WITH THE UPDATED SYLLABUS OF

2025

Supplementary book for

NISM Series V-A

MUTUAL FUND DISTRIBUTOR

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FOREWORD

This guide is designed to help candidates prepare for the NISM Series-VIII: Equity Derivatives Certification Examination. The rapidly growing Indian financial industry, set to expand at 15% annually for the next five years, presents lucrative opportunities. Educational qualifications, especially NISM certifications, are crucial for securing roles in financial services. These certifications serve as prerequisites for various positions, assuring companies of a candidate's knowledge of the stock market. NISM certifications set a common knowledge benchmark, fostering quality market professionals and enhancing investor participation. They also offer structured career paths, allowing individuals to become traders, investors, analysts, advisors, or mutual fund distributors by clearing accredited NISM exams.

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CHAPTER 1
INVESTMENT LANDSCAPE

Factors to evaluate investments

Safety, liquidity, and returns are the three most important factors to evaluate investments. In addition to these, and certain other parameters that have been discussed below:

- **Safety:** This begins with the safety of capital invested. To understand the safety of an investment, it is important to understand the risks involved.

- **Liquidity:** The degree of ease of converting an asset into cash is different across different categories, and even within the categories, the same could be different across products. This is another major factor to be considered.

- **Returns:** As seen earlier in the definition of investments, the major purpose is to get some returns from investment. Such returns may be in the form of regular (or periodic) income, also known as current income; and capital appreciation, or capital gains.

- **Convenience:** Any investment must be evaluated in terms of convenience concerning investing, taking the money out–fully or partially, as well as the investor's ability to conveniently check the value of the investment, as well as to receive the income.

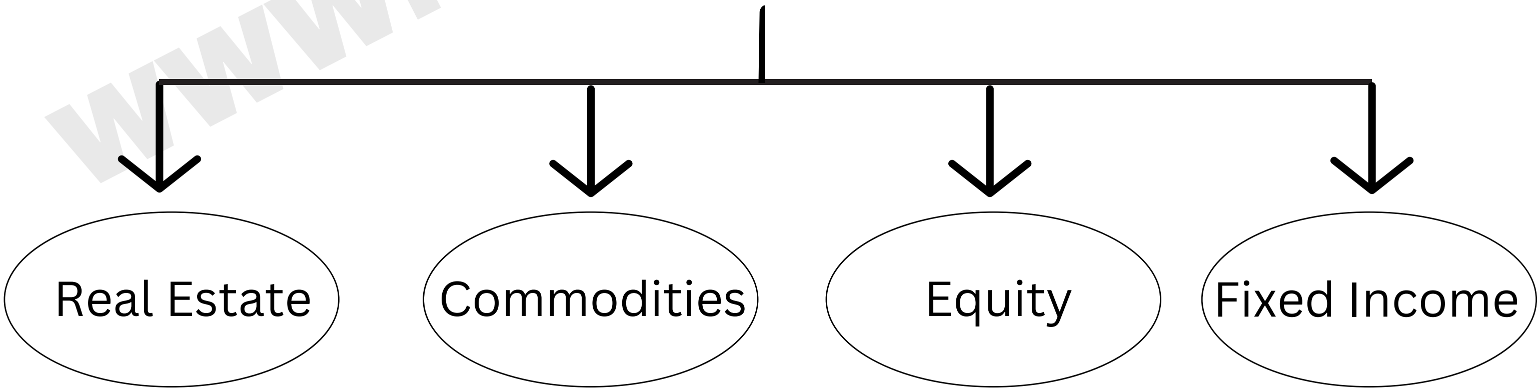
- **Ticket size:** Ticket size refers to the minimum investment required to invest in that product. This becomes an important factor when deciding on the selection of investment options. At the same time, this must not be the only factor.

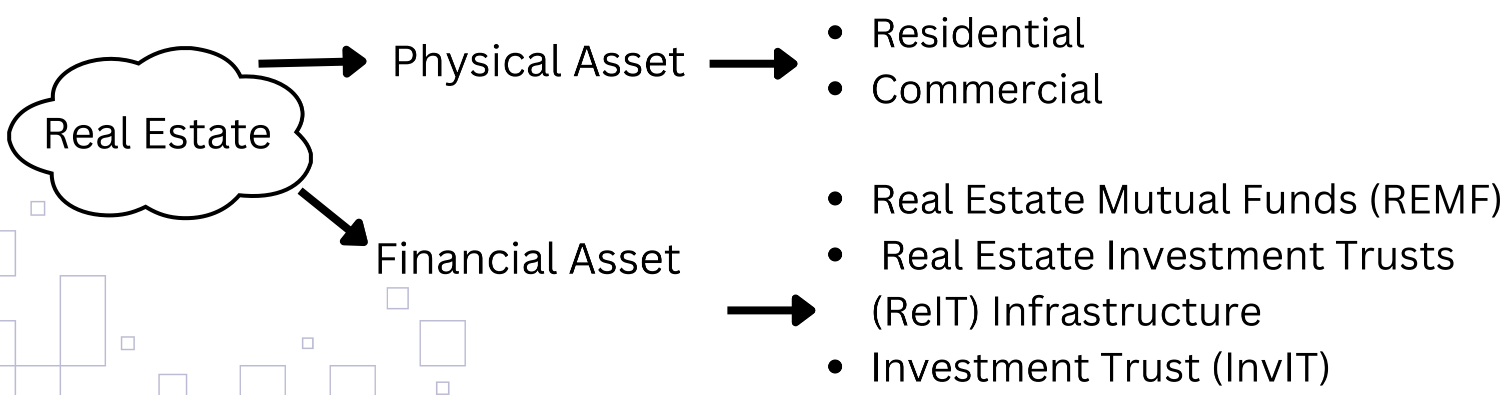
- **Taxability of income:** What one retains after taxes is what matters, and hence, taxation of the earnings is another important factor that one must consider.

- **Tax deduction:** A related matter is the tax deduction that may be available in the case of certain products. Such a deduction effectively increases the return on investment, since the same is calculated after factoring the net amount invested.

Different Asset Classes

Asset classes are the various investment avenues that can be grouped in various categories exhibiting similar characteristics.





Commodities →

- Gold
- Silver
- Gold Fund
- Commodity ETF

Equity →

- Blue-chip companies
- Mid-sized companies
- Small-sized companies
- Unlisted Companies
- Foreign Stocks

Fixed Income →

- Bank FD
- Bank RD
- PPF
- Bond
- Debentures
- Post Office scheme

- **Real estate:** It is considered the most important and popular among all the asset classes. However, the popularity of this asset category is largely because of a reason not related to investment. Real estate could be further classified into various categories, viz., residential real estate, land, commercial real estate, etc.

- **Commodities:** One can invest in commodities in two ways- there are commodities derivatives available on many commodities, it may not be wise to call these "investments" for two reasons,

1. These are leveraged contracts, i.e. one can take large exposure with a small of money making it highly risky.

2. These are normally short-term contracts, whereas the investors' needs may be for longer periods. Another way is investing in precious metals like gold and silver. It is easy to understand the prices of gold and silver across countries by simply looking at the foreign exchange rate between the two countries' currencies, and making adjustments for various costs and restrictions imposed by any of the countries.

- **Equity:** This is the owner's capital in a business. Someone who buys shares in a company becomes a part-owner of the business. In that sense, this is risk capital, since the owner's earnings from the business are linked to the fortunes, and hence the risks, of the business. When one buys the shares of a company through a secondary market, the share price could be high or low in comparison to the fair price.

- **Fixed Income:** Bonds are generally considered to be safer than equity. However, these are not free from risks. Bonds can be classified into subcategories based on issuer type i.e. issued by the government or corporates or based on the maturity date: short-term bonds (ideal for liquidity needs), medium and long-term bonds (income generation needs).

Investments in equity and bonds can be done only in financial form, whereas one can buy the other two assets, viz., real estate and commodities either in financial or in physical form. It is this physical form that gives a feeling of safety to many. Anything tangible is perceived to be safer than something intangible.

An investor in equity, real estate, and commodities is an owner of the asset, whereas an investor in bonds has lent money to someone.

Investment Risks

- **Inflation Risk:** Inflation or price inflation is the general rise in the prices of various commodities, products, and services that we consume. Inflation erodes the purchasing power of the money.

- **Liquidity Risk:** This risk is also very closely associated with real estate, where liquidity is very low, and often it takes weeks or months to sell the investment.

- **Credit Risk:** Any delay or default in the repayment of principal or payment of interest may arise due to a problem with one or both of the two reasons: (1) the ability of the borrower, or (2) the intention of the borrower.

- **Market Risk and Price Risk:** Market risk is the risk of losses in positions arising from movements in market prices. There is no unique classification as each classification may refer to different aspects of market risk. The risk occurs when the prices of the asset and its futures contract do not move in tandem with each other.

- **Location-based risk:** The risk that arises when the underlying asset is in a different location from where the futures contract is traded. So in a way, both risks are quite similar.

- **Interest Rate Risk:** Interest rate risk is the risk that an investment's value will change as a result of a change in interest rates. This risk affects the value of bonds/debt instruments more directly than stocks. Any reduction in interest rates will increase the value of the instrument and vice versa.

Risk Measures and Management Strategies

Many of the risks cannot be eliminated, and the investor must take some of those, to earn decent returns on one's investment portfolio. However, one needs to manage the risks that one is taking.

- **Avoid:** One may avoid certain investment products if one does not want to take the respective risk. However, this may also mean giving up the opportunity to benefit from the said investment.

- **Take a position to benefit from some event/development:** An investor can also take an investment position in anticipation of some developments in the market. For ex- at the time of global recession, one may expect the market to fall and accordingly, he may want to initiate short positions in the market.

- **Diversify:** This spreads the risk of loss and thus the probability of losing everything can be significantly reduced through diversification.

Behavioral Biases in Investment Decision Making

Investors are driven by emotions and biases. The most dominant emotions are fear, greed, and hope. Some important biases are discussed below:

- **Availability Heuristic:** Most people rely on examples or experiences that come to mind immediately while analyzing any data, information, or options to choose from. In the investing world, this means that enough research is not undertaken to evaluate investment options. This leads to missing out on critical information, especially of various investment risks.

- **Confirmation Bias:** Investors also suffer from confirmation bias. This is the tendency to look for additional information that confirms their already-held beliefs or views. It also means interpreting new information to confirm the views.

- **Familiarity Bias:** An individual tends to prefer the familiar over the novel, as the popular proverb goes, “A known devil is better than an unknown angel.” This leads an investor to concentrate the investments in what is familiar, which at times prevents one from exploring better opportunities, as well as from meaningful diversification.

- **Herd Mentality:** “Man is a social animal” – Human beings love to be part of a group. While this behavior has helped our ancestors survive in hostile situations and against powerful animals, this often works against investors' interests in the financial markets.

- **Loss Aversion:** Loss aversion explains people's tendency to prefer avoiding losses to acquiring equivalent gains: it is better not to lose Rs. 5,000 than to gain Rs. 5,000. Such a behavior often leads people to stay away from profitable opportunities, due to perception of high risks, even when the risk could be very low.

- **Overconfidence:** This bias refers to a person's overconfidence in one's abilities or judgment. This leads one to believe that one is far better than others at something, whereas the reality may be quite different. Under the spell of such a bias, one tends to lower the guard and take on risks without proper assessment.

- **Recency Bias:** The impact of recent events on decision-making can be very strong. This applies equally to positive and negative experiences. Investors tend to extrapolate the event into the future and expect a repeat.

- **The interest of the investors:** Many times, the financial and investment decisions are not guided by the fact as to whether this investment is suitable for a person or not but by the interest of the investor.

- **Ethical standards:** The presence of ethical principles in the dealing of individuals also has an impact as far as their investment behavior is concerned. Those following ethical standards are more likely to pay attention to their investments and be disciplined because they tend to follow the norms.

Risk Profiling

The risk profilers try to ascertain the risk appetite of the investor so that one does not sell mutual fund schemes that carry a higher risk than what the investor can handle therefore, he needs to evaluate following:

The need to take risks

The ability to take risks

The willingness to take risks

Understanding Asset Allocation

The basic meaning of asset allocation is to allocate an investor's money across asset categories to achieve some objective. There are two popular approaches to asset allocation.

- **Strategic Asset Allocation:** is allocation aligned to the financial goals of the individual. It considers the returns required from the portfolio to achieve the goals, given the time horizon available for the corpus to be created and the risk profile of the individual.

- **Tactical Asset Allocation:** is when one may choose to dynamically change the allocation between the asset categories. The purpose of such an approach may be to take advantage of the opportunities presented by various markets at different points in time, but the primary reason for doing so is to improve the risk-adjusted return of the portfolio.

- **Rebalancing:** An investor may select any of the asset allocation approaches; however there may be a need to make modifications in the asset allocations. This rebalancing of the portfolio as per the initially agreed ratios is called rebalancing.

CHAPTER 2
CONCEPT AND ROLE OF A MUTUAL FUND

Mutual fund is a vehicle (in the form of a “trust”) to mobilize money from investors, to invest in different markets and securities, in line with stated investment objectives. In other words, through investment in a mutual fund, an investor can get access to equities, bonds, money market instruments and/or other securities that may otherwise be unavailable to them and avail of the professional fund management services offered by an asset management company.

Role of Mutual Funds

- Mobilises Savings
- Protection to Small Investors
- Diversification
- Facilitating Infusion of Capital
- Liquidity

Investment Objectives of Mutual Funds

Every scheme has a pre-announced investment objective. The money mobilized from investors is invested by the mutual fund scheme in a portfolio of securities as per the stated investment objective. It is in line with these objectives that the scheme would decide the investment universe i.e., the types of securities to invest in. Investors invest in a mutual fund scheme whose investment objective reflects their own needs and preferences. Profits or losses, as the case might be, belong to the investors or unitholders. No other entity involved in the mutual fund in any capacity participates in the scheme’s profits or losses. They are all paid a fee or commission for the contributions they make to launching and operating the schemes.

Important Concepts in Mutual Funds

- **Units:** The investment that an investor makes in a scheme is translated into a certain number of 'Units' in the scheme. Thus, an investor in a scheme is issued units of the scheme.

- **Face Value:** Typically, every unit has a face value of Rs.10. The face value is relevant from an accounting perspective.

- **Unit Capital:** The number of units issued by a scheme multiplied by its face value (Rs.10) is the capital of the scheme–its Unit Capital.

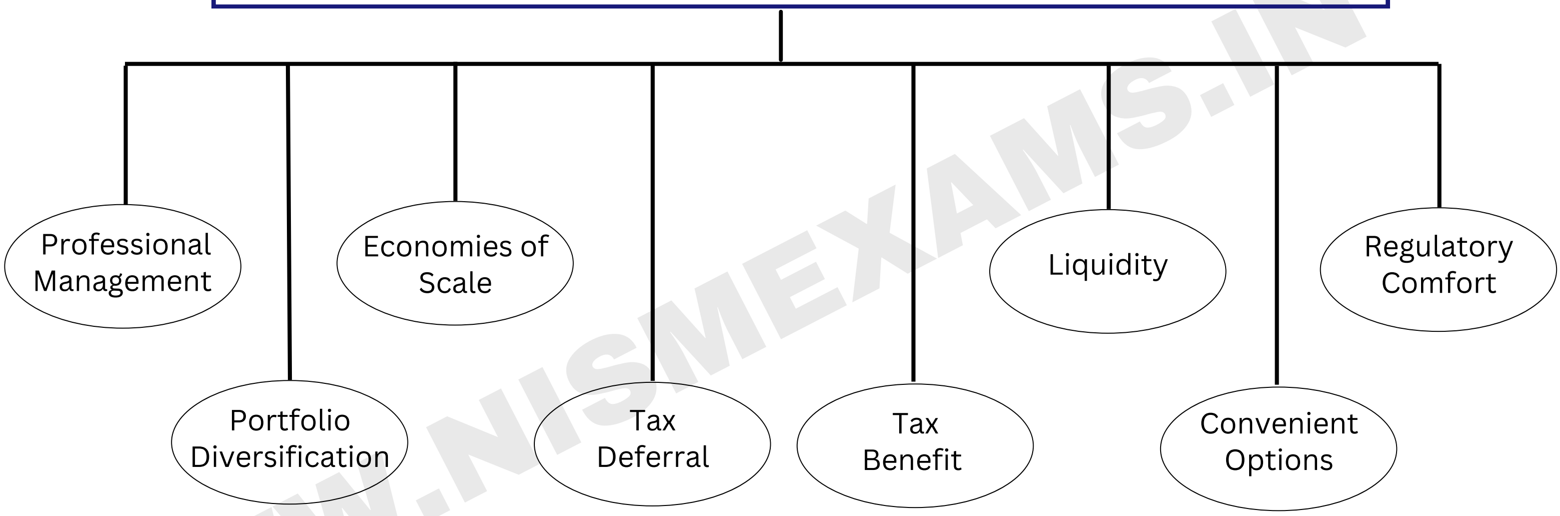
- **Recurring Expenses:** The fees or commissions paid to various mutual fund constituents come out of the expenses charged to the mutual fund scheme. These are known as recurring expenses. These expenses are charged as a percentage of the scheme's assets under management (AUM). The scheme expenses are deducted while calculating the NAV.

- **Net Asset Value:** The true worth of a unit of the mutual fund scheme is otherwise called the Net Asset Value (NAV) of the scheme. When the investment activity is profitable, the true worth of a unit increases. When there are losses, the true worth of a unit decreases.

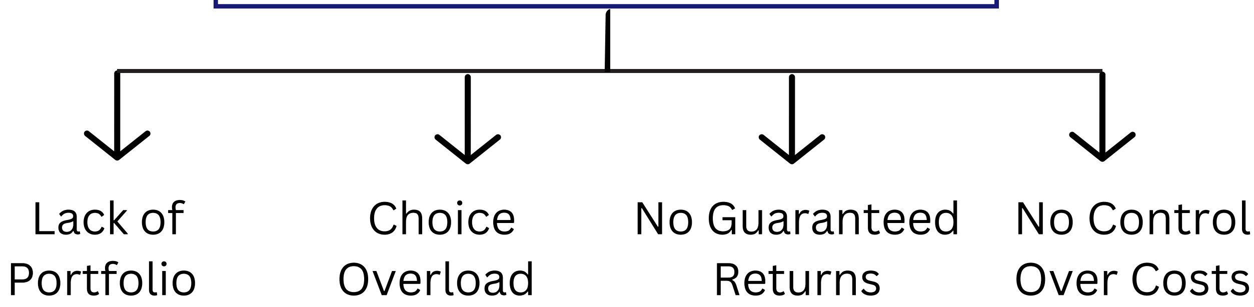
- **Assets under Management:** The sum of all investments made by investors in the mutual fund scheme is the entire mutual fund scheme's size, which is also known as the scheme's Assets under Management (AUM).

- **Mark to Market:** The process of valuing each security in the investment portfolio of the scheme at its current market value is called Mark to Market (MTM).

Advantages of Mutual Funds for Investors



Limitations of Mutual Fund



Classification of Mutual Funds

As discussed earlier, Mutual Funds can be classified based on the investment objective.

On the basis of structure:

Open Ended Funds

- Easy to enter and exit anytime
- No time frame for the scheme at the time of the NFO launch.

Interval Funds

- Features of both open-ended and close-ended schemes.

Close Ended Funds

- Funds with fixed maturity
- Investors can buy unit only

On basis of management style:

Actively managed funds

- Flexibility to choose the investment portfolio, within the parameters of the investment objective.
- Increases the role of the fund manager and cost of management.

Exchange Traded Funds (ETFs)

- Passive funds that are traded at real time prices on recognized exchanges.

Passive funds

- Based on a specified index.
- Not designed to perform better than the market.
- The fund manager has no role in deciding on investments.

By the investment universe

This type of classification looks at the investment universe where the scheme may invest money. There are equity funds, fixed-income funds, money market funds, gold funds, international funds, etc. Here, the category names indicate where the money could be invested.

Categorization of Mutual Fund scheme by SEBI

- Equity Schemes
- Debt Schemes
- Hybrid Schemes
- Solution Oriented Schemes
- Other Schemes

Equity Schemes

These are open-ended schemes with following specifications

- **Multi Cap Fund:** The Multi Cap Fund must have the minimum investment in equity and equity-related instruments as 75 percent of total assets distributed equally amongst large-cap, mid-cap, and small-cap stocks.

- **LargeCap Fund:** A scheme predominantly investing in large-cap stocks. The minimum investment in equity and equity-related instruments of large-cap companies shall be 80 percent of total assets.

- **Mid Cap Fund:** A scheme predominantly investing in mid-cap stocks. The minimum investment in equity and equity-related instruments of mid-cap companies shall be 65 percent of total assets.

- **Small-cap Fund:** A scheme predominantly investing in small-cap stocks. The minimum investment in equity and equity-related instruments of small-cap companies shall be 65 percent of total assets.

- **Dividend Yield Fund:** The scheme should predominantly invest in dividend-yielding stocks. The minimum equity investment shall be 65 percent of total assets.

- **Value Fund or Contra Fund:** A value fund is an equity scheme following a value investment strategy. Minimum investment in equity & and equity-related instruments shall be 65 percent of total assets. A contra fund is a scheme following a contrarian investment strategy.

- **Focused Fund:** A scheme investing in a maximum of 30 stocks (the scheme needs to mention where it intends to focus, viz., multi-cap, large-cap, mid-cap, small-cap). Minimum investment in equity & and equity-related instruments shall be 65 percent of total assets.

- **Sectoral/Thematic:** A scheme investing in a specific sector such as a bank; power is a sectoral fund. While an open-ended equity scheme invests in line with an investment theme. For example, an infrastructure thematic fund might invest in shares of companies that are into infrastructure, construction, etc. The minimum investment in equity and equity-related instruments of a particular sector/ theme shall be 80 percent of total assets.

- **Equity Linked Savings Scheme:** An equity-linked saving scheme with a statutory lock-in of 3 years and tax benefit. The minimum investment in equity and equity-related instruments shall be 80 percent of total assets.

- **Flexi-cap Fund:** A scheme where the minimum investment in equity and equity-related assets is 65% of the total assets. This would be a dynamic fund where there can be investment across large cap, mid cap as well as small cap stocks.

Debt Schemes

These are open-ended schemes with following maturities.

- **Overnight Fund:** A scheme investing in overnight securities. The investment is in overnight securities having a maturity of 1 day.

- **Liquid Fund:** A scheme whose investment is into debt and money market securities with a maturity of up to 91 days only.

- **Ultra-Short Duration Fund:** An ultra-short-term debt scheme investing in debt and money market instruments with Macaulay duration of the portfolio between 3 months and 6 months.

- **Low Duration Fund:** A low duration debt scheme investing in debt and money market instruments with Macaulay duration of the portfolio between 6 months and 12 months.

- **Money Market Fund:** A scheme investing in money market instruments having a maturity of up to 1 year.

- **Short Duration Fund:** A short-term scheme investing in debt and money market instruments with Macaulay duration of the portfolio between 1 year and 3 years.

- **Low Duration Fund:** A low duration debt scheme investing in debt and money market instruments with Macaulay duration of the portfolio between 6 months and 12 months.

- **Money Market Fund:** A scheme investing in money market instruments having a maturity of up to 1 year.

- **Short Duration Fund:** A short-term scheme investing in debt and money market instruments with Macaulay duration of the portfolio between 1 year and 3 years.

- **Medium Duration Fund:** A medium-term scheme investing in debt and money market instruments with Macaulay's duration of the portfolio being between 3 years to 4 years. Portfolio Macaulay duration under anticipated adverse situations is 1 year to 4 years.

- **Medium to Long Duration Fund:** A medium-term scheme investing in debt and money market instruments with Macaulay duration of the portfolio between 4 years and 7 years. Portfolio Macaulay's duration under anticipated adverse situations is 1 year to 7 years.

- **Long Duration Fund:** A scheme investing in debt and money market instruments with Macaulay's duration of the portfolio greater than 7 years.

- **Dynamic Bond:** A scheme investing across duration.

- **Corporate Bond Fund:** A scheme predominantly investing in AA+ and above-rated corporate bonds. The minimum investment in corporate bonds shall be 80 percent of total assets (only in AA+ and above rated corporate bonds).

- **Credit Risk Fund:** A scheme investing in below-highest-rated corporate bonds. The minimum investment in corporate bonds shall be 65 percent of total assets (only in AA (excludes AA+ rated corporate bonds) and below-rated corporate bonds).

- **Banking and PSU Fund:** A scheme predominantly investing in debt instruments of banks, Public Sector Undertakings, Public Financial Institutions, and Municipal Bonds. The minimum investment in such instruments should be 80 percent of total assets.

- **Gilt Fund:** A scheme investing in government securities across maturity. The minimum investment in G-secs is defined to be 80 percent of total assets (across maturity).

- **Gilt Fund with 10-year constant duration:** A scheme investing in government securities having a constant maturity of 10 years. Minimum investment in G-secs is 80 percent of total assets such that the Macaulay duration of the portfolio is equal to 10 years.

- **Floater Fund:** A scheme predominantly investing in floating rate instruments (including fixed rate instruments converted to floating rate exposures using swaps/derivatives). Minimum investment in floating rate instruments (including fixed rate instruments converted to floating rate exposures using swaps/derivatives) shall be 65 percent of total assets.

Debt Schemes

These are open-ended schemes with following maturities.

- **Conservative Hybrid Fund:** A scheme investing predominantly in debt instruments. Investment in debt instruments shall be between 75 percent and 90 percent of total assets while investment in equity and equity instruments shall be between 10 percent and 25 percent of total assets.

- **Balanced Hybrid Fund:** A scheme investing in equity and debt instruments. The investment in equity and equity-related instruments shall be between 40 percent and 60 percent of total assets while investment in debt instruments shall be between 40 percent and 60 percent. No arbitrage is permitted in this scheme.

- **Aggressive Hybrid Fund:** A scheme investing predominantly in equity and equity-related instruments. Investment in equity and equity-related instruments shall be between 65 percent and 80 percent of total assets while investment in debt instruments shall be between 20 percent and 35 percent of total assets.

- **Dynamic Asset Allocation or Balanced Advantage:** It is a dynamic asset allocation fund with investment in equity/debt that is managed dynamically. -

- **Multi Asset Allocation:** A scheme investing in at least three asset classes with a minimum allocation of at least 10 percent each in all three asset classes. Foreign securities are not treated as a separate asset class in this kind of scheme.

- **Arbitrage Fund:** A scheme investing in arbitrage opportunities. The minimum investment in equity and equity-related instruments shall be 65 percent of total assets.

- **Equity Savings:** A scheme investing in equity, arbitrage, and debt. The minimum investment in equity and equity-related instruments shall be 65 percent of total assets and the minimum investment in a debt shall be 10 percent of total assets. The minimum hedged and unhedged investment needs to be stated in the SID. Asset Allocation under defensive considerations may also be stated in the SID.

Solution Oriented Schemes

These are open ended schemes with following specifications:

- **Retirement Fund:** A retirement solution-oriented scheme having a lock-in of 5 years or till retirement age (whichever is earlier). This is meant for long-term planning related to acquiring a corpus for retirement.

- **Children's Fund:** A fund for investment for children having a lock-in for at least 5 years or till the child attains the age of majority (whichever is earlier). This is meant to invest to build a corpus for the child and their needs in the coming years.

Other Schemes

These are open ended schemes with following specifications:

1. **Index Funds/Exchange Traded Fund:** A scheme replicating/tracking a specific index. This minimum investment in securities of a particular index (which is being replicated/ tracked) shall be 95 percent of total assets.
2. **Fund of Funds (Overseas/Domestic):** A fund of fund scheme investing in an underlying fund. The minimum investment in the underlying fund shall be 95 percent of total assets.

- **Fixed Maturity Plans:** These are a kind of close-ended debt fund that do not accept money post-NFO and where the duration of the investment portfolio is closely aligned to the maturity of the scheme. AMCs tend to structure the scheme around pre-identified investments.

- **Capital Protection Funds:** These are closed-end hybrid funds. In these types of funds, the equity exposure is typically taken through the equity derivatives market. The portfolio is structured such that a portion of the principal amount is invested in debt instruments so that it grows to the principal amount over the term of the fund.

- **Infrastructure Debt Funds:** These are investment vehicles that can be sponsored by commercial banks and NBFCs in India in which domestic/offshore institutional investors, especially insurance and pension funds can invest through units and bonds issued by the IDF. Infrastructure Debt Funds (IDFs) can be set up either as a Trust or as a Company.

- **Real Estate Mutual Fund:** This scheme invests directly or indirectly in real estate assets or other permissible. SEBI's regulations require that at least 35 percent of the portfolio should be held in physical assets. Not less than 75 percent of the net assets of the scheme shall be in real estate assets, mortgage-backed securities (but not directly in mortgages), equity shares, or debentures of companies engaged in dealing in real estate assets or in undertaking real estate development projects. Assets held by the fund will be valued every 90 days by two valuers accredited by a credit rating agency. The lower of the two values will be taken to calculate the NAV. These funds are closed-end funds and have to be listed on a stock exchange.

- **Real Estate Investment Trusts (REITs)** are trusts registered with SEBI that invest in commercial real estate assets. The REIT will raise funds through an initial offer and subsequently through follow-on offers, rights issues, and institutional placements. The value of the assets owned or proposed to be owned by a REIT coming out with an initial offer will not be less than Rs. 500 crore and the minimum offer size will not be less than Rs.250 crore. The units are listed on the stock exchange.

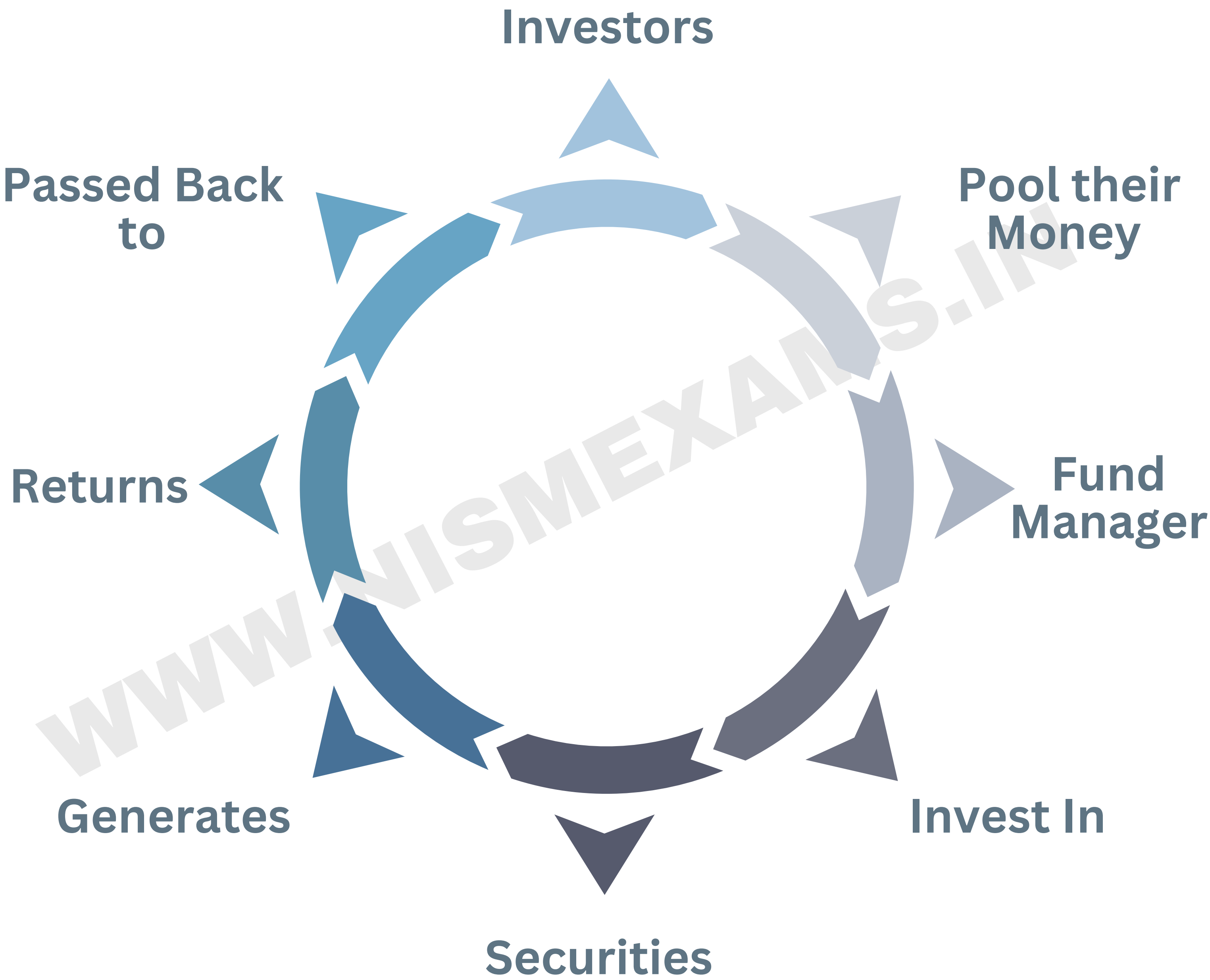
- **Infrastructure Investment Trusts (InvIT)** are trusts registered with SEBI that invest in the infrastructure sector. The rest of the features are the same as REITs

New types of funds

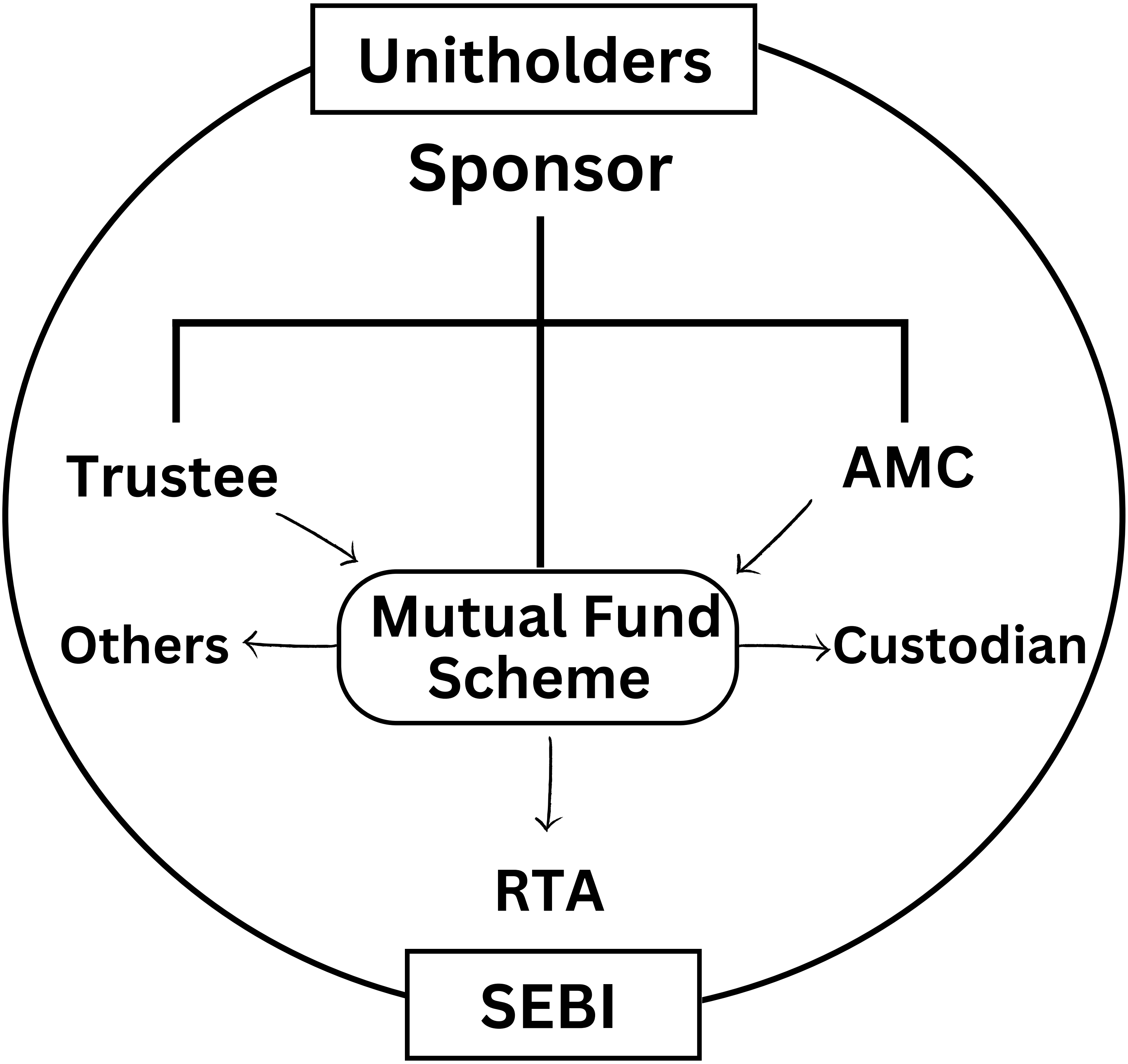
- **Smart Beta Fund:** These funds are an extension of index or Exchange Traded Funds (ETFs) as they change the basis of the exposure in the portfolio to the index using alternative strategies. For example, a fund that tracks an index will have the same exposure as the index and this would mean weightage by market capitalisation. Smart beta strategies rely less on market cap and this could include things like equal weightage or exposure based on additional parameters. The whole idea of smart beta funds is to improve returns. Increase diversification and reduce risk.

- **Quant Funds:** They rely on data analysis and numbers usually undertaken by machines to select the securities in the portfolio. Some pre-determined models are created and these are derived through analysis of past data. The model then runs through the emerging data to select the holdings and make decisions about buying and selling. This takes out the human element in decision making.

CHAPTER 3
LEGAL STRUCTURE OF MUTUAL FUNDS IN INDIA



Key Constituents of a Mutual Fund



Sponsors: The application to SEBI for registration of a mutual fund is made by the sponsor(s). Thereafter, the sponsor invests in the capital of the AMC.

- The sponsor should have a sound track record and general reputation of fairness and integrity in all business transactions. The requirements are:

- The sponsor should be carrying on business in financial services for not less than 5 years; and
- Ensure that the net worth (share capital plus reserves minus accumulated losses) is positive in all the immediately preceding 5 years; and
- Ensure that the positive liquid net worth is more than the proposed capital contribution of the sponsor in the asset management company and ensure that in case of a change in control of the existing asset management company due to the acquisition of shares, the positive liquid net worth of the sponsor or funds tied up by the sponsor is to the extent of aggregate par value or market value of the shares proposed to be acquired, whichever is higher; and
- Have net profit after providing for depreciation, interest, and tax in each of the immediately preceding five years; and
- Have average net annual profits after depreciation, interest, and tax during the immediately preceding five years of at least rupees 10 crore.

Board of Trustees: The trustees have a critical role in ensuring that the mutual fund complies with all the regulations and protects the interests of the unit-holders.

The SEBI Regulations stipulate that:-

- Every trustee must be a person of ability, integrity, and standing.
- A person who is guilty of moral turpitude cannot be

appointed as a trustee.

- A person convicted of any economic offense or violation of any securities law cannot be appointed as a trustee.
- No AMC and no director (including independent director), officer, an employee of an AMC shall be eligible to be appointed as a trustee of a mutual fund.
- No person who is appointed as a trustee of a mutual fund shall be eligible to be appointed as trustee of any other mutual fund. Prior approval of SEBI needs to be taken before a person is appointed as Trustee.

The sponsor will have to appoint at least 4 trustees. If a trustee company has been appointed, then that company would need to have at least 4 directors on the Board. Further, at least two-thirds of the trustees on the Board of the trustee company would need to be independent trustees i.e., not associated with the sponsor in any way.

Mutual Fund Trust: A mutual fund is constituted in the form of a trust and the instrument of trust is in the form of a deed, duly registered under the provisions of the Indian Registration Act, 1908 (16 of 1908), executed by the sponsor in favor of the trustees named in such an instrument.

Asset Management Company: Day to day operations of a mutual fund is handled by the AMC. As per SEBI regulations:

- The directors of the asset management company need to be persons having adequate professional experience in the finance and financial services related field.
- The directors as well as key personnel of the AMC should not have been found guilty of moral turpitude or convicted of any economic offence.

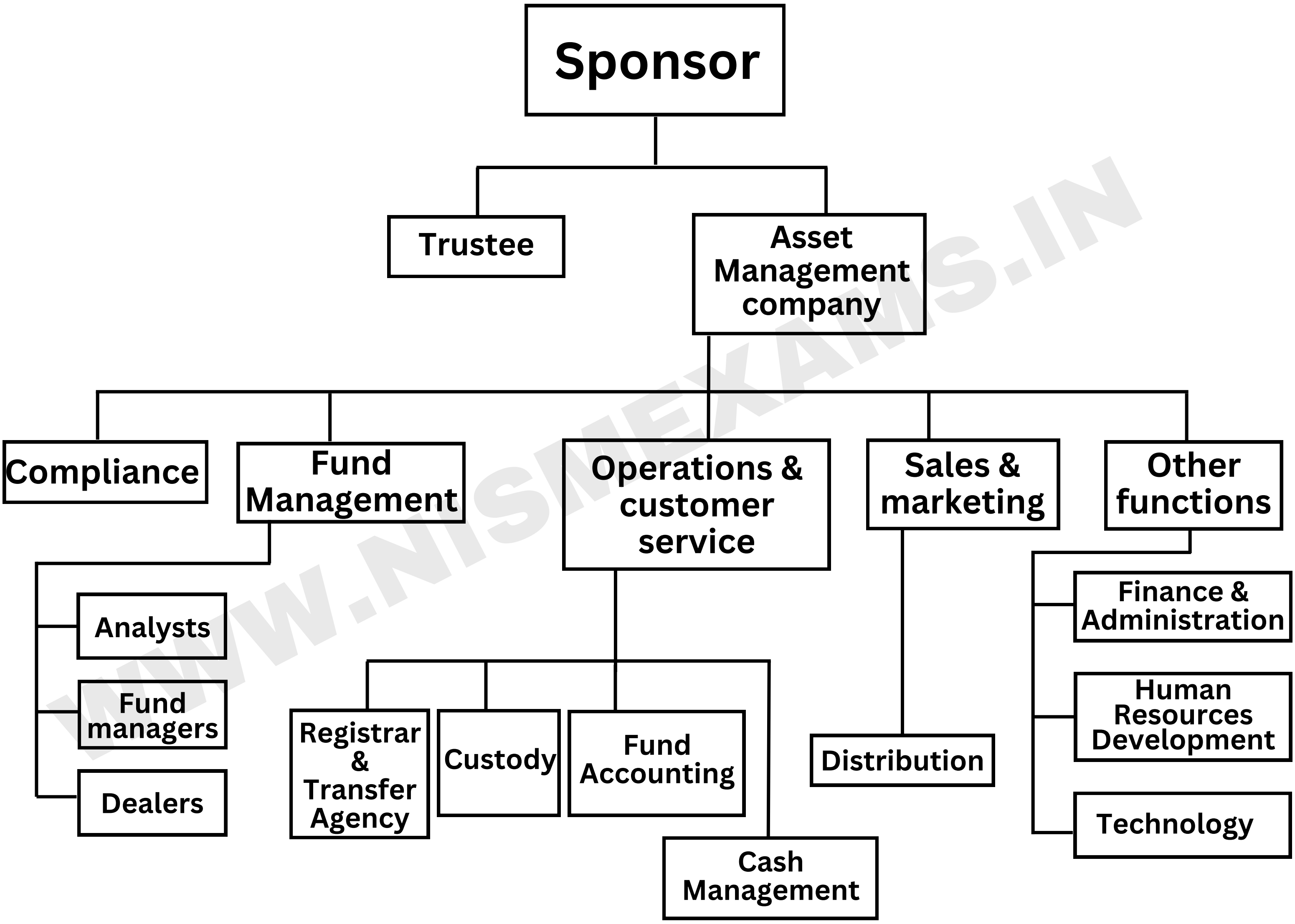
or violation of any securities laws.

- Key personnel of the AMC should not have worked for any asset management company or mutual fund or intermediary during the period when its registration was suspended or cancelled at any time by SEBI.

Prior approval of the trustees is required before a person is appointed as a director on the board of the AMC. Further, at least 50 percent of the directors should be independent directors i.e., not associate of or associated with the sponsor or any of its subsidiaries or the trustees. The asset management company need to have a networth of not less than rupees fifty crore deployed in assets as may be specified by the Board to be effective from January 01, 2024.

Custodian: The custodian has custody of the assets of the fund. As part of this role, the custodian needs to accept and give delivery of securities for the purchase and sale transactions of the various schemes of the fund. Thus, the custodian settles all the transactions on behalf of the mutual fund schemes. The custodian also tracks corporate actions such as dividends, bonuses, and rights in companies where the fund has invested. The SEBI regulations provide that if the sponsor or its associates control 50 percent or more of the voting rights of the share capital of the custodian, or if 50 percent or more of the directors of a custodian represent the interest of the sponsor or its associates, then, unless certain specific conditions are fulfilled, that custodian cannot be appointed for the mutual fund operation of the sponsor or its associate or subsidiary company.

Organisation Structure of Asset Management Company



It is used for the explanation of various functions within an AMC. Individual AMCs may have some differences in their structure.

Role and Function of AMFI

The Association of Mutual Funds in India (AMFI) is the association of all the registered Asset Management Companies. The functions of AMFI are:

- To maintain high professional & ethical standards
- To protect the interest of unit holders
- To promote best business practices and code of conduct
- To interact and to represent to SEBI
- To represent to the Govt. and other bodies
- To undertake a nationwide investor awareness programme

A major role of AMFI involves the registration of mutual fund distributors, by allotting them AMFI Registration Number (ARN), which is mandatory for becoming a mutual fund distributor.

CHAPTER 4
LEGAL AND REGULATORY FRAMEWORK

Regulators in India

- Reserve Bank of India (RBI) → Regulates Banking System & Money Markets
- Securities and Exchange Board of India (SEBI) → Regulates Securities Market
- Pension Fund Regulatory and Development Authority of India (PFRDA) → Regulates Pension Market
- Insurance Regulatory and Development Authority of India (IRDAI) Regulates Insurance Markets

Role of the Securities and Exchange Board of India

- It regulates, among other entities, mutual funds, depositories, custodians, registrars and transfer agents (RTAs), and credit rating agencies in the country.

- To protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto".

The regulations cover three important aspects to achieve the above objectives:

- Disclosures by issuers of securities, e.g., companies that issue shares or debentures, and mutual funds that issue mutual fund units.
- Efficiency of transactions in the securities markets.
- Low transaction costs.

Investment Restriction for schemes

The SEBI Regulations provide for various limits to the kind of investments that are possible in mutual fund schemes, and the limits thereof. In a few cases, there are also aggregate limits for all schemes of a mutual fund together. The regulator's objective behind setting these limits is to ensure the mitigation of risks in the scheme and to protect the investor's interests.

- General Restrictions
- Restrictions pertaining to investments in Debt Securities
- Restrictions pertaining to investment in Equity
- Restrictions pertaining to investment in REITs and INvITs

Investors Rights and Obligations

- Right to beneficial ownership
- Right to change the distributor
- Right to inspect documents
- Right to appoint nominees
- Right to pledge mutual fund units
- Right to grievance redressal
- Rights of investors in the context of change in Fundamental Attributes

- Rights to terminate the appointment of an AMC
- Right to unclaimed amounts

Investor Grievance Redress Mechanism

In the event of any issue with the AMC or mutual fund scheme, the investor can first approach the investor service Centre. If the issue is not redressed, even after taking it up at senior levels in the AMC, then the investor can write to SEBI with the complaint details.

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