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MUTUAL FUND IN INDIA

KEY WORDS: Mutual fund, regulatory constraints, securities, market instrument.

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ABSTRACT

Mutual funds are financial intermediate which collect the savings of investors and invest them in a large and well diversified portfolio of securities. The major advantages for the investors are reduction in risk, expert professional mgt, diversified portfolio and tax benefit. By pooling of their assets through mutual funds maestros achieve economies of scale. Mutual funds are to be established in the form of trust under Indian trust act, and are to be operated by Asset. Management Company (AMC). Mutual fund dealing exclusively with money market instruments are to be regulated by RBI. Mutual fund dealing primarily with capital market and also partly in money market instruments is to be regulated by SEBI. All schemes floated by mutual funds are to be registered with SEBI.

Introduction:-

Mutual fund is a mechanism for pooling money by using units to the investors and investing funds in securities in accordance with objectives and disclosed in offer document mutual fund also offer good investment opportunities to the investors like all investments, they also carry certain risk. The investors should compare the risks and expected returns offer adjustment of tax on various instruments while taking investment decisions.

Mutual funds pooled investments under professional management are becoming ubiquitous for the individual investors rather picking stocks and managing money, mutual funds aggregate funds from many thousands of small investors and maintain a stated, disciplined investment strategy.

Mutual fund:

A mutual fund is a form of collection investment that pools money from many investors and invests the money in stocks; bonds shot term money market instruments and other securities. In a mutual fund, the fund manager trades the fund's underlying securities, realizing capital gains or loss, and collects the divided or interest income. 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 interest their investment decisions to a professional money manager and his staff most mutual fund have clearly defined investment practices and objectives for their investments with nearly 10000 different funds now available, their most likely a fund that will cater to just about any investment objective your might have basic categories equity and bond funds. Equity funds invest mainly in various debt instruments within each of these sectors, investors have a myriad of choices to consider, including international or domestic, active or indexed and value or growth just to name a few mutual fund provide an easy way for small investors to make long term diversities, professionally managed investments at a reasonable cost.

History of mutual fund in india:-

If we look in history of mutual fund the UTI mutual fund is the first mutual fund comes in 1963. Unit trust of India was established in 1963 by on act of Parliament control by the reserve bank of India. There was governing by the reserve bank of India and functioned under the regulatory and administrative control of reserve bank of India in 1978

UTI was delinked 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 (SEBI). The SEBI regulations were substituted by a more comprehensive and revised mutual fund regulations in 1996. The industry now functions under the SEBI (Mutual fund) regulation 1996.

How is a mutual fund set up?

A mutual fund is set up in the form of a trust, which induces sponsor a trustees, asset management company (AMC) and custodian.

The trust can be established by a single sponsor or more the one sponsor who is like promoter of a fund hold its property for the benefit of the unit holders.

Securities and exchange board of India (SEBI) approved asset management company (AMC) manages the funds by making investments in various types of securities. An assets management company (AMC) is an origination that helps clients find a variety of options to invest their funds in mutual funds, hedge funds and pension plans etc. They mobilize and manage funds on behalf of their clients and earn income by charging a fee to their client.

Custodian, who is registered with SEBI, holds the securities of various schemes of the fund in its custody. The trustees are vested with the general power of superintendence and direction over AMC. They monitor the performance and compliance of SEBI regulations by the mutual fund.

SEBI's Role to Regulate Mutual Funds:-

The role of SEBI can be understood from the following points:- Securities Market Awareness Campaign:- SEBI believes that 'An Educated Investor is a Protected Investor'.

A comprehensive securities market awareness campaign was launched on January 17, 2003. The campaign includes workshops, audio-visual clipping, distribution of educative materials in English, Hindi and local languages, a dedicated investor website with inventory of booklets/ pamphlets/ FAQ's and periodic advertisements in all India Radio (AIR) and print media, till march 13, 3717 workshops were conducted covering around 543 cities/ towns in India.

1 Recognition to Investor Associations:-

SEBI recognizes investor associations, extends financial support for conduction investor education programmers and also addresses various issues raised by them to protect the interest of the investors. SEBI has so for recognized 10 investor's associations.

2. Portfolio Disclosure:-

Transparency is essential for corporate governance and portfolio disclosure is an important means of keeping the investors informed about the way their moneys are being used to create financial assets. Therefore, SEBI has made it mandatory for mutual funds to disclose the entire portfolio of any scheme.

3. Transparency in Investment Decisions:-

SEBI has taken a far reaching step towards ensuring due diligence and transparency in all investment decisions by advising all mutual funds to maintain records in support of each investment decision which will indicate the date, facts and opinion leading to that decision.

4. Screening of Mutual funds at the entry level:-
Every mutual shall be registered with SEBI and the registration is granted on the fulfillment of certain conditions laid down in the regulations for efficient and orderly conduct of the affairs of a mutual fund.

5. SEBI has outlined the advertisement code too:-
All mutual funds are bound to publish a scheme wise annual report or an abridged summary through an advertisement within six months of the closure of the financial year. The trustees of mutual funds are bound to convey to the investors any information that has an adverse impact. A mutual fund is also to publish half-yearly unaudited financial results through on advertisement.

6 Prescribed Norms for Investments:-
SEBI has prescribed norms for investment management with a view to minimizing/ reducing undue investment risks. There are also certain restrictions, which are aimed at ensuring transparency and prohibiting have strong similarities with these imposed in the US and UK.

7 Inspection & Penalties Penalty:-
SEBI inspects the books of accounts, records and documents of a mutual fund, the trustees, AMC and custodian. SEBI also imposes a monetary penalty in case of violations of regulations specified. The regulatory framework indicates that SEBI is a highly powerful regulator. These are strong emphasis on ex-post investigation and disciplining of mutual funds through financial penalties.

As financial journalist's play a critical role of far investor's education, SEBI decided to conduct a one day workshop on capital market for the financial journalists at different centers.

What are the different types of mutual fund schemes:-
A mutual fund schemes can be classified to open ended scheme or close-ended scheme depending on its maturity period.

1 Open ended fund scheme:-
An open ended fund or scheme is one that is available for subscription and repurchase on a continuous basis. These schemes do not have a fixed maturity period. Investments can conveniently bay and sell units at net asset value (NAV) per unit which is declared on a daily basis. The key feature of open end schemes is liquidity

2 Close ended fund scheme:-
A close-ended fund or scheme has a stipulated maturity period e.g. 3-5 years. The fund is open for subscription only during a specified period at the time of launch of the scheme. Investors can invest in the scheme at the time of the new fund offer and thereafter they can buy or sell the units of the scheme on the stock exchanges where the units are listed. In order to provide an exit route to the investors, some lose- ended funds give an option of selling back the units to the mutual fund through periodic repurchase at NAV related prices. SEBI regulations stipulate that at least one of the two exit routes is provided to the investor i.e. either repurchase facility or through listing on stock exchanges.

3 Schemes according to Investment objectives:-
A scheme can also be classified as growth scheme, income scheme or balanced scheme considering its investment objectives. Such schemes may be open-ended or close-ended schemes as described earlier such schemes may e classified mainly as follows.

4. Index funds:-
Index funds replicate the portfolio of a particular index such as the BSE sensitive index (Sensex), NSE 50 index (Nifty) etc. These schemes invest in the securities in the same weight age comprising of an index. NAVs of such sachems would rise or fall in the index, through not exactly by the same percentage due to same factors known as "tracking error" in technical terms. Necessary disclosures in this regard are made in the offer document of the mutual fund schemes.

Suggestions of effective regulation:-
The following suggestions can be given on the basis of this study.

1 To improves investors to make informed decisions and achieve fair deals:-
SEBI should ensure that the cheeks and blames in the surveillance system work well to curb manipulations, which should be backed by prompt scrutiny. Investigations and punitive action SEBI has to exercise due diligence to ensure timely crackdown on price manipulation, and impose sestringent penal action and have a close tab on fund flows to protect investors interests.

2 Suggestions for consumers and participants to think that markets are efficient, orderly and clam.

SEBI can encourage more market players. It can reconsider the participation of OCB by making it mandatory for them to announce their beneficiaries rather than completely braining them .

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It should proactively examine issues of contentions nature.

In most cases, it has taken action only when these is a referral from a counter investor formed or the govt. SEBI should make all disclosures available freely to everyone. It has taken the first step towards it through its website edifar.nic.n

3. About cautions investment in unlisted securities privately placed securities, unrated debt securities and non performing assets.

All the AMCs are advised to observes specific attention on investments in unlisted, privately placed, unrated debt securities nonperforming assets and transactions where associations.

Involved as these investments are highly risky. SEBI should include some specified provisions in its regulation to ensure the proper safeguard against the risk association with these investments.

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