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# UPDATE

A Newsletter of The Association of Mutual Funds in India

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## Yet Another Landmark In The History Of Mutual Fund Industry



Shri D.R. Mehta, former Chairman SEBI releasing AMFI Guidelines and Norms for Intermediaries (AGNI) and announcing the birth of AMFI Registered Mutual Fund Advisor (ARMFA). Sharing the dias are (L to R) Shri Ravi Narain, Managing Director National Stock Exchange, Shri A.P. Kurian, Chairman AMFI, Shri M. Damodaran, Chairman UTI and Shri S.K. Mitra, Managing Director Birla Sunlife Asset Management.

### *From the Chairman's Desk*

Intermediaries play a pivotal role in popularising mutual fund schemes and recognising this, AMFI took the first initiative in introducing a certification programme. Thanks to SEBI, it is now mandatory. With the support and assistance of all our members and intermediaries the certification programme is catching up. Over a period of time, a cadre of trained and certified intermediaries would be built up who could render proper advice and serve the interest of investors.

The intermediaries need to be imparted a recognition, a status and a nomenclature that suits the role they are expected to play - advising the investors properly. Also, they need to be given some guidelines for professional and healthy conduct of business. This is what AMFI attempts to do. Our new initiative in registering the AMFI certified intermediaries as Mutual Fund Advisors, providing a unique code number and a photo-identity card with a set of guidelines would, we believe help develop a strong disciplined professionals as intermediaries for the benefit of all concerned - the fund industry, the intermediaries and ultimately the investors.

While conveying our gratitude to Shri D.R. Mehta who has been a great source of support and encouragement to AMFI, we extend our warm welcome to Shri G.N. Bajpai as the head of SEBI and look forward to his guidance and working closely with him.

Yours,



A. P. Kurian

March 18, 2002

## SEBI UPDATE

### CIRCULARS ISSUED BY SEBI

#### 1. Independent Directors on Boards of AMCs and Trustee Companies ( Cir. No. MFD/CIR/11/354/2001 dated December 20, 2001)

SEBI has clarified certain aspects relating to independent directors on the Boards of Asset Management Companies (AMCs) and Trustee Companies under SEBI (Mutual Funds) Regulations, 1996 with a view to achieve better corporate governance, to bring about more transparency in the operation of the Mutual Funds and to protect the interest of investors. The format for submission of Bio-data of the directors of AMCs and Trustee Companies to SEBI is also prescribed. The following are the clarifications :

- i) An independent trustee should not be associated in any manner with the sponsor including relatives.
- ii) The nominees of the companies who are stakeholders in the Sponsor Company or AMC shall be considered as associate director.
- iii) A person who is an “associate” in accordance with definition as per Regulations cannot be appointed as independent director even after he ceases to be an “associate” unless a cooling off period of three years has elapsed from the date of his disassociation.

SEBI has further advised that it should be informed if composition of existing directors do not comply with requirements of Regulations regarding independent directors of AMCs and Trustee Companies and steps should be taken to ensure compliance with Regulatory requirements in respect of independent directors.

SEBI has also invited attention to the Regulations 18(25)(A)(i) and 18(27)(iii)&(iv) of SEBI (MF) Regulations 1996 highlighting responsibilities of the Trustees in this regard.

#### 2. Reporting To SEBI By Compliance Officer And Rendering Investment Advice (Cir.MFD/CIR NO.12/362/02 dated January 3, 2002)

SEBI by Gazette Notification dated May 29, 2001 has amended SEBI (MF) Regulation 18 regarding appointment of compliance officer and making him responsible for independently reporting to SEBI of any non-compliance observed by him.

A new clause has also been inserted in the FIFTH SCHEDULE whereby certain norms have been laid down regarding rendering of investment advice by the sponsor, the Trustee or AMC or any of their employee about any security in publicly accessible media.

#### 3. SEBI Investors Education Programme - Investment In Mutual Funds ( Cir. MFD/CIR NO. 13/370/02 dated January 16, 2002)

SEBI has released a brochure explaining in simple terms the fundamental features and working of mutual funds as a part of investor education and awareness campaign which is also available on its website [www.sebi.gov.in](http://www.sebi.gov.in) SEBI in its circular has advised the mutual funds to popularise this brochure.

#### 4. Modifications In The Guidelines for Valuation Of Securities (Cir. MFD/CIR/NO.14/442/2002 dated February 20, 2002)

Based on the recommendations of AMFI Committee on valuation, SEBI has issued guidelines on the following areas: -

##### I. Traded Securities

- (i) When securities (other than debt securities) not traded on any stock exchange on a particular valuation day, the value at which it was traded on the previous day may be used provided such date is not more than thirty days prior to valuation date.
- (ii) When debt security (other than Govt. securities) not traded on any stock

exchange on any particular valuation day, the value at which it was traded on the earliest previous date may be used provided such date is not more than fifteen days prior to valuation date.

- (iii) When debt securities (other than Govt. Securities) are bought by way of private placement, the same be valued at purchase price for a period of fifteen days from the date of purchase.

## II. Thinly traded debt securities

Debt security (other than Govt. Securities) shall be considered as thinly traded if there are no individual trades in that security in the marketable lots (currently Rs. 5 crores) on the principal stock exchange or any other stock exchange on the valuation date.

## III. Construction of Risk Free Benchmark

Certain modifications in respect of discretionary liquidity discount over benchmark yield, regrouping of duration buckets and application of benchmark on the date of release etc. have been made in the methodology for construction of risk free benchmark.

## IV. Uniform prices for valuation of Govt. Securities

SEBI has advised all Mutual funds to use the prices of Government securities released by an agency suggested by AMFI for valuation of Government securities based on the methodology recommended by AMFI. The agency suggested by AMFI is Crisil.com which will be supplying the data daily.

### WELCOME TO SHRI G. N. BAJPAI, CHAIRMAN, SEBI

AMFI, extends its warm welcome to Shri G. N. Bajpai, new Chairman of SEBI. We look forward to the support and guidance from him. We are confident that during his tenure as Chairman of

SEBI, the partner relationship of AMFI with SEBI, established under the Chairmanship of Shri D. R. Mehta, will be further strengthened.

On behalf of all its members AMFI records its sincere appreciation and gratitude to Shri D.R. Mehta, former Chairman SEBI for his whole hearted encouragement, support and guidance in promoting the activities of AMFI and in recognizing the professional role AMFI plays in the development of the industry.

### AMFI TRAINING PROGRAMME

Chairman AMFI continued to conduct half-day training sessions on concepts and working of mutual funds for the executives of Stock Holding Corporation of India Limited.

Chairman also conducted training sessions at two-day workshops organised by UTI Institute of Capital Markets at Trichur and Mumbai on AMFI Certification Programme.

### COMMITTEE/WORKING GROUPS

#### 1. Reconstitution of Committee on Credit Policy

The committee on credit policy has been reconstituted as a standing committee on Reserve Bank related matters. The Chairman of this committee is Shri A.P. Kurian-Chairman AMFI and the other members are Shri S.K. Mitra of Birla Sunlife, Shri Nikhil Johri of Alliance Capital, Shri Shailendra Bhandari of Prudential ICICI and Shri Milind Barve of HDFC. The committee had a detailed discussion with RBI team headed by Deputy Governor on matters concerning mutual funds becoming members of Negotiated Dealing System (NDS) and other related matters.

#### 2. AMFI Committee on Risk Management System for Mutual Funds.

AMFI has formed a committee for studying the present system of risk management and evolving a minimum level of risk management system conforming to international standards

to be adopted by mutual funds. The committee is headed by Shri Alok Vajpeyi of DSP Merrill Lynch and Shri D.S.R. Murthy of UTI, Shri Dileep Madgavkar of Prudential ICICI, Shri Naval Bir Kumar of Standard Chartered, Shri Pradeep Chowdhury of SBI, Ms. Kavita Savur of Price Waterhouse Coopers and Prof. Uma Shashikant of UTI ICM are its members. The committee had circulated a detailed questionnaire to all the members as part of its study.

### 3. Valuation Committee

At the instance of SEBI, the valuation committee is currently studying the question of evolving a methodology for valuation of unlisted securities.

### 4. Committee for Recommending Proper Benchmark for Mutual Funds

The committee headed by Shri Shailendra Bhandari of Prudential ICICI has done a detailed study on the subject and its report has been circulated to all members for their comments/feedback.

### 5. Working Group on Derivative Trading

With a view to identifying different aspects involved in mutual fund's participation in derivative trading, a working group with Shri Dileep Madgavkar of Prudential ICICI as the co-ordinator and Shri Ravi Mehrotra of Pioneer ITI and Shri Navneet Munot of Birla Sunlife as its members has been set up.

### 6. Working Group on Fixation of Sale and Repurchase Prices

The report of the working group headed by Shri Suresh Babu of HDFC is being finalised.

## AMFI ON OTHER COMMITTEES

The 8th Annual Financial Services Convention held on 18th and 19th January 2002 at Mumbai was jointly organised by Bombay Management Association alongwith AMFI and others. The session on 'Mutual Fund - Common Man's

Investment Avenue' was chaired by Shri A.P. Kurian Chairman AMFI and Shri S.V. Prasad of Zurich India and Shri Milind Barve of HDFC presented papers on the subject.

FICCI in collaboration with AMFI had organised a seminar on 'Mutual Fund- Structural Evolution' on November 6, 2001 at Hotel Oberoi, Mumbai. Chairman AMFI participated in the seminar.

## NEWS UPDATE

### AMFI's New Initiative in developing a cadre of trained intermediaries

In order to develop a cadre of trained intermediaries AMFI has launched in mid 2000 a Mutual Fund Certification Programme in association with National Stock Exchange of India which has now been made mandatory by SEBI in a phased manner according to which all intermediaries and employees of distribution companies, banks and others engaged in sales and marketing are required to take the AMFI certification.

To provide recognition and to facilitate easy settlement of commission and to function within a broad framework of guidelines, AMFI has now taken the following new initiatives:

1. AMFI certified intermediaries to be registered as AMFI Registered Mutual Fund Advisors (ARMFA)
2. Assigning a unique code number known as AMFI Registration Number (ARN)
3. Issue a photo-identity card to each AMFI Registered Mutual Fund Advisors and
4. Provide a set of guidelines known as AMFI Guidelines and Norms for Intermediaries (AGNI)

The salient features of this registration process and the advantages that ARMFA would derive from registration as well as the registration forms are available on AMFI website.

AMFI's special brochure on this will be sent to members who are requested to circulate to

intermediaries and also to publicise the same through periodic newsletters of mutual funds.

This new initiative was launched by Shri D.R. Mehta former Chairman SEBI on February 19, 2002 in a well attended function.

#### **AMFI Certification test based on the revised syllabus.**

The first edition of the AMFI Mutual Fund Testing Programme Workbook has been thoroughly revised and the second edition is now available at AMFI office. The AMFI certification test based on the revised workbook has commenced from March 2002. The test will be conducted in two parts - Part One - Basic Module meant for general category candidates interested to understand the basic concept and essential features of working of mutual funds and Part Two-Advisor Module meant for intermediaries. The part two of the test has to be taken alongwith part one by intermediaries and those engaged in sales and marketing of Mutual Fund Schemes. The details are available on AMFI website.

#### **BUDGET - 2002**

Earlier AMFI had presented its pre-budget memorandum requesting for continuation of tax exemption to equity funds, revival of eligibility of units of mutual funds under section 54 EA/EB, increasing the limit under ELSS, permitting domestic mutual funds to invest in foreign securities etc. However, the budget proposals as presented, have not only kept aside our requests except permitting mutual funds to invest abroad, but on the contrary brought income received from mutual funds taxable in the hands of the unitholders, except in the case of equity schemes for one year and introduction of a TDS system. AMFI has submitted its representation to the Government requesting for inclusion of income from mutual funds under Section 80 (L) and to make suitable amendments in Section 80(M) of Income Tax Act.

#### **WELCOME TO NEW DIRECTORS**

Shri Ajeet Prasad, Chief General Manager UTI and Shri J. Chand, Managing Director of SBI Asset Management Company have joined the Board of AMFI effective from December 31, 2001 and January 31, 2002 in place of Shri B.G. Daga and Shri Niamatullah respectively.

AMFI Board welcomes the newly appointed Board members and places on record its appreciation and thanks to both Shri Daga and Shri Niamatullah for their guidance and valuable contributions during their tenure on the board as well as while working on various committees/working groups of AMFI.

#### **AMFI WEBSITE**

During the quarter 8.45 lakh people viewed the AMFI website

#### **MUTUAL FUND INDUSTRY**

The third quarter - October - December, 2001 data is presented in tables 1,2,3 and 4.

- Eighteen new schemes were launched which collected Rs.389 crores of which Rs. 367 crores were from Income Schemes, while Growth Schemes mobilised Rs 22 crores.
- Total funds mobilised during the quarter were Rs. 39,620 crores, higher by 78.5% compared to corresponding period last year. The total sales for the year till December 2001 were Rs.103,666 crores - up by 71% over the sale for the same period in the previous year.
- Redemptions at Rs.35,189 crores however registered a rise of 75% over the corresponding period last year. For the year till December 2001, redemptions at Rs. 92,650 crores were much higher than Rs. 53,776 crores of the corresponding period last year.
- Assets under Management at the end of the quarter at Rs.101,822 crores were higher by 2.5% when compared with the corresponding figure last year.



**MUTUAL FUND DATA FOR THE THIRD QUARTER OCTOBER - DECEMBER, 2001****TABLE - 1****(Rs. In crores)\***

Category	No of Schemes Launched	Sales - All Schemes				Redemptions All Schemes		Total Assets Under Mgmt. As on 31.12.2001
		During the Quarter	From New Schemes	From Existing Schemes	Total for the Quarter	Total for the Year to Date	Total for the Quarter	
A Unit Trust Of India	-	-	539	539	3858	1764	#9010	51181
B Bank Sponsored (5) <sup>^</sup>	2	2	895	1996	9789	3275	9310	64239
C Institutions (4)	1	6	2403	897	2712	495	1805	3925
D Private Sector				406	1343	514	3748	3539
I Indian (7)\$	2	22	9310	2409	5234	2079	4152	4460
II Joint Ventures - Predominantly Indian (8)	7	179	11549	1232	1963	582	1530	3512
III Joint Ventures - Predominantly Foreign (10)	6	180	14535	9332	20059	7272	17265	5904
				5227	11665	4388	9844	4294
				5012	13479	4270	11491	15207
				14715	40601	13123	34367	21145
				8318	22384	7068	17853	14831
Total(I+II+III)	15	381	35394	35775	91862	30851	77683	42256
				18557	47528	15726	39188	28036
Grand Total (A+B+C+D)	18	389	39231	39620	103666	35189	92650	101822
				22191	60623	20097	53776	99326

Notes: 1. Data is provisional & hence subject to change. 2. Unit Trust of India figures exclude Venture Capital and Offshore Funds. 3. Figures in brackets denote number of funds. 4.# includes Rs.1511 crores redemption due to maturity of schemes. 5. Figures in RED denote amount for corresponding period, last year which have been revised in some cases to make it comparable. 6.^ Consequent to taking over of schemes of Indian Bank Mutual Fund by Tata Mutual Fund the number of Bank Sponsored mutual fund has come down from 6 to 5. 7.\$The number has gone up from 6 to 7 due to addition of a new mutual fund namely Benchmark Mutual Fund to this category. \* Rs.1 crore = 10 Million.

**SALES DURING THE QUARTER OCTOBER - DECEMBER, 2001- TYPE AND CATEGORY WISE****TABLE 2****2.1 New Schemes Launched****(Rs. in crores)**

	Open End		Close End		Assured Return		Total	
	No. of schemes	Amount	No. of Schemes	Amount	No. of schemes	Amount	No. of schemes	Amount
Income	9	335	7	32	-	-	16	367
Growth	2	22	-	-	-	-	2	22
Balanced	-	-	-	-	-	-	-	-
Liquid/Money Market	-	-	-	-	-	-	-	-
Gilt	-	-	-	-	-	-	-	-
ELSS	-	-	-	-	-	-	-	-
Total	11	357	7	32	-	-	18	389

**2.2 Existing Schemes****(Rs. in crores)**

	Open End		Close End		Assured Return		Total	
	No. of schemes	Amount	No. of Schemes	Amount	No. of schemes	Amount	No. of schemes	Amount
Income	87	11060	21	87	28	-	136	11147
Growth	97	397	15	-	-	-	112	397
Balanced	32	65	4	-	-	-	36	65
Liquid/Money Market	27	26204	-	-	-	-	27	26204
Gilt	24	1414	-	-	-	-	24	1414
ELSS	19	4	45	-	-	-	64	4
Total	286	39144	85	87	28	-	399	39231

**2.3 Total of All Schemes****(Rs. in crores)**

	Open End		Close End		Assured Return		Total	
	No. of schemes	Amount	No. of Schemes	Amount	No. of schemes	Amount	No. of schemes	Amount
Income	96	11395	28	119	28	-	152	11514
Growth	99	419	15	-	-	-	114	419
Balanced	32	65	4	-	-	-	36	65
Liquid/Money Market	27	26204	-	-	-	-	27	26204
Gilt	24	1414	-	-	-	-	24	1414
ELSS	19	4	45	-	-	-	64	4
<b>Total</b>	<b>297</b>	<b>39501</b>	<b>92</b>	<b>119</b>	<b>28</b>	<b>-</b>	<b>417</b>	<b>39620</b>

Note: The change in number of existing schemes is because of the maturity and reclassification of existing schemes by some of the funds.

**REDEMPTION / REPURCHASE DURING THE QUARTER OCTOBER - DECEMBER, 2001****TABLE 3****(Rs. in crores)**

	Open End	Close End	Assured Return	Total
Income	8535	892	36	9463
Growth	464	7	-	471
Balanced	415	2	-	417
Liquid/Money Market	23793	-	-	23793
Gilt	1021	-	-	1021
ELSS	2	22	-	24
<b>Total</b>	<b>34230</b>	<b>923</b>	<b>36</b>	<b>35189</b>

**ASSETS UNDER MANAGEMENT AS ON 31ST DECEMBER, 2001****TABLE 4****(Rs. in crores)**

	Open End	Close End	Assured Return	Total
Income	31765 21465	4630 6295	17799 21109	54194 48869
Growth	7795 12539	3864 5471	- -	11659 18010
Balanced	17758 21922	238 251	- -	17996 22173
Liquid/money market	12105 4705	- -	- -	12105 4705
Gilt	3908 2063	- 55	- -	3908 2118
Elss	362 366	1598 3085	- -	1960 3451
<b>Total</b>	<b>73693 63060</b>	<b>10330 15157</b>	<b>17799 21109</b>	<b>101822 99326</b>

Note :

\*Figures in RED denote amount for corresponding period, last year which have been revised in some cases to make it comparable.

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