

**AMFI**

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UPDATE

A Newsletter of The Association of Mutual Funds in India

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From the Chairman's Desk

The Mutual Fund Industry has entered the new millennium with new enthusiasm and new vigour, crossing the milestone of Rs.100,000 crores of assets under management. There is a growing recognition of mutual fund as an effective medium for investment and there is increasing response to the new schemes launched by several funds. In terms of performance, majority of equity funds has outperformed the market with impressive margins.

In this encouraging and favourable environment what is needed is to adhere to highest professional and ethical standards and to promote best practices in all areas - be it selling, be it disclosure, be it advertisement - so that the industry has a clean and healthy image. This is the time for the industry to set the proper ambience and refrain from adopting such disturbing sales practices as promoting mutual funds as IPOs of public issues which might create unrealistic and misplaced expectations in the minds of the investors. Mutual Fund is a distinctly different product and it has to be promoted in a manner consistent with its working principles and ethos, so that the industry is developed on healthy lines and on a sustained basis.

While continuing with all its activities, the area of distribution would be the new thrust area for AMFI to take certain initiatives.

Yours,

A. P. Kurian
18.2.2000



SEBI UPDATE

Upgrading Standards of the Industry

Based on the observations of the study tour of the mutual fund industry in the United States organised by SEBI, AMFI Board had made certain recommendations as part of its efforts to upgrade standards of the Indian Mutual Fund industry to international levels. Some of the recommendations have been accepted by SEBI, which has issued the following guidelines:

1. Portfolio disclosure to be made semi-annually.
2. Board of Trustees to form Audit Committee to review internal audit systems and recommendations of the Auditors. Committee to be chaired by an independent Trustee.
3. Asset Management Company to form an in-house Valuation Committee to review on a regular basis the systems of valuation of securities.
4. Trustees to review all transactions of mutual fund with Associates on a regular basis and ensure that regulatory provisions in this regard are complied with.

Meeting with SEBI on Tax and other matters

In the meeting called by Chairman SEBI to consider suggestions on tax and other matters relating to mutual funds, AMFI presented the following suggestions:

1. Introduce Individual Retirement Scheme (IRS) on a tax deferment basis to be launched and managed by mutual funds. A separate section 88C to be added in the Income Tax Act providing for a maximum contribution of Rs.1 lakh per year.
2. Units of all mutual funds to be notified as securities under Securities Contracts (Regulation) Act 1956 so as to make them on par with other securities for treatment of capital gains tax.
3. Exemption from tax deduction at source for NRI presently applicable to UTI to be extended to all mutual funds.
4. Investment by non-government provident funds, superannuation and gratuity funds in mutual funds dedicated to government

securities - the notification of Ministry of Finance to be endorsed by Ministry of Labour and Provident fund Commissioner.

5. In order to ensure clarity and uniform practice of providing nomination by all mutual funds, Government to issue appropriate notification.
6. Units of all mutual funds to be notified as trustee securities under Indian Trust Act, on par with units of Unit Trust of India.

The above suggestions were also presented to the Ministry of Finance and Chairman AMFI along with Delhi based AMFI members met and discussed with the Finance Secretary, Government of India.

Advisory Committee on Mutual Funds.

A meeting of the Advisory Committee was held on December 9, 1999 and in the light of the discussions, AMFI will be presenting the industry views in respect of the following subjects:

1. Recurring expenses chargeable to mutual fund scheme.
2. Mutual funds investing abroad- restrictions on fees and expenses.
3. Payment of commission to brokers on investment by associates of AMC/Mutual Fund in mutual fund schemes.
4. Treatment of unclaimed dividend and unclaimed redemption value.

SEBI Committee on Accounting Standards.

Chairman AMFI attended all the meetings of the Accounting Standards committee. Members of AMFI Committee on Valuation supported by CRISIL have made presentations to the SEBI Committee and our proposals regarding valuation of non-traded debt securities, thinly traded equities and those relating to identification, provisioning and disclosure of non-performing assets have been duly considered by the Committee and the necessary guidelines and norms will soon be notified. A note giving detailed guidelines in respect of Income Equalisation Accounting prepared by AMFI has been presented to the Accounting Standards Committee.

Chairman AMFI regularly attended SEBI meetings on dematerialisation, rolling settlement and on other related matters.

COMMITTEE UPDATE

Committee on Best Practices.

In order that the industry as a whole adopts best practices in all areas such as sales, advertising, disclosures, transparency etc and thus promote a clean and healthy image for the industry, AMFI has constituted a standing Committee on Best Practices with the following members.

Shri S. K. Mitra as Chairman and Shri M. M. Kapur of Unit Trust of India, Shri Niamatullah of SBI, Shri Ajai Kaul of Alliance Capital and Shri Chandrasekhar Sathe of Kotak Mahindra as members. The Committee had preliminary discussions on some matters.

Committee to review implications of Credit Policy measures

The mid term review of Monetary and Credit Policy 1999-2000 referred to some areas of relevance to the Mutual Fund Industry such as access to call money market, cheque writing facility, use of forward rates agreement and interest rate swaps etc.

With a view to formulating AMFI's views on these matters a Committee has been formed with Shri Ajay Srinivasan of Prudential ICICI as Chairman and Shri Chandrasekhar Sathe of Kotak Mahindra and Shri Girija Pande of ANZ Grindlays Bank as members.

Committee on Real Estate Mutual Funds.

The SEBI Advisory Committee on Mutual Funds, in its last meeting considered the subject of Mutual Funds launching specialised real estate schemes on the lines of Real Estate Investment Trusts (REITS). As this requires an in-depth study of relevant legal and operational aspects, AMFI has constituted a Committee. Shri Deepak Satwalekar Managing Director of HDFC as the Chairman and Shri K. N. Poojara of Unit Trust of India, Shri Sunil Joseph of Dundee Mutual Fund and Shri Firdaus J. Gandevia of Tata Housing Development Co. Ltd. as the members.

Committee on Advertising Guidelines

The Committee's final report after taking into account the views and comments of the members has been presented to SEBI which is expected to issue suitable guidelines soon.

TRAINING OF INTERMEDIARIES

Training programmes for agents were conducted in Ranchi and Patna in December 1999 and the training sessions were taken by Chairman AMFI and Shri S. Kannan of Escorts Mutual Fund. A similar programme was conducted by Chairman in Cochin in January 2000.

Stock Holding Corporation of India (SHCIL) proposes to market mutual fund products and it has included mutual funds in its curriculum of training for its executives. Chairman, AMFI regularly conducts half-day session on concept and working of mutual funds to the executives of SHCIL at Belapur, Navi Mumbai. So far 5 sessions have been held and this will be an ongoing programme.

INVESTOR EDUCATION

A seminar on Mutual Funds was organised by Institute of Chartered Accountants, Jaipur Branch on October 29, 1999 which was inaugurated by Shri Ashok Kacker, Executive Director, SEBI and Chairman AMFI and Shri Kanu Doshi, Chartered Accountant took the training sessions.

An investors meet was organised by Unit Trust of India and Escorts Mutual Fund at Patna on December 1999, which was very well attended. Chairman AMFI made a presentation on the Mutual Fund Industry in India.

NEWS UPDATE

Welcome To Shri M. M. Kapur, Executive Director, Unit Trust Of India.

Shri M. M. Kapur, Executive Director, Unit Trust of India has joined the Board of AMFI in place of Dr. P. J. Nayak who has resigned from the Board to join UTI Bank as its Chairman and Managing Director. Dr. P. J. Nayak has been a great support to AMFI and had made valuable contributions in the development of AMFI.

Visit Of Mr. Mathew P. Fink, President, Investment Company Institute (ICI) and Ms. Mary Podesta, Senior Counsel, ICI

Mr. Mathew P. Fink, President, ICI along with Ms. Mary Podesta, Senior Counsel visited Mumbai in the second week of January 2000 and AMFI had organised a get together of all its members along

with other professionals from the financial field. Shri D. R. Mehta, Chairman SEBI presided over the meeting and Mr. Mathew P. Fink spoke about the current status of the American Mutual Fund Industry in which one out of 2 American households invest their savings. He specially touched upon the factors that have contributed to the impressive growth of the Industry. It was a lively interactive session.

AMFI As A Data Provider

Our MONTHLY as well as Quarterly UPDATE giving information on mutual fund industry have been well appreciated by the users. AMFI is now positioned as an authentic data provider for the industry. Apart from media, various national and international publications, data analysts and data providers have started approaching AMFI with a request to provide data on industry on contractual basis regularly. AMFI has concluded contracts with two such agencies.

AMFI Website

AMFI website has become popular and 5500 people have visited during October - December, 1999 of whom 47.5% were from abroad.

INDUSTRY UPDATE

- Investment limits and other amendments in the Mutual Fund Regulation 1996 as reported in AMFI Update October, 1999, have since been notified by SEBI and made effective from December 8, 1999.
- Effective from February 18, 1999, 20th Century Mutual Fund became Zurich India Mutual Fund which on December 15, 1999 took over the existing schemes of the ITC Threadneedle Mutual Fund.
- The H.B. Asset Management Company has merged with Credit Capital Asset Management with effect from March 20, 1999.
- In December 1999, Birla Mutual Fund took over the schemes of Apple Mutual Fund.
- RBI has notified that borrowings from Mutual Funds by Non Banking Financial Companies (NBFC) registered with SEBI would be exempt from the purview of definition of public deposits.

- Money market mutual funds will now be regulated by SEBI.
- Cheque writing facility has been extended to Gilt Funds and Liquid Funds by RBI.
- Mutual funds can undertake Forward Rates Agreement (FRA) and Interest Rate Swaps (IRS) with banks, primary dealers and financial institutions for hedging their own balance sheet risks as notified by RBI.
- Mutual Funds can issue units to FIIs, NRIs without obtaining prior approval of RBI as long as the scheme complies with SEBI Guidelines and the funds are received through normal banking channels and special non-resident accounts and FII accounts as per the circular issued by RBI.

MUTUAL FUND INDUSTRY DATA

THIRD QUARTER - OCTOBER - DECEMBER 1999

The third quarter - October-December 1999 data are presented in Tables 1-4. The highlights are:

- 14 new schemes were launched - 3 each in Income and Balanced, 4 schemes in Gilt category, 2 in ELSS and 1 each in growth and assured return, which together collected Rs.1,020 crores.
- The existing schemes mobilised Rs.13,236 crores taking the total for the quarter to Rs.14,256 crores - the highest in any quarter so far.
- Total sales during the first three quarters of the current financial year at Rs. 33,628 crores were up by 121% compared to the corresponding period last year (Rs.15,189 crores).
- Redemptions for the quarter were Rs.9,214 crores and for the year till date it was Rs. 21,601 crores as against Rs. 16,858 crores for the corresponding period last year.
- The total assets under management at the end of December 1999 were Rs.97,028 crores registering an increase of 47% over the last year.

MUTUAL FUND DATA FOR THE THIRD QUARTER OCTOBER - DECEMBER, 1999**TABLE - 1****(Rs. In crores)**

Category	No of Schemes Launched	Sales - All Schemes				Redemptions All Schemes		Total Assets Under Mgmt. As on 31.12.99
		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	2	71	2761	2832	9618 9308	1532	6176 11179	67207 54339
B Bank Sponsored (6)	-	-	453	453	1060 152	387	886 566	7290 4504
C Institutions (4)	2	200	205	405	862 374	591	1242 390	2999 1993
D Private Sector								
I Indian (6)	3	134	2294	2428	4247 2399	1869	3291 2433	2225 776
II Joint Ventures - Predominantly Indian (7)	3	357	3161	3518	8019 1883	2049	4803 1577	7977 2163
III Joint Ventures - Predominantly Foreign (9)	4	258	4362	4620	9822 1073	2786	5203 713	9330 1985
Total(I+II+III)	10	749	9817	10566	22088 5355	6704	13297 4723	19532 4924
Grand Total (a+b+c+d)	14	1020	13236	14256	33628 15189	9214	21601 16858	97028 65760

Notes: 1) Assets under management of Unit Trust of India at book value. 2) Data is provisional & hence subject to correction. 3) Figures in brackets denote number of funds. 4) "Figures in Red denote amount for corresponding period, last year.

SALES DURING THE QUARTER OCTOBER - DECEMBER, 1999 - 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	3	69	-	-	1	67	4	136
Growth	1	143	-	-	-	-	1	143
Balanced	3	610	-	-	-	-	3	610
Liquid	-	-	-	-	-	-	-	-
Money Market	-	-	-	-	-	-	-	-
Gilt	4	126	-	-	-	-	4	126
Elss	2	5	-	-	-	-	2	5
Total	13	953	-	-	1	67	14	1020

2.2 Existing Schemes

	Open End		Close End		Assured Return		Total	
	No. of schemes	Amount	No. of Schemes	Amount	No. of schemes	Amount	No. of schemes	Amount
Income	38	2487	29	-	40	1320	107	3807
Growth	59	2343	39	26	-	-	98	2369
Balanced	12	659	6	-	-	-	18	659
Liquid	12	4212	-	-	-	-	12	4212
Money Market	6	805	-	-	-	-	6	805
Gilt	7	1358	-	-	-	-	7	1358
Elss	8	26	55	-	-	-	63	26
Total	142	11890	129	26	40	1320	311	13236

2.3 Total of all Schemes

	Open End		Close End		Assured Return		Total	
	No. of schemes	Amount	No. of Schemes	Amount	No. of schemes	Amount	No. of schemes	Amount
Income	41	2556	29	-	41	1387	111	3943
Growth	60	2486	39	26	-	-	99	2512
Balanced	15	1269	6	-	-	-	21	1269
Liquid	12	4212	-	-	-	-	12	4212
Money Market	6	805	-	-	-	-	6	805
Gilt	11	1484	-	-	-	-	11	1484
Elss	10	31	55	-	-	-	65	31
Total	155	12843	129	26	41	1387	325	14256



REDEMPTION / REPURCHASE DURING THE QUARTER OCTOBER - DECEMBER

TABLE 3

(Rs. in crores)

	Open End	Close End	Assured Return	Total
Income	1358	34	48	1440
Growth	1393	520	-	1913
Balanced	575	30	-	605
Liquid	3317	-	-	3317
Money Market	875	-	-	875
Gilt	964	-	-	964
Elss	23	77	-	100
Total	8505	661	48	9214

ASSETS UNDER MANAGEMENT AS ON 31ST DECEMBER, 1999

TABLE 4

(Rs. in crores)

Type & Categorywise Analysis

	Open End	Close End	Assured Return	Total
Income	17854 30047	6695 2205	20524 15137	45073 47389
Growth	11906 6326	9719 7231	- -	21625 13557
Balanced	22086 452	1244 1422	- -	23330 1874
Liquid	2349 448	- -	- -	2349 448
Money Market	487 171	- -	- -	487 171
Gilt	1501 -	- -	- -	1501 -
Elss	644 217	2019 2104	- -	2663 2321
Total	56827 37661	19677 12962	20524 15137	97028 65760

* Figures in Red denote Asset under Management as on 31.12.98

* Previous period figures are revised wherever necessary.

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