[Frequently Asked Questions]

Mutual Funds (Part-1)

Subject:	Business Economics
Course:	B. A. (Hons.), 5th Semester, Undergraduate
Paper No. & Title:	Paper – 511 Investment Management
Unit No. & Title:	Unit – 4 Mutual Funds
Lecture No. & Title:	Lecture – 1 Mutual Funds (Part-1)

Frequently Asked Questions

1. **Define mutual funds.**

According to Association of Mutual Funds in India (AMFI), "A mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. Anybody with an investible surplus of as little as a few thousand rupees can invest in Mutual Funds. These investors buy units of a particular mutual fund scheme that has a defined investment objective and strategy".

According to SEBI Regulations, 1996, "Mutual Fund means a fund established in the form of a trust to raise monies through the sale of units to public or a section of public under one or more schemes for investing in securities, in accordance with Regulations".

2. When did the Mutual fund Regulation Act came into being?

Mutual fund Regulation Act came into being in 1993 where UTI was not under its purview but later many revisions were made and it was enforced in 1996.

3. What is the role of SEBI in regulation of Mutual Funds?

In the year 1992, the SEBI act was passed. The objectives of SEBI are;

- To protect the interest of investors in securities
- To promote the development of and to regulate the securities market
- To notify regulations for mutual funds
- To cover all the mutual funds promoted by various public, private or foreign players under the same set of regulations

4. What is AMFI? Explain its role in regulation of Mutual Funds.

AMFI stands for The Association of Mutual Funds in India. It is an industry standards organization and nodal association in mutual funds sector in India. It came into being in 1995. It disseminates information on mutual funds in India. It also conducts awareness programs to protect interests of investors.

5. List the parties to mutual funds

The parties to mutual funds are;

Sponsors, trustees, asset management company, custodian, distributors, agents, bankers, registrar and transfer agents

6. What are open ended schemes? List the types

Open ended schemes are those which do not have a fixed maturity period and allows investors to sell or buy at any point in time at a price linked to Net Asset Value (NAV). It is available for subscription and repurchase on continuous basis. Some types are;

a) Debt/income funds b) Money market /liquid funds c) Equity/growth funds

7. What are closed ended schemes? List the types.

Closed ended schemes are ones which have a fixed maturity period (5-15 years). They make a one-time sale of a fixed number of units during the initial offer period and are open for subscription only during launch period. They disclose NAV on weekly basis. The types of such schemes are;

a) Capital Protection Plans b) Fixed Maturity Plans

8. Define entry load and exit load.

Entry Load: It includes the load imposed when the units are purchased. It is added to the NAV at the time of allotment. Schemes that have an entry load are called load schemes and those which have no entry load are called no load funds.

Exit load: It includes the load imposed when the units are sold back to the mutual fund. Its aim is to deter investors from withdrawing. It varies from 0 to 3 percent.

9. What is offer document? Why is it important?

This is the most important source of information for investors. It is to be compulsorily made available along with the application form. It contains the preliminary information of the fund and the scheme, details of the scheme, investor rights and information on income and expenses of existing schemes. The main attributes of the scheme are its type, objectives, investment pattern, fees and expenses, liquidity conditions, accounting and valuation, and investment restrictions.

10. Are mutual funds returns taxable?

MFs are tax exempt entities. No taxes are paid in dividends and interest incomes as well as long term capital gains. The dividends distributed by MFs are also tax free for recipients. If equity mutual funds are sold before 12 months, then the return is liable for short term capital gain at 15%.

11. List the benefits of mutual funds.

The benefits of mutual funds are;

a) Professionally managed b) diversified investments c) conveniently administered d)liquid e) transparent in nature f) highly regulated sector g) attracts small investments h) tax free returns i) systematic plans with regular withdrawals