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# UPDATE

A Newsletter of The Association of Mutual Funds in India

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## FROM THE CHAIRMAN'S DESK

A significant initiative taken by SEBI in the last quarter of 2002 was the mandating of registration of certified intermediaries with AMFI. This is yet another logical step in our efforts to develop a cadre of professional intermediaries. As the deadline of March 31, 2003 is fast approaching both for certification and registration, there is intense activity at AMFI-organizing and monitoring exams through NSE centers, UTI ICM and IBPS, issuing certificates and facilitating registration of intermediaries through offices of CAMS. While the 6 NSE centers offer examination on all working days, IBPS are conducting manual exams in 20 different centers simultaneously on every Sundays till March 30, 2003. In addition, UTI ICM also organizes manual exams in about 30 centres. Thus enough opportunity is being provided to intermediaries to get themselves certified and registered. It is a rewarding experience to see the enthusiasm of agents across the country to get themselves certified.

The Kelkar Committee report on Direct taxes has generated a flurry of activities at our end-studying the implications of the report on mutual fund industry and formulating our responses and recommendations. We now await the next budget with proposals that would hopefully, provide the much-needed support to capital market and to the mutual funds industry.

Yours

A.P. Kurian

February 10, 2003.

## SEBI UPDATE

### **CIRCULARS ISSUED BY SEBI INVESTMENT IN FOREIGN SECURITIES (MFD/CIR/18/21826/2002-NOVEMBER 7, 2002)**

SEBI has raised the investment limit on foreign securities to 10% of Net Assets of each Mutual Fund as on March 31, 2002 subject to permissible limit of minimum of US\$ 5 million and maximum of US\$ 50 million to each Mutual Fund irrespective of size of assets. Mutual Funds, which have approval for such investment from Exchange Control Department of RBI, may approach them for enhancement of limit and Mutual Funds which desire to invest in foreign securities or mutual funds in foreign countries are required to forward their application to SEBI in terms of Circular No. MFD/CIR/17/419/02 dated March 30, 2002.

SEBI has also clarified that Clause 4 of Seventh Schedule of the SEBI (Mutual Funds) Regulations 1996 restricting investment in mutual fund units upto 5% of net assets and prohibiting charging of fees shall not be applicable to investment in mutual funds in foreign countries made in accordance with these guidelines but same will be subject to total limits on expenses as prescribed under Regulation 52(6).

### **RECONCILIATION PROCEDURE FOR INVESTMENT IN GOVERNMENT SECURITIES: (MFD/CIR/19/22474/2002- NOVEMBER 20, 2002)**

SEBI, based on the guidelines issued by RBI, has introduced a system of monthly reconciliation between RBI and Mutual Funds maintaining SGL/CSGL Accounts in respect of Government Securities on an ongoing basis. This will be made part of internal audit. Mutual Funds are also required to submit compliance certificate on quarterly basis to RBI confirming compliance of these requirements and other guidelines issued by RBI from time to time. The compliance of the

same will be reported to SEBI in the quarterly reports of AMCs and half-yearly reports of Trustees.

### **REGISTRATION AND EMPANELMENT OF INTERMEDIARIES AND CODE OF CONDUCT (MFD/CIR/20/23230/2002-NOVEMBER 28, 2002) *Registration of Intermediaries***

All the intermediaries (distributors, agents, brokers or called by any other name) engaged in selling and marketing of mutual funds units, whether individual or any other organizational structure are required to register with AMFI by March 31, 2003. Such registration shall be subject to passing of certification examination and adherence to guidelines of SEBI and AMFI specified from time to time.

#### ***Empanelment of Intermediaries by Mutual Funds***

Mutual Funds are required to empanel the intermediaries and pay commission, brokerage/ sub-brokerage etc. in accordance with the parameters and guidelines specified by SEBI and AMFI from time to time. Mutual Funds are also required to monitor compliance of these guidelines and code of conduct by intermediaries. In case of non-compliance, further business and payment of commission etc. may be suspended till full compliance of these guidelines and code of conduct by intermediaries.

#### ***Exemption of Senior Citizens***

Senior Citizens who have completed 60 years of age as on March 31, 2003 and have two years of experience in distributing mutual funds units are exempted from AMFI Certification Test. However they are required to attend mutual fund training programme within one year from March 31, 2003 and a certificate to that effect endorsed by a mutual fund is required to be submitted to AMFI. Such intermediaries are also required to register with AMFI and follow the guidelines issued by SEBI and AMFI.

**Code of Conduct**  
**Unhealthy practices**

SEBI has drawn attention of mutual funds to clause 14 of the code of conduct issued vide Circular No. MFD/CIR/ 06/210/2002 dated June 26, 2002 prohibiting sharing of commission with investors and attracting clients through temptation of rebate/gifts etc. and has advised not to indulge in any practice contravening it directly or indirectly such as paying commission in any form or by allotting intermediary codes to investors or their associates for paying them commission on their own investment etc

Mutual funds have been advised to report compliance of the above requirements in periodical meetings of Board of AMCs and Trustees who shall in turn report the compliance to SEBI in their quarterly and half yearly report.

**GUIDELINES FOR PARTICIPATION IN TRADING IN DERIVATIVE PRODUCT**

Based on the recommendations of SEBI Advisory Committee on Derivatives, SEBI has issued certain clarifications with illustrative examples relating to hedging and portfolio balancing. Members are requested to refer Circular No. (MFD/CIR/21/25467/2002 dated December 31, 2002) for further details.

**CIRCULAR ISSUED BY AMFI**

**AMFI GUIDELINES FOR THE REGISTRATION OF INTERMEDIARIES (FOR IMPLEMENTING CODE OF CONDUCT)- AMFI Circular No. Cir/ARN-01/02-03 dated January 15, 2003**

As advised by SEBI, AMFI has formulated specific

guidelines and procedure within the parameters prescribed by the SEBI on the captioned subject.

These Guidelines are issued in terms of SEBI circular No. MFD/CIR/20/23230/2002 dated Nov. 28, 2002 read with SEBI circular No. MFD/CIR/ 06/210/2002 dated June 26, 2002 and are therefore mandatory. Mutual Funds are required to ensure compliance with these guidelines both by intermediaries distributing their products and through them, sub-brokers acting on behalf of such intermediaries. Members are requested to bring to the notice of the intermediaries the content of above referred SEBI circulars as well as the AMFI guidelines.

These guidelines have been sent to members and are also available on AMFI Website.

**INVESTOR AWARENESS PROGRAMME**

An "Investor Education Meet" was organized by Canbank Mutual Fund at Kolkata on December 4, 2002. Chairman AMFI delivered a talk on "Investing in Mutual Funds-Opportunities & Safeguards".

**CONFERENCES AND MEETINGS**

Chairman AMFI participated in the National Convention organized by Confederation of Real Estate Developers of India (CREDAI) on Nov. 24, 2002 at Bangalore and addressed the gathering on "REITS-Impact on Developers".

Financial Market Seminar was organized by Government of Karnataka at Bangalore on January 6, 2002. Chairman AMFI participated in the same and spoke on the subject "Cost Effective Financial Research".

Nation wide Securities Market Awareness Campaign was launched on January 17, 2003 at New Delhi by Shri A. B. Vajpayee, Hon'ble Prime Minister of India which was sponsored by SEBI. There were three technical sessions pertaining to investors. Chairman AMFI participated in the technical session on "Empowering Investors through Education".

9th Annual Financial Services convention was organized at Mumbai on 17-18 Jan. 2003 by Bombay Management Association in collaboration with AMFI, Indian Merchants' Chamber, Association of Leasing & Financial Services Cos., Association of Merchant Bankers and Institute of Chartered Financial Analysts of India. Shri Shailendra Bhandari of Prudential ICICI chaired the session on "Mutual Funds-Retail Investor's Dilemma." Shri Suraj Kaeley of Templeton Mutual Fund and Shri Krishnamurthy Vijayan of J. M. Mutual Fund participated as speakers on the subject. A good number of mutual fund executives participated in the conference.

## **AMFI CERTIFICATION AND REGISTRATION PROGRAMME**

### ***Written Examination - Additional Centers***

AMFI has entered into arrangement with Institute of Banking Personnel Selection (IBPS) for conducting AMFI Certification Test in writing at 20 centers. This is an additional facility made available to the intermediaries over and above the test conducted by NSE and UTI Institute of Capital Markets at various centers across the country. IBPS has already conducted the test on January 19, 2003 and February 2, 2003 and around 2400 candidates appeared for

the test. It is proposed to conduct test through IBPS every Sunday till March 30, 2003. Details are available on AMFI Website.

### ***Registration of AMFI Certified Intermediaries-Centers for accepting applications***

AMFI has retained the services of Computer Age Management Services Limited (CAMS) to receive applications at 23 centers throughout the country. The list of these centers is available on AMFI Website. This has been specifically arranged to enable intermediaries to get themselves registered with AMFI before March 31, 2003 as required by SEBI.

A separate communication has already been sent to the members. Members are requested to advise all Agents/Distributors and their Employees and others about the availability of these facilities so that they can comply with the SEBI requirement of certification and registration well before March 31, 2003, the deadline set by SEBI.

### ***Registration of Senior Citizens with AMFI***

SEBI has exempted Senior Citizens who have completed 60 years of age as on March 31, 2003. And engaged in marketing of units of Mutual Funds from AMFI Certification Test. However he/she is required to register with AMFI and obtain photo identity card with ARN. He/she should enclose proof of age and recommendation from a member AMC(s), certifying that he/she has worked for 2 years as an intermediary and has canvassed a minimum business of Rs. 2 lakhs over a period of the last 2 years along with application for registration.

## COMMITTEE/WORKING GROUPS

### ***Working Group on Unclaimed Redemption/ Dividend Amount***

The final report approved by the AMFI Board has been presented to SEBI.

### ***Kelkar Committee Recommendations- Implications for Industry***

The Kelkar Committee on Direct Taxes has suggested certain changes in the tax structure for income earned/received by Mutual funds from interest and short-term capital gains. Such a proposal has serious implications besides practical difficulties in implementation. The Board of AMFI had a consultative meeting along with some of the members on December 31, 2002. A working group headed by Shri Milind Barve of HDFC Mutual Fund was constituted to frame our response for presenting the same to the Government. Thereafter a meeting of all the members of the AMFI was held on January 7, 2003 to discuss the matter. The meeting was attended by 27 out of 33 members. Based on the discussion at this meeting our response was finalized and has been presented to Government giving alternatives to the recommendation of Kelkar Committee.

## GENERAL MEMBERSHIP MEETINGS

The General Membership meeting was held on November 12, 2002. The meeting was attended by 27 members out of 32 members. Subjects discussed were promoting ethical practices in the area of marketing, implementation of Code of Conduct for intermediaries, periodical changing of auditors of mutual funds and AMFI assuming the role of SRO.

A Workshop on Risk Management for the compliance officers/executives handling risk management function was held on November 26, 2002. The purpose of the workshop was to help the concerned executives to have a clear understanding of the suggested systems and procedure for risk management and also to clarify any doubts. Shri Alok Vajpeyi of DSP Merrill Lynch, who heads the AMFI committee on Risk Management, led the discussion assisted by Ms. Kavita Savur of FIRE Project. The workshop was extremely useful to all participants.

## AMFI WEBSITE

During the quarter nearly 15 lakh persons visited AMFI website.

## MUTUAL FUND INDUSTRY

***The third quarter data are presented in  
tables 1 to 5***

- Sales during the third quarter at Rs.88,757 Crores were 124% higher than sales of Rs.39,620 crores in the corresponding period of last year.
- 12 new schemes were launched during the quarter collecting Rs.1,709 crores.
- Redemptions were up by 124% to Rs.78,982 crores from Rs.35,189 crores in the corresponding period of last year.
- On a net basis thus there was an inflow of Rs. 9,775 Crores during the quarter as against an inflow of Rs.4,431 crores in the corresponding quarter last year.
- The Assets under management at Rs.1,22,600 crores were 20% higher than Rs.1,01,822 crores a year ago.
- Table-5 gives data on Assets under Management for each of the Asset Management Companies.

**MUTUAL FUND DATA FOR THE THIRD QUARTER OCTOBER-DECEMBER 2002**

**TABLE - 1**

**(Rs. in crores)**

Category	No. Of Schemes Launched	Sales - All Schemes				Redemptions All Schemes		Total Assets Under Mgmt. As on 31.12.2002
	During the Quarter	From New Schemes	From Existing Schemes	Total for the Quarter	Total for the Year to Date	Total for the Quarter	Total for the Year to Date	
A Unit Trust Of India	3	298	2358	2656 539	4839 3858	3795 1764	#12614 9010	45899 51181
B Bank Sponsored (4)	-	-	3360	3360 897	7179 2712	2554 495	5641 1805	5553 3925
C Institutions (4)	1	10	5428	5438 2409	11815 5234	3937 2079	9522 4152	6840 4460
D Private Sector								
I Indian (6)	1	237	22078	22315 9332	51102 20059	19440 7272	47036 17265	10058 5904
II Joint Ventures - Predominantly Indian (7)	2	226	20953	21179 11728	52023 31202	18329 10456	45999 26051	18971 15207
III Joint Ventures - Predominantly Foreign (10)\$	5	938	32871	33809 14715	86651 40601	30927 13123	77378 34367	35279 21145
Total (I+II+III)	8	1401	75902	77303 35775	189776 91862	68696 30851	170413 77683	64308 42256
Grand Total (A+B+C+D)	12	1709	87048	88757 39620	213609 103666	78982 35189	198190 92650	122600 101822

Notes:

- 1 Data is provisional & hence subject to revision.
- 2 Fegers in Red denote amount for Corresponding period, last year.
- 3 UTI Figures exclude offshore funds and Venture Capital Funds
- 3 # Includes Rs. 7154 crores redemption due to maturity of schemes
- 4 \$ The number of funds have gone up due to addition of HSBC Asset Mgmt. (I) Pvt. Ltd.

**SALES DURING THE QUARTER OCTOBER-DECEMBER 2002 - TYPE AND CATEGORY WISE**

**TABLE - 2**

**(Rs. in crores)**

**2.1 New Schemes Launched**

	Open end		Close end		Assured Return		Total	
	No. of Schemes	Amount	No. of Schemes	Amount	No. of Schemes	Amount	No. of Schemes	Amount
Income	5	1364	-	-	-	-	5	1364
Growth	5	168	-	-	-	-	5	168
Balanced	1	@	-	-	-	-	1	@
Liquid/Money Market	1	177	-	-	-	-	1	177
Gilt	-	-	-	-	-	-	-	-
ELSS	-	-	-	-	-	-	-	-
Total	12	1709	-	-	-	-	12	1709

@ Amount less than 1 core

## 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	85	38266	18	-	21	-	124	38266
Growth	102	622	8	-	-	-	110	622
Balanced	32	77	3	4	-	-	35	81
Liquid/Money Market	30	46497	-	-	-	-	30	46497
Gilt	31	1579	-	-	-	-	31	1579
ELSS	20	3	32	-	-	-	52	3
<b>Total</b>	<b>300</b>	<b>87044</b>	<b>61</b>	<b>4</b>	<b>21</b>	<b>-</b>	<b>382</b>	<b>87048</b>

## 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	90	39630	18	-	21	-	129	39630
Growth	107	790	8	-	-	-	115	790
Balanced	33	77	3	4	-	-	36	81
Liquid/Money Market	31	46674	-	-	-	-	31	46674
Gilt	31	1579	-	-	-	-	31	1579
ELSS	20	3	32	-	-	-	52	3
<b>Total</b>	<b>312</b>	<b>88753</b>	<b>61</b>	<b>4</b>	<b>21</b>	<b>-</b>	<b>394</b>	<b>88757</b>

### Notes:

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

### New Schemes :

**Open end Income** : UTI - Regular Income Scheme, Reliance Short Term Fund, Tata Income Plus Fund, HSBC Income Fund & HSBC Institutional Income Fund

**Open end Growth** : UTI - Variable Investment Scheme, LIC MF Index Fund, Birla Midcap Fund, Prudential ICICI Dynamic Plan & HSBC Equity Fund

**Open end Balanced** : UTI US 2002

**Open end Liquid** : HSBC Cash Fund

## REDEMPTION / REPURCHASE DURING THE QUARTER OCTOBER-DECEMBER 2002

TABLE - 3

(Rs. in crores)

	Open End	Close End	Assured Return	Total
INCOME	27761	179	1212	29152
GROWTH	699	9	-	708
BALANCED	467	2	-	469
LIQUID/MONEY MARKET	47179	-	-	47179
GILT	1441	-	-	1441
ELSS	4	29	-	33
<b>TOTAL</b>	<b>77551</b>	<b>219</b>	<b>1212</b>	<b>78982</b>

## ASSETS UNDER MANAGEMENT AS ON 31ST DECEMBER 2002 TYPE AND CATEGORY WISE

TABLE - 4

(Rs. in crores)

	Open End	Close End	Assured Return	Total
INCOME	59708 31765	4313 4630	13448 17799	77469 54194
GROWTH	8729 7795	5642 3864	-	14371 11659
BALANCED	13718 17758	446 238	-	14164 17996
LIQUID/MONEY MARKET	10801 12105	-	-	10801 12105
GILT	4316 3908	-	-	4316 3908
ELSS	423 362	1056 1598	-	1479 1960
<b>TOTAL</b>	<b>97695 73693</b>	<b>11457 10330</b>	<b>13448 17799</b>	<b>122600 101822</b>

### Note :

\*Figures in Red denote amount for corresponding period, last year.



**ASSETS UNDER MANAGEMENT AS ON DECEMBER 31, 2002 - MEMBER WISE**

**TABLE - 5**

(Rs. in crores)

<b>Sr. No.</b>	<b>Name of the Asset Management Company</b>	<b>Assets under Management</b>
<b>A</b>	<b>Unit Trust of India</b>	<b>45899</b>
<b>B</b>	<b>BANK SPONSORED</b>	
	BOB Asset Management Co. Ltd.	196
	Canbank Investment Management Services Ltd.	1124
	PNB Asset Management Co. Ltd.	132
	SBI Funds Management Ltd.	4101
	<b>TOTAL B</b>	<b>5553</b>
<b>C</b>	<b>INSTITUTIONS</b>	
	GIC Asset Management Co. Ltd.	276
	IDBI Principal Asset Management Co. Ltd	2167
	IL & FS Asset Management Co. Ltd.	1356
	Jeevan Bima Sahayog Asset Management Co. Ltd.	3041
	<b>TOTAL C</b>	<b>6840</b>
<b>D1</b>	<b>PRIVATE SECTOR</b>	
	Benchmark Asset Management Co. Pvt. Ltd.	7
	Cholamandalam Asset Management Co. Ltd.	984
	Escorts Asset Management Ltd.	92
	J.M. Capital Management Pvt. Ltd.	3118
	Kotak Mahindra Asset Management Co. Ltd.	3110
	Reliance Capital Asset Management Ltd.	2747
	<b>TOTAL D1</b>	<b>10058</b>
<b>D2</b>	<b>JOINT VENTURES-PREDOMINANTLY INDIAN</b>	
	Birla Sun Life Asset Management Co. Ltd.	6077
	Credit Capital Asset Management Co. Ltd.	98
	DSP Merrill Lynch Investment Managers Ltd.	2821
	First India Asset Management Private Ltd.	91
	HDFC Asset Management Co. Ltd.	7288
	Sundaram Asset Management Company Ltd.	1160
	Tata TD Waterhouse Asset Management Private Ltd.	1436
	<b>TOTAL D2</b>	<b>18971</b>
<b>D3</b>	<b>JOINT VENTURES - PREDOMINANTLY FOREIGN</b>	
	Alliance Capital Asset Management (India) Pvt. Ltd.	3371
	HSBC Asset Management (India) Pvt. Ltd.	718
	Dundee Investment Management & Research (Pvt.) Ltd.	15
	ING Investment Management (India) Pvt. Ltd.	745
	Morgan Stanley Dean Witter Investment Management Pvt. Ltd.	771
	Prudential ICICI Asset Management Co. Ltd.	10538
	Standard Chartered Asset Mgmt Co. Pvt. Ltd.	5018
	Sun F & C Asset Management (India) Pvt. Ltd.	473
	Templeton Asset Management (India) Pvt. Ltd.	9444
	Zurich Asset Management Co. (India) Pvt. Ltd.	4186
	<b>TOTAL D3</b>	<b>35279</b>
	<b>TOTAL (D1+D2+D3)</b>	<b>64308</b>
	<b>TOTAL (A+B+C+D)</b>	<b>122600</b>

**Association of Mutual Funds in India**

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