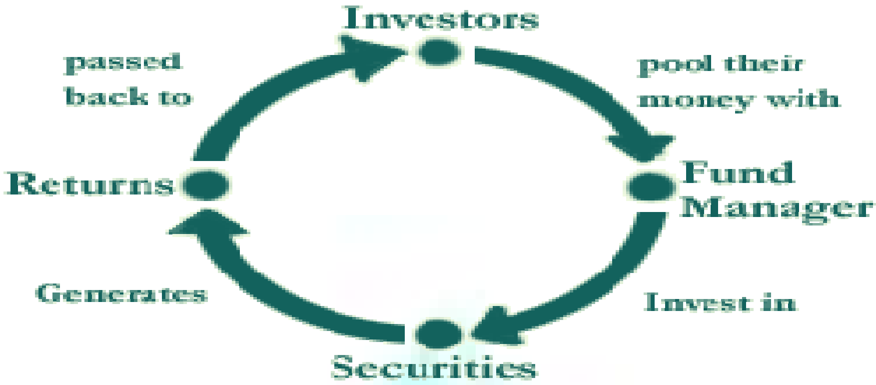
TYPES OF MUTUAL FUND SCHEMES IN INDIA

1. Equity fund
2. Debt funds
3. Balanced funds
4. Tax Saving Schemes
5. Index Schemes
6. Sector Specific Schemes
7. Open - Ended Schemes
8. Close - Ended Schemes
9. Interval Schemes

MUTUAL FUNDS IN INDIA

A Mutual Fund is a trust that pools the savings of a number of investors who share a common financial goal. The money thus collected is then invested in capital market instruments such as shares, debentures and other securities. The income earned through these investments and the capital appreciation realized are shared by its unit holders in proportion to the number of units owned by them. Thus a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost. The working of MF can be explained with the help of following diagram.

DIAGRAM 1

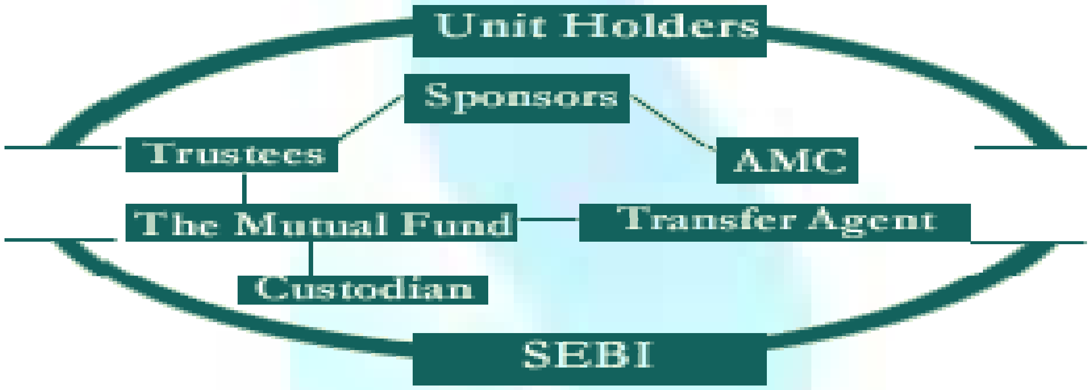


SOURCE: AMFI

ORGANISATION OF A MUTUAL FUND

There are different entities involved in the organizational set up of a mutual fund, such as, trustees, sponsors, AMCs etc. The following diagram illustrates the organizational set up of mutual fund in India.

DIAGRAM 2



Source: AMFI

HISTORY OF INDIAN MUTUAL FUND INDUSTRY

The mutual fund industry in India started in the year 1963 with the formation of Unit Trust of India, at the initiative of the Government of India and Reserve Bank of India. The history of mutual funds in India can be broadly divided into four distinct phases.

FIRST PHASE (1964-87)

Unit Trust of India (UTI) was established on 1963 by an Act of Parliament. It was set up by the Reserve Bank of India and functioned under the Regulatory and administrative control of the Reserve Bank of India. In 1978, UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. The first scheme launched by UTI was Unit Scheme 1964. At the end of 1988 UTI had Rs.6,700 crores of assets under management.

SECOND PHASE – 1987-1993 (ENTRY OF PUBLIC SECTOR FUNDS)

In the year 1987, public sector mutual funds were set up by public sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first non- UTI Mutual Fund established in June 1987 followed by Canbank Mutual Fund (Dec 87), Punjab National Bank Mutual Fund (Aug 89), Indian Bank Mutual Fund (Nov 89), Bank of India (Jun 90), Bank of Baroda Mutual Fund (Oct 92). LIC established its mutual fund in June 1989 while GIC had set up its mutual fund in December 1990. At the end of 1993, the mutual fund industry had assets under management of Rs.47,004 crores.

THIRD PHASE – 1993-2003 (ENTRY OF PRIVATE SECTOR FUNDS)

In the year 1993, private sector entered in the Indian mutual fund industry, which gave the Indian investors a wider choice of fund families. Also, 1993 was the year in which the first Mutual Fund Regulations came into being, under which all mutual funds, except UTI were to be registered and governed. The erstwhile Kothari Pioneer (now merged with Franklin Templeton) was the first private sector mutual fund registered in July 1993.

The number of mutual fund houses went on increasing, with many foreign mutual funds setting up funds in India and also the industry has witnessed several mergers and acquisitions. As at the end of January 2003, there were 33 mutual funds with total assets of Rs. 1,21,805 crores. The Unit Trust of India with Rs.44,541 crores of assets under management was way ahead of other mutual funds. Currently, there are 49 Mutual Funds registered under SEBI.

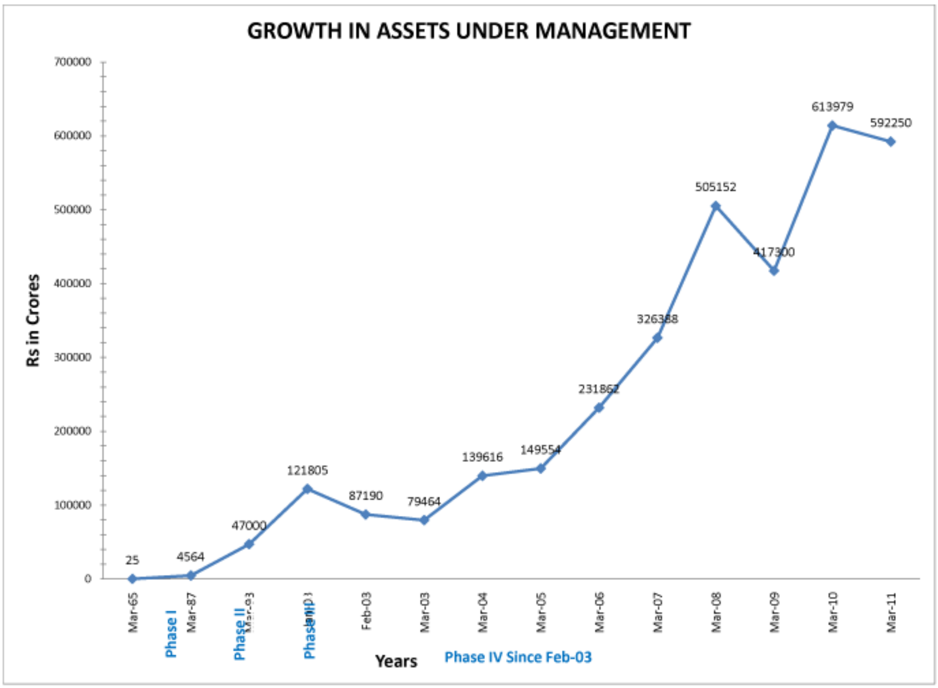
FOURTH PHASE – SINCE FEBRUARY 2003

In February 2003, following the repeal of the Unit Trust of India Act 1963, UTI was bifurcated into two separate entities. One is the Specified Undertaking of the Unit Trust of India with assets under management of Rs.29,835 crores as at the end of January 2003, representing broadly, the assets of US 64 scheme, assured return and certain other schemes. The Specified Undertaking of Unit Trust of India, functioning under an administrator and under the rules framed by Government of India and does not come under the purview of the Mutual Fund Regulations.

The second is the UTI Mutual Fund, sponsored by SBI, PNB, BOB and LIC. It is registered with SEBI and functions under the Mutual Fund Regulations. With the bifurcation of the erstwhile UTI which had in March 2000 more than Rs.76,000 crores of assets under management and with the setting up of a UTI Mutual Fund, conforming to the SEBI Mutual Fund Regulations, and with recent mergers taking place among different private sector funds, the mutual fund industry has entered its current phase of consolidation and growth.

The graph indicates the growth of assets over the years

GRAPH 1



SOURCE: AMFI

REGULATION OF INDIAN MUTUAL FUND INDUSTRY

The Indian mutual fund industry witnessed robust growth and stricter regulations from SEBI since 1996. The mobilization of funds and the number of players operating in the industry reached new heights as investors started showing more interest in mutual funds. Safeguarding the interest of investors is one of the duties of SEBI. Consequently, SEBI (Mutual Funds) Regulations, 1996 and certain other guidelines have been issued by SEBI that sets uniform standards for all mutual funds in India.

Mutual Funds have become one of the major intermediaries in the securities market and their role in mobilizing the savings of the household sector is growing. Prior to the SEBI Act, 1992 Mutual funds were governed by a guidelines issued by RBI and the erstwhile office of Controller of Capital issue. The SEBI (Mutual Fund) Regulations has brought about a significant change in the structure of mutual funds and the disclosure requirement for the schemes of the mutual funds. The Regulations Provide for registration of all mutual funds and Require all MFs to set up as trust, and it also require approval for all scheme offer documents and advertisements by SEBI.

REGULATORY CHANGES TAKEN BY SEBI IN 1993-1994

In the year 1993-1994 the practice of prior approval for advertisements by MFs was dispensed with. The holding period for LTCGs in respect of MFs was reduced to one year in the Budget for 1994-1995. The MFs were also permitted to buy back their own units in case they were traded at substantial discounts to their NAVs. To protect the interest of investors the disclosure standards of offer documents have improved considerably.

REGULATORY CHANGES TAKEN BY SEBI IN 1994-1995

In the year 1994-1995 the guidelines for investment in money market instruments were partially modified and MFs were allowed to commence investment in securities as per the objectives disclosed in the offer document immediately after the receipt of minimum subscription specified by SEBI (Mutual Fund) Regulations. MFs were allowed to keep minimum subscription between Rs.1000 to Rs.5000. SEBI appointed an Expert committee to develop guidelines on uniform calculation of NAVs of MF schemes and standard for investment valuation norms. In the year 1995-1996, SEBI carried out inspection of certain schemes and operations of UTI. In its 32 years history, it was the first time when UTI was inspected.

REGULATORY CHANGES TAKEN BY SEBI IN 1995-1996

During 1995-96, SEBI had prepared and widely circulated a paper titled "**Mutual Funds 2000**" which identified ways to improve the working and regulation of the mutual fund industry, so that mutual funds could provide a better performance and service to all categories of investors and offer a range of innovative products in a competitive manner to match investor needs and preferences across various investor segments. Based on the comments received on the recommendations made in the paper by market participants and investors and on discussions held with the Association of Mutual Funds of India (AMFI), the SEBI (Mutual Funds) Regulations, 1993 were revised and the new regulations notified in December 1996. The SEBI (Mutual Funds) Regulations, 1996 provided for enhanced level of investor protection and empowerment of investors. And it also developed code of ethics for asset management companies. The impact of the new regulations was immediately felt. Asset management companies framed several schemes which made use of the freedom provided to them by the new regulations. Not only did the number of schemes filed with SEBI increase significantly in a short period of time, but also there was greater variety in the investment products offered. There was also a significant improvement in disclosures in the offer documents. The new regulations have brought into greater focus the responsibilities of trustees of mutual funds who are uniquely positioned to promote the interests of the unitholders and to ensure that mutual funds are managed responsibly and ethically. The trustees act independently to uphold the public trust.

REGULATORY CHANGES TAKEN BY SEBI IN 1997-1998

In the year 1997-1998, a Committee was set up under the Chairmanship of Mr. P.K. Kaul to recommend the manner of discharge of responsibilities by the trustees as laid down in regulation 18 of the SEBI(Mutual Funds) Regulations, 1996. SEBI MF Regulations were amended in 1996. The SEBI has been taking steps towards improving the standards of disclosure for mutual funds, introducing prudential norms to prevent misuse of funds by the asset management companies and to afford a greater degree of protection to the investors. Simultaneously with the introduction of stringent regulations to raise the compliance standards, the SEBI has been seeking to give greater degree of freedom to fund managers to structure their schemes according to investor preferences. With this end in view the SEBI has further amended the Mutual Fund Regulations which were notified in 1996. The salient features of the amendments are:

- Aggregate investment by a mutual fund in listed and /or to be listed securities of group companies of the sponsor shall not exceed 25 per cent of the net assets of all schemes of the fund. Asset Management Companies (AMCs) will not be required to disclose in the scheme offer document, the maximum investments proposed to be made by the scheme in the securities of the group companies of the sponsor and also, the aggregate investment already made by all existing schemes in group companies. The AMCs must submit quarterly reports to the trustees on transactions in the securities of group companies during the quarter, and trustees will have to specifically comment on such transactions recorded in the half yearly reports which they would submit to SEBI. Mutual funds have been prohibited from making investments in unlisted/privately placed securities of associate/group companies of the sponsor.

- Security transactions with associate brokers shall not exceed 5 per cent of the quarterly business done by the mutual fund. In case of transactions undertaken with any non associate broker, if this 5 per cent limit is exceeded, AMCs will be required to record in writing the justification for exceeding the limit and report this to the trustees on a quarterly basis.
- Unit holders' approval will no longer be required for rollover of schemes and for converting close-ended into open-ended schemes, provided the unit holders are given an option to redeem their holdings in full at NAV based prices.
- Independent trustees who are not associated with the sponsor shall now constitute two third of the Board of Trustees instead of the earlier provision of 50 per cent.
- Memorandum containing key information must accompany all application forms of mutual fund schemes to ensure adequate disclosures to investors.
- Full portfolio disclosure in the Annual Report of Mutual Funds is now mandatory.
- The auditors will now be required to comment on the compliance of the regulations and investors grievances and redressal thereof by the mutual funds.
- The SEBI prepared a standard offer document which prescribes the minimum disclosure requirements to be contained in the offer document of any mutual fund scheme. In addition, an abridged offer document i.e. the memorandum containing key information, which must accompany all scheme application forms in terms of sub regulation (4) of regulation 29 of the Regulations, has also been standardized.
- Both these documents were prepared on the basis of broad based views and comments from the Association of Mutual Funds of India and Price Waterhouse LLP, from various Investors'
- Associations and retail investors contacted through press.

REGULATORY CHANGES TAKEN BY SEBI IN 1998-1999

In the year 1998-1999, the mutual fund industry has witnessed several innovations. A novel feature in the form of limited cheque writing facility has been introduced by one of the funds. Its asset management company (AMC) through an arrangement with a Bank, allows the Unit holders to issue cheques against a savings account with the Bank. Each unitholder is allowed to issue cheques up to a specified limit. To enhance service to investors, one fund has instituted a toll-free inquiry facility enabling investors to access information about the fund without any charges. The year also witnessed the launch of sector funds targeting sectors such as information technology, pharmaceutical, brand value and fast moving consumer goods. Dedicated gilt fund envisaging 100% investment in government securities was launched making the gilt market accessible to small investors. Another innovative product was to invest solely in dematerialized securities and exchange of any security in dematerialized segment, instead of cash, for the units of the scheme. A meeting with the trustees of various mutual funds was held to get their feedback on the recommendations of the P.K. Kaul Committee regarding the discharge of the trustees' responsibilities of the trustees.

The Committee appointed for framing the guidelines for mutual funds to invest in overseas markets submitted its Report. The recommendations of the Committee have been taken up for discussion with the Reserve Bank of India and the Government for implementation. Also, from this date, it became mandatory for each application form to be accompanied by a memorandum containing key information i.e. abridged offer document. These documents have strengthened disclosure standards in mutual funds industry enabling investors to take informed investment decisions. Mutual funds were allowed to participate in securities lending subject to certain disclosures and reporting requirements. During the year Securities and Exchange Board of India (Mutual Funds) Regulations 1996, were amended to allow the mutual funds to participate in derivatives trading whenever this is introduced. The emphasis of SEBI during the year has been on compliance of regulations by the mutual funds. Individual meetings were held with the compliance officers of many of the mutual funds to obtain an insight into the performance of the compliance function and to elicit their views regarding the interpretation of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996. Also, the doubts of compliance officers on the interpretation of regulations were clarified during the meetings. Inspections of all 33 active mutual funds, including UTI, was undertaken during the year to be carried out by independent chartered accountancy firms covering the period till March 1998. A detailed guidance note, including a comprehensive check-list was issued to the independent auditors. They were required to comment on compliance of each regulation in their reports. The terms of reference for the inspections were elaborated and expanded so as to cover the main thrust areas for inspection. The scope of inspection being thus clearly defined, it facilitated the process of inspection and preparation of reports in a uniform manner. Warning and deficiency letters were issued to many mutual funds on the basis of findings of inspection reports and they were advised to take corrective action and report to SEBI. It was ensured that the grievances of investors against mutual funds are attended on priority basis. The redressal rate of grievances has shown a significant improvement as a result of constant follow-up with the mutual funds. Meetings were held with the investor service officers of various mutual funds. The SEBI has created a data base of key personnel of mutual funds during the year. The database includes details regarding educational qualifications, employment record and regulatory violations or convictions, if any. The data-base enables the maintenance of a record of professionals in the mutual fund industry besides throwing up useful information such as mobility of professionals across the industry and general level of experience and qualifications.

REGULATORY CHANGES TAKEN BY SEBI IN 1999-2000

In the year 1999-2000, in consultation with the Association of Mutual Funds of India, a number of policy decisions were taken during the year and regulations were amended accordingly. Prudential investment norms were prescribed to ensure that the investment portfolios of the mutual funds are diversified to reduce the inherent risk associated with such investments. Investments in equity related instruments of a single company have been restricted to 10 per cent of the NAV of a scheme with an exception for index funds and sector/ industry specific schemes Investment in investment grade rated debt instruments issued by a single issuer, should not exceed 15 per cent of NAV of the scheme. This limit may be extended to 20 per cent of the NAV of the scheme with the prior approval of the Boards of AMC and trustees. In case of unrated debt instruments, the investment in a single issuer shall not exceed 10 per cent of the NAV of the scheme and in case of such debt instruments of all the issuers in a scheme shall not exceed 25 per cent of NAV subject to approval of Boards of AMC and trustee company. However, these restrictions for debt instruments will not be applicable to government securities and money market instruments. As investment in unlisted shares is less liquid, such investments have been restricted to a maximum of 10 per cent of the NAV of a scheme in case of close ended scheme. In case of open-ended schemes the limit is made more stringent to 5 per cent of the NAV of the scheme as there is continuous repurchase by investors in such schemes and there is need of liquidity. With a view to expand the spectrum of investment opportunities available to mutual funds, measures have been taken to permit mutual funds to enter the global securities market. In consultation with Reserve Bank of India and the Government of India, the mutual funds have now been permitted to invest in overseas securities. Initially this facility has been extended to ADRs/GDRs issued by Indian companies with an overall cap of US$ 500 million with a sub ceiling of 10 per cent of the net assets managed by individual mutual funds and a maximum limit of US$ 50 million for each mutual fund. Mutual funds have been allowed to enter into derivatives transactions for the purpose of hedging and portfolio balancing. Detailed guidelines on the procedures to be followed while entering into derivatives trading, have been issued. With a purpose to give more flexibility to the mutual funds for the operation of their schemes and to streamline the procedures, the present requirement of consent of 3/4th of the unitholders for any change in controlling interest of AMC or fundamental attributes of a scheme has been done away with. Instead, in such cases, the unitholders shall be informed by way of individual communication as well as through advertisements in the newspapers of the proposed modifications and the unitholders shall be given option to exit at the prevailing NAV without paying any exit load. With a purpose to ensure that the advertisements issued by the mutual funds are not misleading, the advertisement code has been amended so that the advertisement on performance is supported by relevant figures and such figures of NAV, yields or returns are given for the past three years wherever applicable. The practice of selectively reproducing extracts from the offer document which could be misleading in the advertisement is not allowed. Celebrities cannot be displayed in advertisements. As the Asset management companies have expertise in funds management and as they represented to SEBI, they have been permitted to carry out portfolio management activities subject to certain conditions. With a view to make unit holders aware of the securities in which the funds have been invested by the mutual fund and to enable them to take well informed investment decisions, it has been made mandatory that the mutual funds should send to all unitholders a complete statement of the scheme portfolio before the expiry of one month from the close of each half year.

The code of conduct has been elaborated to include certain clauses pertaining to integrity, due diligence, fairness in dealings etc which should be adhered to by the AMC and the Trustees. The views of AMFI (Association of Mutual Funds in India) and the trustees of mutual funds were taken into consideration before implementing the same. Board of Directors of the AMCs will now have to play more important role in the compliance process and reporting to trustees periodically in this regard. The manner in which due diligence shall be carried out by the Trustees in fulfillment of the various obligations as required under the Regulations, has been specified. Trustees can appoint independent auditors or can have separate fully fledged administrative set up to give them support in discharging their duties in accordance with the SEBI Regulations. Trustees shall now be required to meet more frequently, at least once in every three months and four such meetings to be held in a year. Also the quorum for such meetings shall require the presence of at least one independent trustee / director who is not associated with the sponsor**.**

REGULATORY CHANGES TAKEN BY SEBI IN 2000-2001

During the year 2000-2001, inspections of 32 active mutual funds covering the period October-March 2002, were ordered and were carried out by independent chartered accountancy firms. All the inspection reports were processed and necessary action was taken on the findings of inspections and mutual funds were advised to take corrective action, wherever necessary.

REGULATORY CHANGES TAKEN BY SEBI IN 2001-2002

During 2001-02, the SEBI took a number of policy decisions in consultation with mutual funds industry to protect the interests of investors in mutual funds and to develop and regulate the mutual funds industry. The regulations were amended accordingly and necessary guidelines were also issued to the mutual funds. In order to provide the investors with meaningful and relevant information on mutual fund schemes, the SEBI simplified the format for the half-yearly un-audited results published by mutual funds. The SEBI directed mutual funds to disclose large unitholdings (holding of over 25 per cent of the net assets of a scheme by an investor) in their schemes so that the investors are aware of concentration of holdings. The number of such investors and total holdings by them are required to be disclosed in the allotment letter after the initial public offerings and also in the annual and half-yearly results. The mutual funds were advised not to make payment of brokerage/commission on the subscription of units received from their sponsors in their schemes. SEBI issued detailed guidelines for investment/ trading in securities by employees of AMCs and mutual fund trustee companies so as to avoid any conflict of interest and instances of self-dealing or front running by the employees. Guidelines require prior approval by certain category of employees before making personal investment transactions and also prescribe reporting requirements. Boards of AMCs and trustees are required to review the compliance of guidelines in their periodical meetings. Recognizing the need for developing well-trained agents and distributors and to professionalize the distribution channel, the SEBI made it mandatory for all mutual funds to appoint agents/ distributors who have obtained certification by Association of Mutual Funds in India (AMFI). Also the existing agents/ distributors were expected to pass the certification programme by March 31, 2003. All mutual funds were advised to direct their agents/ distributors to follow the provisions of the SEBI regulations and guidelines pertaining to mutual funds with specific focus on regulations / guidelines on advertisements / sales literature and code of conduct. Mutual funds were also advised to monitor the activities of their agents/distributors so that they may not indulge in any kind of malpractice or unethical practice while selling/ marketing mutual fund units. Mutual funds were also advised to encourage their employees to undertake the same certification programme by December 2002. According to the SEBI Regulations, 50 per cent of directors of AMC and two-third trustees are required to be independent i.e. who are not associates of the sponsors. With an objective to improve corporate governance and to bring about transparency in the operations of the mutual funds, the definition of independent directors has been revised. As a result, certain categories of persons can be considered as 'associates' and not as independent directors. With a view to improving corporate governance, the Compliance Officers of the mutual funds are now required to immediately and independently report to SEBI of any violation of regulation, guidelines or instructions issued by the SEBI. And in order to educate the investors to understand the basics of mutual funds and their operations, the SEBI prepared a brochure in question-answer format explaining the fundamental issues pertaining to mutual funds. This has been put on the SEBI web site. The mutual funds have been advised to circulate copies of the brochure among their distributors and agents (including brokers, banks, post offices) and the investors. They have also been advised to publish the same as small booklets and also to display it prominently on their web sites. In order to provide the investors objective analysis of the performance of the mutual fund schemes in comparison with the rise and fall in the markets, the mutual funds were advised to disclose the performance of benchmark indices also. They were advised to disclose the performance of the benchmark indices in case of equity oriented schemes while disclosing the yields of the schemes in the format for half-yearly results. These benchmark indices can be decided by the AMCs and trustees and any change at a later date is required to be recorded and reasonably justified. Subsequently, the disclosure of performance of benchmark indices in case of debt oriented schemes and balanced fund schemes has also been made mandatory. The SEBI advised that the boards of AMCs and trustees should review the performance of their schemes on periodical basis and compare the performance of their schemes with benchmarks in all of their meetings. They are also required to review the performance of their schemes in the light of performance of the mutual funds industry as published from time to time by independent research agencies and financial newspapers and journals and to take corrective action in case of unsatisfactory performance. During the year inspections of 32 active mutual funds (including those schemes of UTI which come under the purview of SEBI) was ordered during the year to be carried out by independent chartered accountancy firms. Necessary action was taken on the findings of inspections carried out. Mutual funds were advised to take corrective action, wherever necessary.

REGULATORY CHANGES TAKEN BY SEBI IN 2002-2003

SEBI initiated a number of policy measures in the year 2002-03 to safeguard the interests of investors in mutual funds and to develop and regulate the mutual fund industry and thus achieving the objectives as specified in the SEBI Act, 1992. SEBI introduced a number of measures to improve corporate governance standards and professionalism in the mutual funds industry. In order to provide the investors objective analysis of the performance of the mutual fund schemes in comparison with the rise and fall in the markets, the mutual funds were advised to disclose the performance of benchmark indices also while publishing half yearly results.

Intermediaries play a very important role in distribution of mutual funds units. They interact with investors and advise them for making investment in various mutual funds schemes. SEBI took a number of measures to improve the quality of intermediaries and also that they do not indulge in unethical practices. SEBI (Mutual Funds) Regulations, 1996 specify that mutual funds should not use any unethical means to sell, market or induce any investor to buy their scheme. Further the Regulations also require that mutual funds should maintain high standards of integrity and fairness in all their dealings, render at all times high standards of service and exercise due diligence. In furtherance of these objectives, SEBI has made it mandatory for all distributors and agents to pass certification examination and to follow SEBI (Mutual Funds) Regulations with specific focus on regulations/ guidelines on advertisements/sales literature and code of conduct. SEBI has also advised the mutual funds to monitor the activities of their agents/distributors to ensure that they do not indulge in any kind of malpractice or unethical practice while selling / marketing mutual fund units. The distributors and agents must follow the detailed code of conduct as recommended by AMFI. If any intermediary does not comply with the code of conduct, the mutual funds are required to report it to AMFI and SEBI. No mutual fund allowed to deal with those intermediaries who do not follow the code of conduct. The intermediaries have been advised not to share commission with investors. Investors should subscribe to units of a mutual fund on the basis of merits and performance and not on the basis of quantum of commissions. All intermediaries engaged in selling and marketing of mutual fund units were required to be registered with AMFI. Such registration will be subject to passing of certification examination and adherence to guidelines as specified by SEBI and AMFI from time to time. However, senior citizens with experience in distributing mutual funds units have been allowed exemption from certification examination. They should have completed 60 years of age as on March 31, 2003 and should have two years of experience. They should follow SEBI and AMFI guidelines and should be registered with AMFI. They should also attend a mutual fund training programme within one year from March 31, 2003 and a certificate to that effect endorsed by a mutual fund should be submitted to AMFI. The mutual funds are required to 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, the empanelling mutual funds may suspend further business and pay out of commissions, etc. until full compliance by them.

A number of responsibilities have been assigned to trustees of mutual funds under SEBI (Mutual Funds) Regulations. Therefore, it has been decided that the trustees should meet on bi-monthly basis to review the performance and compliance related issues of their mutual funds, instead of the earlier requirement of meeting on a quarterly basis. According to SEBI(Mutual Funds Regulations, 1996, 50 percent of directors of AMC and two-third of the trustees are required to be independent i.e. who are not associates of the sponsors. With an objective to improve corporate governance and to bring about transparency in the operations of the mutual funds, the definition of Independent Directors was revised so that certain categories of persons could not be considered as 'associates' and not as independent directors. With a view to implementing the regulation in letter and spirit and improving corporate governance standards in mutual funds, it has been clarified to mutual funds that persons providing any type of professional service to the mutual fund, asset management company, trustee company and sponsors shall be considered as associate directors of AMCs or trustee companies, as the case may be. Also, persons having any material pecuniary relationship with these entities, which in the judgment of the trustees may affect independence of directors, shall be treated as associate directors. At times, an unduly long period of time elapses before an outgoing independent director is replaced on the board of AMC. After discussions in SEBI Advisory Committee, the mutual funds were advised to appoint independent director(s) in place of the outgoing director(s) within a period of 3 months from the date of resignation. The Mutual funds were also advised to maintain a panel of eligible persons who could be appointed as independent directors as and when required. Also that they may consider appointing more than the required minimum number of independent directors in order to enhance the standards of corporate governance.

Chief executives and fund managers of mutual funds play very important role in the functioning of mutual funds. After taking feedback from chief executives and fund managers from all mutual funds, the SEBI defined their roles in SEBI (Mutual Funds) Regulations, 1996. Accordingly the Chief Executive Officer of the asset management company is required to ensure that the mutual fund complies with all the provisions of SEBI (Mutual Fund) Regulations, 1996 and the guidelines issued there under and the investments made by the fund managers are in the interests of the unitholders. He/ She shall also be responsible for the overall risk management function of the mutual fund. The fund manager is also required to ensure that the funds of the mutual fund schemes are invested to achieve the objective of the scheme and in the interests of the unitholders. The objective of these measures is to enable the chief executives and fund managers of mutual funds to play their roles in the interest of investors without any influence and pressures. All mutual funds have been advised to enter into transactions relating to government securities only in dematerialized form. SEBI issued guidelines for the valuation of unlisted equity shares with a view to bringing about uniformity in the calculation of NAVs of the schemes by all mutual funds. The guidelines prescribe detailed methodology for valuation of unlisted equity shares based on stringent pricing formula. The mutual funds have been prohibited from buying unlisted equity shares at a price higher than that worked out in accordance with the methodology. Guidelines also prescribe exercise of due diligence while making such investments. Some of the investments made by mutual funds may become non-performing assets (NPAs) or illiquid at the time of maturity / closure of the schemes, which may be realized by the mutual funds in due course i.e. after winding up of the scheme .SEBI issued guidelines during the year and the mutual funds were advised to distribute such amount, if it is substantial and is realized within two years, to the old investors. In case the amount is not substantial or it is realized after two years, it may be transferred to the Investor Education Fund maintained by each mutual fund. The decision as to determination of substantial amount is to be taken by the trustees of the mutual funds after considering relevant factors.

According to the investment valuation norms specified in the SEBI (Mutual Funds)Regulations, any change in securities and in the number of units is to be recorded in the books not later than the first valuation date following the date of transaction. If this is not possible given the frequency of the net asset value disclosure, the recording maybe delayed upto a period of seven days following the date of the transaction, provided that as a result of non-recording, the NAV calculation shall not be affected by more than two percent. As a result, the investors of a scheme maybe affected by variation of two percent in the NAV. This variation of two percent was now felt to be on the higher side. As improvement in systems and technology over the years, should make it possible for the mutual funds to calculate the NAV accurately than what was when the rate was formulated so as that the investors may enter or exit at sale and repurchase prices based on NAV which is very near to the actual NAV.SEBI Regulations have been amended to reduce the allowable variation in NAV from the present '2 percent' to '1 percent'. The Regulations also now require that in case the NAV of a scheme differs due to non-recording of transactions by more than one per cent, the investors or schemes shall be compensated. If investors are allotted units at higher NAV or they are given lower NAV at the time of their sale of units, they should be compensated by the schemes. However, if investors are charged lower NAV at the time of their purchase of units or they are given higher NAV at the time of their sale of units, asset management company shall compensate the schemes.

Mutual Funds were allowed to invest in the Fund of Funds. A fund of funds (FoFs) is a mutual fund scheme that invests in schemes of other mutual funds instead of investing in securities. They may invest in equity oriented, debt-oriented and liquid schemes or sector specific schemes. They may also exit from a particular scheme depending on their perception of market conditions which may not be possible for an investor to decide. Investors may invest in a particular FoF scheme depending on their investment objectives instead of investing in a number of schemes. Such schemes would be subject to

(i) maximum limit on expenses to the extent of 0.75 per cent of net assets and

(ii) certain restrictions and disclosures in SEBI (Mutual Fund) Regulations, 1996.

All the mutual funds have been advised to follow a uniform method to calculate the sale and repurchase price. The mutual funds must clarify in the offer documents that the loads shall be charged as a percentage of NAV i.e. applicable load as a percentage of NAV will be added to NAV to calculate sale price and will be subtracted from NAV to calculate repurchase price. They are also required to explain the calculation by means of an example. Apart from bringing about uniformity in the mutual funds industry, it would now be very easy for the investors to calculate their sale / repurchase price. The mutual funds have also been advised to round off NAV up to four decimal places in respect of index funds and all types of debt-oriented schemes like liquid/money market mutual fund schemes i.e. in case of schemes which invest predominantly in money market instruments, gilt, income short term plans, fixed maturity plans, monthly income plans etc. and up to two decimal places in case of equity-oriented and balanced fund schemes. However, the mutual funds can round off NAVs up to more than two decimal places in case of equity-oriented and balanced fund schemes also, if they so desire. This has been introduced so that there is uniformity in the mutual funds industry. The mutual funds are also required to make necessary disclosures in the offer documents.

REGULATORY CHANGES TAKEN BY SEBI IN 2003-2004

SEBI has taken many measures during the year 2003-2004 to develop this industry and to protect the interest of the investors. Governance and disclosure standards are important pillars of the industry. Good governance standards enhance confidence of the investors in mutual fund the industry. With a view to utilizing the services of experienced distributors/agents, the certification standards have been relaxed in certain categories of agents/distributors. The positions of CEOs and FMs have been strengthened as they hold a specific accountability to protect the interest of the investors. CEOs are required to ensure mutual fund compliance as per the regulations and the Fund Managers are required to ensure investment as per the objective of the scheme and interest of unitholders. Mutual Funds have been instructed to obtain UCC either from the Bombay Stock Exchange or National Stock Exchange before commencing trading on behalf of the schemes/clients.

One of the main objectives of a regulator is to provide fairness to all concerned in the market place. To achieve this, SEBI has issued the Guidelines for uniform cut off timing for applicability of net asset value (NAV) of mutual fund schemes/plan (s). This is applicable both for subscription and redemption. Skewed distribution of investors may lead to some anomalies in the management and distribution of funds. Therefore, SEBI prescribed that each scheme of an individual plan should have a minimum of 20 investors and that no single investor should account for more than 25 per cent of the corpus. Mutual funds have been advised that they can invest in short-term deposit with disclosures to trustees along with the reasons for investment. SEBI (Mutual Funds) Regulations, 1996 contain prudential investment norms for investing in debt securities. Government securities issued by the Centre/State Government or on its behalf by the RBI are exempt from the prudential investment norms. Indian mutual funds have been permitted to invest in equities of listed overseas companies by the Government of India. SEBI has decided to permit each mutual fund to invest up to 10 per cent of its net assets as on January 31, of each relevant year in foreign securities. However, the minimum and maximum investment limits are fixed at US$ 5 million and US$ 50 million respectively for each mutual fund irrespective of the size of the assets. It has been clarified that mutual funds can invest in interest rate derivatives subject to disclosures in offer documents. During the year Indian mutual funds have been permitted to float Fund of Funds (FoFs) and invest in funds of other mutual funds.

In order to provide effective and appropriate communication to the investors and improve standards of disclosures in advertisement, to implement regulatory intent effectively and to remove difficulties in the application of regulations, the following guidelines have been issued:
a. Standardization in hoarding/posters;
b. Advertisements through audio-visual media;
c. Promotional activities, sales literature;
d. Performance advertisements; and
e. Ranking advertisements.

REGULATORY CHANGES TAKEN BY SEBI IN 2004-2005
SEBI issued guidelines and clarification in the tear 2004-2005, that the mutual fund schemes/plans, which existed on December 12, 2003 (the date of the issue of circular) and did not have a minimum of 20 investors or where one investor was holding more than 25 per cent of the corpus of the schemes/plans, were required to be wound up by January 31, 2005. All the schemes/plans are required to comply with both the aforementioned conditions stipulated in the guideline. However, the guideline is not applicable to Exchange Traded Funds. In order to carry out a complete 'health check' of the securities market infrastructure, SEBI had constituted a High Level Task Force namely Securities Markets Infrastructure Leveraging Expert Task Force (SMILE Task Force) which has submitted, *inter alia*, its report to SEBI on "Infrastructure and Process Flow for Enhancing Distribution reach in the Mutual Fund Industry". Pursuant to the announcement made by the Honorable Finance Minister in his Budget Speech for 2005-06, SEBI appointed a Committee for the introduction of Gold Exchange Traded Fund (GETF) in India. Based on the recommendations of the said Committee, the SEBI (Mutual Funds) Regulations, 1996 were amended and notification was issued on January 12, 2006 permitting mutual funds to introduce GETFs in India subject to certain investment restrictions. In view of the difficulties faced by mutual funds, the time limit for uploading the net asset value (NAV) on the AMFI website was extended from 8 p.m. to 9 p.m.
All mutual funds were advised by SEBI to maintain the secrecy of Unique Client Code (UCC) which may be furnished only to the member broker through whom the mutual funds were trading. In order to facilitate the unit holders to claim tax benefit associated with the payment of Securities Transaction Tax (STT), it was decided to allow mutual funds to share the UCC of their schemes/ plans with their unit holders. Mutual funds are permitted to invest in ADRs/GDRs and foreign securities. However, in many cases, disclosures pertaining to investment in ADRs/ GDRs/ foreign securities were not made in the offer document. All the mutual funds, in such cases, were advised to send a written communication to the investors about the proposed investment. They were also advised to communicate the risk factor associated with such investment to each unit holder prior to the investment in such securities. In addition, an advertisement about the proposed investment needs to be given by the mutual fund in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the head office of the mutual fund is located. This provision is not applicable to the existing mutual fund schemes where relevant disclosures regarding investment in ADRs/ GDRs/ foreign securities have already been made.

REGULATORY CHANGES TAKEN BY SEBI IN 2005-2006
SEBI had constituted a Committee under the Chairmanship of Shri Madhukar, the then Whole Time Member, SEBI to look into necessary amendments for implementing the announcement made by the Hon'ble Finance Minister in his Union Budget 2005-06 speech for the introduction of Gold Exchange Traded Funds (GETFs). Pursuant to the recommendations of the Committee, SEBI (Mutual Funds) Regulations, 1996 were amended on January 12, 2006 *vide* S.O.No.38(E) to provide for launching and
regulation of GETFs. The main features of the amendment are as follows:
a) A GETF scheme can invest primarily in gold or gold related instruments. For this purpose, 'gold related instruments' shall be such instruments having gold as underlying, as may be specified by SEBI from time to time.
b) The gold or gold related instruments of a GETF scheme may be kept in the custody of a bank, which is a SEBI registered custodian.
c) The following are the regulatory provisions made in respect of GETF schemes:
(i) Their funds can be invested only in gold or gold related instruments, except to the extent necessary to meet liquidity requirements of the scheme;
(ii) Pending deployment of funds, such schemes may invest their funds in short term deposits of scheduled commercial banks;
(iii) The initial issue expenses of such scheme cannot exceed 6 per cent of the funds raised; and
(iv) Recurring expenses incurred towards storage and handling of gold can be charged to the scheme, among other permissible expenses.

REGULATORY CHANGES TAKEN BY SEBI IN 2006-2007
To contain frequent churning in mutual fund schemes, in the year 2006-2007 close-ended schemes were permitted to charge initial issue expenses to the scheme while open-ended schemes can charge only entry load for the purpose of meeting the expenses connected with sales and distribution of schemes. Dividend distribution procedures were also specified by SEBI. To address concerns regarding launch of similar products, mutual fund trustees were directed to certify that the scheme approved by them is a new product and it is not a minor modification of existing scheme/product. Following the Finance Bill 2006-07 and subsequent raising of limit by RBI, the maximum ceiling for individual mutual funds to invest in ADRs/GDRs issued by Indian companies, equity of overseas companies listed on recognized stock exchanges overseas and rated debt securities was raised from USD 50 million to USD 100 million. Subsequently, the limit was further raised to USD 150 million. Mutual funds were also advised to appoint a dedicated fund manager for making such investment SEBI (Mutual Funds) Regulations, 1996 were amended to permit launch of Capital Protection Oriented schemes. SEBI amended SEBI (Mutual Funds) Regulations, 1996 to specify the methodology for valuation of gold for the purpose of GETFs. Accordingly, the gold held by a GETF scheme shall be valued at the AM fixing price of London Bullion Market Association (LBMA) in US dollars per troy ounce for gold having a fineness of 995.0 parts per thousand, subject to prescribed adjustments. Two GETF schemes were launched during the year, offering investors better diversification opportunity. During the year SEBI Board also approved the draft guidelines for Real Estate Mutual Funds (REMFs). REMF means a scheme of a mutual fund which has investment objective to invest directly or indirectly in real estate property and shall be governed by the provisions and guidelines under SEBI (Mutual Funds) Regulations.

REGULATORY CHANGES TAKEN BY SEBI IN 2007-2008
In order to ensure that the funds collected in a scheme are invested as per the investment objective stated in the offer document, SEBI issued guidelines in the year 2007-2008, restricting parking of funds in short-term deposits of scheduled commercial banks – pending deployment. In view of the practical difficulties being faced by the mutual funds in uploading the NAV of Fund of Fund schemes on AMFI's website and their own website, SEBI had decided that the time limit for uploading of NAV for fund of fund schemes will be extended to 10:00 am the following business day. In order to bring in more transparency and clarity to the investors in terms of expenses charged in close-ended Schemes, SEBI decided that there would not be any provision of charging initial issue expenses and amortization of the same. All mutual funds should meet expenses connected with sales and distribution of schemes from the entry load. SEBI directed Mutual Funds to enhance the time for display and voice on the standard warning to five seconds in audio visual advertisements. In case of audio advertisements, the standard warning would be read in an easily understandable manner over a period of five seconds. SEBI decided AMCs should not charge entry as well as exit load on bonus units and units allotted on reinvestment of dividend. The guidelines for Real Estate Mutual funds were approved by the SEBI Board in June 2006. During 2007-08, steps were taken to address certain residual issues relating to accounting and valuation of assets, in discussion with AMFI, ICAI and Credit Rating Agencies. The necessary amendments to the SEBI (Mutual Fund), Regulations 1996 were thereafter notified on April 16, 2008.

REGULATORY CHANGES TAKEN BY SEBI IN 2008-2009

SEBI has taken the following initiatives to improve the functioning of mutual funds in the year 2008-2009:

i. Overseas Investments by Mutual Fund In consultation with Government of India and RBI, the aggregate ceiling for overseas investments was raised from USD 5 billion to USD 7 billion.

ii. The SEBI (Mutual Funds) Regulations, 1996 were modified to provide a framework for real estate mutual funds. The salient modifications are:

a) For considering eligibility to set up new Mutual Funds for launching only real estate mutual fund schemes, besides fulfilling all other eligibility criteria applicable for sponsoring a Mutual Fund, sponsors shall be carrying on business in real estate for a period not less than five years.

b) An existing mutual fund may launch a real estate mutual fund scheme if it has an adequate number of key personnel and directors having adequate experience in real estate.

c) Every real estate mutual fund scheme shall be close-ended and its units shall be listed on a recognized stock exchange.

d) Every real estate mutual fund shall invest at least thirty five per cent of the net assets of the scheme directly in real estate assets.

e) The AMC, its directors, the trustees and the real estate valuer shall ensure that the valuations of assets held by a real estate mutual fund scheme are done in good faith in accordance with the norms specified.

iii. The Offer Document and Key Information Memorandum of Mutual Funds schemes were simplified to make them more reader friendly.

The Offer Document was split into two parts i.e., Statement of Additional Information (SAI) and Scheme Information Document (SID) w.e.f., June 1, 2008. All statutory information on mutual fund is incorporated with SAI which is available on website of respective mutual funds.

iv. To place mutual funds at par with other participants in the government securities market, mutual fund schemes were permitted to sell government securities already contracted for purchase without waiting for actual delivery of government securities in accordance with the guidelines issued by RBI.

v. It was clarified that earlier guidelines for parking of funds in short-term deposits of scheduled commercial banks, pending deployment, shall not apply to term deposits placed as margins for trading in cash and derivatives market. However, disclosures regarding all term deposits placed as margins are required to be made in half-yearly portfolio statements.

vi. In order to ensure uniformity in the contents of abridged scheme-wise Annual Report prepared by mutual funds, a new format was prescribed. It was also decided that the abridged scheme-wise Annual Report be mailed to the investors' e-mail addresses, if so mandated, and also displayed on the website of the mutual fund. A separate category of "Securitized Debt Instruments" was introduced in the Half- Yearly Portfolio Disclosure format under debt instruments. Further, time period for mailing of scheme wise Annual Report or an abridged summary thereof to unitholders and Annual report to the Board, was reduced to "four months" from "six months".

vii. The discretion of -50 basis points (bps) to +100 bps given to fund managers to value debt securities was found inadequate in the market scenario in October, 2008. With a view to ensure that the value of debt securities reflects the true fundamentals the discretion was modified as under:

viii. To harmonize the NAV applicability with the realization of money and to move away from the NAV based on the application date, it was prescribed that in respect of purchase of units in Income/ Debt oriented schemes (other than liquid fund schemes and plans) with amount equal to or more than Rs. 1 crore, irrespective of the time of receipt of application, the closing NAV of the day on which the funds are available for utilization shall be applicable.

ix. With a view to further strengthen the framework for close-ended schemes, launched on or after December 12, 2008 (except Equity Linked Savings Schemes), listing of units along with daily computation of NAV and its publication was made mandatory. It was also mandated that a close-ended debt scheme shall invest only in such securities which mature on or before the date of the maturity of the scheme.

x. Portfolio of "Liquid Schemes" In order to reduce the tenure of the securities held in the portfolio of liquid schemes from the requirement of one year, it was stipulated that:

a) With effect from February 01, 2009, liquid fund schemes and plans shall make investment in / purchase debt and money market securities with maturity of upto 182 days only.

b) With effect from May 01, 2009, liquid fund schemes and plans shall make investment in/purchase debt and money market securities with maturity of upto 91 days only.

xi. There was a practice of mutual funds offering indicative portfolios and indicative yields in their debt/fixed income products. Since such practice has potential to mislead investors, it was decided that no mutual fund should offer any indicative portfolio and indicative yield. No communication regarding the same in any manner whatsoever be issued by any mutual fund or distributors of its products.

xii. In order to enhance the transparency of the portfolios of debt oriented close-ended and interval schemes/plans, it was decided that AMCs shall disclose the portfolio of such schemes in the format prescribed by SEBI, on a monthly basis on their respective websites.

To enable the investor to determine the amount of commission, a few alternatives were presented in concept paper titled 'Proposal on Variable Entry Load'. The paper was placed on SEBI website for public comments. The paper suggests two options:

i. The application forms indicate different options for rates of commission and the investor and distributor sign in one of those rates.

ii. The investor negotiates the rate with the distributor and issues a separate cheque for the same in favor of distributor. The concept paper brought out the pros and cons of both the options. The paper also proposed to bring about transparency in disclosure of commission being paid to distributors for the different schemes which are being recommended to the investor by making the disclosure of commission mandatory. Opinions and feedbacks have been received from distributors, individuals (the investors) and AMCs by email, letters and post cards.

Mutual funds after witnessing redemption pressures during later half of 2008-09 post global credit crisis witnessed renewal of investors' interest in terms of mobilization of resources through new fund offerings as well as existing schemes. It was clarified that mutual funds can invest in IDRs [Indian Depository Receipts as defined in the Companies (Issue of Indian Depository Receipts) Rules, 2004] subject to compliance with the SEBI (Mutual Funds) Regulations, 1996 and guidelines issued there under, specifically investment restrictions as specified in the Seventh Schedule of the Regulations. The Mutual Funds (Second Amendment) Regulations, 2009 prescribed that no mutual fund schemes can invest more than 30 percent of their assets in money market instruments of an issuer. However, such limit shall not be applicable for investments in Government securities, treasury bills and collateralized borrowing and lending obligations.

Debt securities are valued by Mutual Funds in terms of spread indicated by specified rating agencies. Mutual Funds have been given discretionary mark up or down detailed in guidelines issued in the years 2000 and 2002. These varied from -25 bps to +100 bps (basis points). These discretionary mark ups were increased considerably in 2008 to accommodate for the great variation in the values of securities on account of volatile market conditions. During 2009-10, the discretionary mark ups/downs were returned to their levels specified in 2000/2002. Further, it was decided that, the Chief Executive Officer (whatever his designation may be) of the Asset Management Company shall give prior approval to the use of discretionary mark up or down limit. To ensure that the value of money market and debt securities in the portfolio of mutual fund schemes reflects the current market scenario, the provisions regarding valuation of certain securities were modified, as under

- Valuation of money market and debt securities with residual maturity of up to 91 days: All money market and debt securities, including floating rate securities, with residual maturity of up to 91 days shall be valued at the weighted average price at which they are traded on the particular valuation day. When such securities are not traded on a particular valuation day, they shall be valued on amortization basis. The floating rate securities with floor and caps on coupon rate and residual maturity of up to 91 days shall be valued on amortization basis taking the coupon rate as floor.
- Valuation of money market and debt securities with residual maturity of over 91 days: All money market and debt securities, including floating rate securities, with residual maturity of over 91 days shall be valued at weighted average price at which they are traded on the particular valuation day. When such securities are not traded on a particular valuation day, they shall be valued at benchmark yield/matrix of spread over risk free benchmark yield obtained from agency(ies) entrusted for the said purpose by Association of Mutual Funds in India.

Considering the importance of systems audit in the technology driven asset management activity, it was decided that mutual funds shall have a systems audit conducted by an independent Certified Information System Auditor (CISA)/Certified Information Security Manager (CISM) qualified or equivalent auditor. The systems audit shall be comprehensive encompassing audit of systems and processes. Accordingly, the AMCs were advised to conduct systems audit of mutual funds once in two years and to place the systems audit report and compliance status before the Trustees of the mutual fund. The systems audit report/findings along with trustee comments shall be communicated to SEBI. The need for enhancing the reach of mutual fund schemes to more towns and cities was widely felt. To address this issue, units of mutual fund schemes were permitted to be transacted through registered stock brokers of recognized stock exchanges. The convenience of stock exchange mechanism would also be available now to mutual fund investors. In order to improve the manner in which the standard warning message is conveyed to the investors, it was decided that: a) The standard warning in audio-visual advertisement shall be displayed as "Mutual Fund investments are subject to market risks, read all scheme related documents carefully". b) No addition or deletion of words shall be made in the standard warning. It was emphasized that both the visual and the voice over of the standard warning will be run for at least five seconds.

REGULATORY CHANGES TAKEN BY SEBI IN 2009-2010

With a view to improving corporate governance, it was decided that AMCs shall disclose their general policies and procedures for exercising the voting rights in respect of shares held by them on the website of the respective AMC as well as in the annual report distributed to the unit holders. Further, henceforth the AMCs are also required to disclose on the website of the respective AMC as well as in the annual report distributed to the unit holders, the actual exercise of their proxy votes in the AGMs/EGMs of the investee companies. AMCs were entering into revenue sharing arrangements with offshore funds in respect of investments made on behalf of Fund of Funds schemes which created conflict of interest. It was decided that henceforth 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. Any commission or brokerage received from the underlying fund shall be credited into concerned scheme's account. The SEBI (Portfolio Managers) Regulations, 1993 mandate the segregation of clients' funds and portfolio of securities. In June 2009, it was clarified that portfolio managers may keep the funds of all clients in a separate bank account maintained by the portfolio manager subject to conditions such as:

(a) clear segregation of each client's fund through back office records,

(b) non use of funds of one client for another client,

(c) maintaining accounts with separate client- wise data for their funds and providing statement to clients for such accounts at least on monthly basis; and

(d) reconciliation of client-wise accounts with the bank accounts on daily basis.

SEBI (Mutual Funds) Regulations, 1996 were amended on April 8, 2009 to:-

a) make listing of close ended schemes mandatory.

b) remove the provision available for repurchase and re-issue of units of close-ended scheme and to provide that the units shall not be repurchased before maturity.

c) provide for listing fees as a permissible expenses as part of the recurring expenses chargeable to scheme.

d) close-ended debt schemes may be allowed to invest in securities of initial or residual maturities not exceeding the maturity of the scheme. 2. SEBI (Mutual Funds) Regulations, 1996, were further amended on June 5, 2009 to allow a mutual fund scheme to invest only up to 30 percent of its net assets in money market instruments of an issuer. This limit of 30 percent is not applicable for investments in Government Securities, Treasury Bills and Collateralized Borrowing and Lending Obligations.

REGULATORY CHANGES TAKEN BY SEBI IN 2010-2011

Mutual funds witnessed redemption pressures during 2010-11 due to volatile market conditions. To improve transparency in 'grievance redressal mechanism', it was decided that mutual funds shall henceforth disclose detailed status of investor complaints received by them in a prescribed format, on their websites, on the AMFI website as well as in their Annual Reports. These details should have been signed off by the trustees of the concerned mutual fund. The requirement of Application Supported by Blocked Amount (ASBA) facility for investors' subscriptions in all mutual fund New Fund Offers (NFOs) that was to be mandated from July 01, 2010 was extended for implementation from October 1, 2010. Earlier, mutual funds were required to confirm whether all the investor related documents are maintained/ available with them. To ensure that investors have unrestricted access to AMCs, mutual funds were further directed vide circular dated August 12, 2010 that investor related documents including account opening documents, PAN, KYC, PoA (if applicable), specimen signature are available with AMCs/ their RTAs and not just with the distributor. AMCs shall be responsible for updation of these documents. It has been observed that due to such incomplete documentation, investors' rights to approach the AMCs directly were restricted and investors were forced to depend on the distributors for executing any financial or non-financial transactions.

On October 08, 2010, SEBI revised the monthly reporting format for portfolio managers. The revised format is more comprehensive with details including investment in equity, debt, listed, unlisted securities including the AUM of EPFO/PF clients included therein.

On November 02, 2010, SEBI clarified that all portfolio managers shall ensure that the first single lump sum investment amount received as funds or securities from clients should not be less than ` 5 lakh. The circular also, made it mandatory to disclose portfolio performance in percentage terms of portfolios grouped by investment category for the past three years after netting all fees and charges levied by the portfolio manager. SEBI (Mutual Fund) Regulations, 1996 were amended on July 29, 2010 and includes the following changes:

(a) The period within which refunds of application money to applicants in case of failure to receive minimum subscription amount or in the case of excess of subscription, has been reduced from six weeks to five working days. Similarly the period within which interest on delayed refund is to be paid, has also been reduced from six weeks to five working days.

(b) The period within which, statement of accounts specifying number of units allotted is to be issued to the applicants, has been reduced from 30 working days to five working days. Similarly, the period within which unit certificates may be issued to the applicant has been reduced from 30 working days to five working days from the receipt of request for the certificate. Also, the period within which, the applicant in a close ended scheme is issued a statement of accounts specifying number of units allotted or, issued units in dematerialized form, has been reduced from 30 working days to five working days from the closure of the initial subscription list.

(c) The provision for collection of additional management fee by asset management companies for schemes launched on a no load basis, has been omitted.

(d) The cap on total expenses of a scheme has been rationalize.

REGULATORY CHANGES TAKEN BY SEBI IN 2011-2012

The year 2011-12 witnessed manifold regulatory approaches towards the development and growth of mutual funds industry in India. The developmental goals were addressed by providing provisions for infrastructure debt funds, bringing depth in terms of allowing new class of investors i.e. Qualified Foreign Investors (QFIs) and new investment avenues for fund managers by enabling repo transactions in corporate debt securities. Other regulatory approaches were oriented towards giving fair treatment to all class of investors by providing the overarching and overriding principles of valuation to ensure fair treatment to all investors including existing investors as well as investors seeking to purchase or redeem units of mutual funds, enhancing accuracy, fairness, completeness and unambiguity in AMC communications and scheme advertisements by amending the advertisement code more towards principle based, provisioning disclosure of intended portfolio for closed ended debt schemes to enable investors to make a more informed decision, bringing transparency in performance disclosures, disclosure of commissions paid to the distributors, etc., ensuring higher standards of investor servicing by provisioning for options to all investors in all types of schemes (existing/ new) for issuance of units in demat form, making AMC responsible for due diligence of distributors, ensuring convenience to investors by way of provisioning for consolidated account statements and incentivizing distributors for mobilization of savings from urban and smaller towns to the mutual fund industry by way of introduction of transaction charge. In the year 2011-2012 SEBI (Mutual Fund) Regulation was amended. The amendment regulations provide for *inter alia* the following:

a) Setting up of Infrastructure Debt Funds (IDFs) in order to accelerate and enhance the flow of long-term debt in infrastructure projects for funding Government's programme of infrastructure developments. Salient features of regulatory framework for IDF scheme are as under:

• An existing mutual fund having required number of key personnel with adequate experience in infrastructure sector may launch IDF schemes.

• Companies carrying on activities or business in infrastructure financing sector for a minimum period of five years and fulfilling the eligibility criteria under relevant provisions of SEBI (Mutual Funds) Regulations, 1996 may also apply for setting up of mutual funds exclusively for launching of IDF schemes.

• The IDF would invest 90 percent of its assets in the debt securities of infrastructure companies or special purpose vehicles (SPVs) across all infrastructure sector.

• Minimum investment, by any investor, in an IDF scheme is ` one crore with 10 lakh as minimum size of the unit. The credit risk associated with the underlying securities is to be borne by the investors.

• An IDF scheme shall be launched either as close ended scheme maturing after more than five years or as an interval scheme with minimum lock-in period of five years and the units of IDFs shall be listed on stock exchange.

• An IDF shall have a minimum of five investors and no investor shall hold more than 50 percent of net assets of the scheme.

b) All the operations of mutual funds including trading desks, unit holder servicing and investment operations shall be based in India and mutual funds having operations abroad shall wind up and bring onshore within a period of one year.

c) AMCs to manage and advise only pooled assets including offshore funds, insurance funds, pension funds, provident funds etc. that are broad based. There should be one fund manager for every unique strategy followed by the mutual funds. AMCs must ensure that consolidated account statement for each calendar month is issued detailing all the transactions and holding at the end of the month including transaction charges paid to the distributor, across all schemes of all mutual funds, to all the investors.

d) Scheme-wise annual report or abridged summary thereof must be sent to investors in electronic form on their registered e-mail address and a link of the full scheme-wise annual reports to be displayed prominently on the website.

CONCLUSION

Mutual fund industry has witnessed a fast growth due to mutual fund' advantages. Mutual funds have gained the interest of investors as well as researchers. Mutual fund industry is growing at a fast rate and it will continue to grow in future also. Investors should look into all the related aspects of investment before investing in mutual fund. SEBI has taken various steps in order to boost the Indian Mutual Funds Industry. Mutual Funds are very important tool for the growth and development of an Economy. It helps to boost saving and investment of a country and thus it also leads to capital formation in a country, which is very crucial for the growth of an economy. In this article I have studies the various steps taken by SEBI. Before the SEBI Act, 1992 Mutual funds were governed by a guidelines issued by RBI and the erstwhile office of Controller of Capital issue. In the year 1993 first regulation regarding mutual funds came into being by the name of Mutual Funds (Regulations), 1993. After these regulations SEBI has taken various regulatory changes every year according to the changing needs and requirement of the investors, mutual fund distributors and Asset Management Companies. These changes have resulted in more transparency and disclosure by the AMCs and this has resulted into more investors' confidence into the Mutual Fund Industry. Thus it can be said that the regulatory body SEBI plays very important role in the growth of Mutual Fund Industry in India as SEBI has amended the regulation from time to time for the development of Mutual Fund Industry.

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