ORIGINAL RESEARCH PAPER

COMMERCE

ROLE OF SEBI IN REGULATING MUTUAL FUNDS

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ABSTRACT

A Mutual Fund Is A Form Of Collective Investment That Collects The Savings Of Investors And Invests Them In A Large And Well Diversified Portfolio Of Securities. Now Days These Mutual Funds Are Very Popular Because They Provide An Excellent Way For Anyone To Direct A Portion Of Their Income Towards A Particular Investment. In Order To Help The Small Investors' Mutual Fund Industry Has Come To Occupy On Important Place. The Advantage For The Investors Is Reduction In Risk, Expert, Professional Management, Diversified, Portfolio, Liquidity Of Investment And Tax Benefit. This Fast Grown Industry Is Regulated By The Securities And Exchange Board Of India (sebi). Since The Mutual Funds In Value A Huge Amount Of Retail Investors Therefore The Purpose And Objective Of This Article Is To Study Meaning And Nature Of Mutual Funds, Procedure, Importance Of Sebi And Its Mechanism In India And Examine The Growth Of Mutual Funds And The Analyze The Operations Of Mutual Funds And Suggest Some Measures To Make It A Successful Scheme In India.

Introduction:-

Mutual Funds are financial intermediaries which collect savings of many investors and invests the money in stocks, bonds, short-term money market instruments, and for other securities. In Mutual Funds, the fund manager trades the fund's underlying securities, relaying capital gain or loss and collects the dividend or interest income. The investment proceeds are then passed along to the individual investors. The value of a share of the Mutual Fund, known as the

Net Asset value (NAV) is calculated daily based on the total value of the fund dividend by the number of shares purchased by investors. Mutual Funds enable hundreds, and in some case even millions, of investors to pool their money together in order to make investments. Investors in mutual funds entrust their investment decisions to a professional money manager. Most mutual funds have clearly defined investment practices and objectives for their investments. Mutual funds can be broken down into two basic categories equity and bond funds. Equity funds invest primarily in common stock, while bond funds invest mainly in various debt instrument within each of these sectors, investors have a myriad of choices to consider, including, international or domestic, active or induced and value or growth, just to name a few.

WHY ARE MUTUAL FUNDS SO POPULAR?

Mutual Funds are also popular because they provide an excellent way for anyone to direct a portion of their income towards a particular investment objective. Whether you are looking for a broad-based fund or a narrow industry- focused niche fund you are almost certain to find a fund that meets your needs. If you look in history of Indian Mutual Fund the UTI mutual fund is the first Mutual Fund comes in 1963. Unit Trust of India was established in 1963 by an Act of Parliament control by the reserve bank of India. There are governing 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 took over the regulatory and administrative control in place of RBI. Body was reserve bank of India but in 1993 constituted of securities and exchange board of India. The SEBI (Mutual Fund) Regulations were substituted by a more comprehensive and revised Mutual Fund Regulations in 1996. The industry now functions under the SEBI (Mutual Fund) Regulations 1996.

Objectives Of the Study:-

The main objectives of this study are as under:

- To appraise different rules and regulation laid down in India to regulate the mutual funds.
- To analyze the working of SEBI in regulating mutual fund markets.
- To examine the effectiveness of SEBI's functioning in this regard and to suggest suitable measures for the effective regulation of mutual funds.
- To study the difficulties experienced by the mutual funds.
- To study the role and effectiveness of SEBI in protection of investors in mutual funds.

The Role of SEBI in Mutual Funds Industry:-

The Indian mutual funds industry witnessed robust growth and stricter regulation from SEBI since 1996. The mobility action of funds and the number of players operating in the industry reached new heights as investors started showing more interest in mutual funds. Safe guarding the interests 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 inform standards for all mutual funds in India. All the mutual funds have to be registered with SEBI. The regulation have laid down a detail procedure for launching of schemes disclosure in the offer document, listing and repurchase of close end schemes offer period, transfer of units , investment, among others.

Regulatory Framework:-

SEBI the regulatory authority for the India Mutual Fund industry has consistently introduced several regulatory measures and amendments in order to protect the interests of small investors. The securities exchange board of India (Mutual Funds) Regulations 1996 is the principal regulation for the mutual fund industry in India.

The key provisions of the SEBI Regulation 1996 include:-

- All the schemes to be launched by the AMC needs to be approved by the Board of Trustees and copies of offer documents of such schemes are to be filed with SEBI.
- The offer documents shall contain adequate disclosures to enable the investors to make informed decisions.
- The listing of close-ended schemes is mandatory and they should be listed on a recognized stock exchange within six months from the closure of subscription.
- Units of a close ended scheme can be opened for sale or redemption at a predetermined fixed interval if the minimum and maximum amount of sale, redemption and periodicity is disclosed in the offer document.
- Units of close ended scheme may be rolled over by passing a resolution by a majority of the shareholders.
- No scheme other than unit-linked scheme can be opened for subscription for more than 45 days. Further, the minimum subscription and the extent of over subscription that is intended to be retained should be specified in the offer document.

The Structure of Mutual Funds in India:-

The SEBI Mutual Fund Regulations have defined the structure of a mutual fund and segregated the various constituents into separate legal entities. The mutual funds are set up as trusts are to be managed by a separate assets management companies (AMCs). The custody of the assets is to be with a custodian which is independent of the sponsors and AMCs. Arms length relationships have been sought to be built into the various constituents of a mutual funds, primarily through the requirement that two third of the trustees and also 50% of the broad directors of the AMC must be independent and not associated or officiated to the sponsor. Various documentation viy trust deed, investment management agreement which are to be excited, delineate the responsibilities of the asset management companies and the trustees.

Registration of Mutual Funds:-

All the mutual funds are required to register with the securities and Exchange Board of India. Registration is intended to provide adequate and accurate disclosure of material facts concerning the mutual fund. SEBI regulations have laid down an eligibility criteria u/s 7, for the purpose of grant of a certificate of registration with a view to ensure that players have a sound track record and general reputation of fairness and integrity in all their business transactions.

Regulation 20(e) states that the AMC shall have a minimum net worth of Rs. 10 corers. This is to serve both as an entry barriers as well as to enable the AMC to provide for the own infrastructure such as office space, personnel and systems independent of the sponsor.

Any shortfall in the net worth would have to be made up by the sponsor immediately. The initial contribution to the net worth should be in the form of cash and all assets should be held in the name of the AMC. This is necessary to bring about a complete arm length relationship with the sponsor and its affiliates.

In case the AMC wants to carry out other fund management businesses, it should satisfy the capital adequacy requirement for each such business independently.

Winding up:-

A closed-ended scheme shall be wound up on the expiry of duration, fixed in the schemes 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 any 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) It 75% of the unit holders of a scheme pass a resolution that the scheme be wound up.
© If the board so directs in the interest of the unit-holders.

Conclusion:-

Mutual fund have three tire structure; a sponsor, an asset management company and a trustee company. The board of director of the AMC and the board of the trustee company are the two key levels of check and balance of safeguard the interest of the investors. Periodic report weekly and monthly have to be provided by the AMC to the trustee company and by both to SEBI. Such a structure is also intended to keep the fund operations within the confines of the law.

The SEBI has recently put up the report titled, reform of mutual fund industry prepared in association with A.F. Ferguson and company for public comments. In a press release SEBI pointed out that Asian development bank of behalf of the finance Govt. Of India appointed a consultant to review the various aspects of the mutual fund industry in India Inviting public comments/ view report SEBI has noted that SEBI neither approves nor disapproves content accuracy of the report.

In regulatory authority SEBI has built up its capability over a period of time and appear to be supervising the mutual fund as well as it can some re- commendations are like this:-

(1) The AMC should mare directly supervised by SEBI as opposed to the significant reliance now placed on sponsor's trustees, with the introduction of PTC-SEBI will need to supervise these as well.
(2) A more hands-on approach to supervision should be adopted.
(3) A selective or risk based inspection less frequently than the less compliant smaller or never mutual funds.
(4) Personnel with more hands on industry experience should ideally be recruited. If this proves difficulty than a system of settlement to acquire the hands on experience.

References:-

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(2) SEBI (Mutual Funds) regulations 1996.
(3) Regulation 7 of SEBI Mutual Fund/ Regulations 1996.
(4) Regulation 26 and proviso inserted by the SEBI (Mutual Fund) Amendment regulations 2006 published in the official gayette dated 12-01-2006
(5) "Sub-Regulation(1) or " deleted by the SEBI (Mutual Fund) Amendment regulations 2006 published in the official gayette dated 12-01-2006.