

CHAPTER 9: INVESTOR SERVICES

9.1 The NFO Process

The New Fund Offer (NFO) process is how mutual funds introduce a new scheme to the public.

Announcement: The AMC announces the NFO through various channels like newspapers and websites, detailing the scheme's features, objectives, and terms.

Subscription Period: Investors can subscribe to the scheme during a specified period, usually 15 to 30 days.

Collection of Funds: The AMC collects funds from investors, which will be used to purchase securities once the NFO period closes.

The NFO process is crucial for raising initial capital for a new mutual fund scheme.

Quiz Questions:

How long does the subscription period for an NFO typically last?

- A. 5 to 10 days
- B. 15 to 30 days
- C. 45 to 60 days

Answer: B

What is the primary purpose of an NFO?

- A. To distribute dividends
- B. To raise initial capital for a new scheme
- C. To merge existing schemes

Answer: B

9.2 New Fund Offer Price/On-going Offer Price for Subscription

The pricing of mutual fund units varies during the NFO and on-going subscription periods.

NFO Price: During the NFO, units are typically offered at a fixed price, usually ₹10 per unit.

On-going Offer Price: After the NFO, the units are available for subscription at the NAV plus any applicable entry load.

Understanding these prices helps investors know when to buy units and at what cost.

Quiz Questions:

At what price are units typically offered during an NFO?

- A. ₹1 per unit
- B. ₹10 per unit
- C. ₹100 per unit

Answer: B

What does the on-going offer price include?

- A. NAV only
- B. NAV plus exit load
- C. NAV plus entry load

Answer: C

9.3 Investment Plans and Services

Mutual funds offer various investment plans and services to cater to different investor needs.

Growth Plan: No dividends are paid, and earnings are reinvested in the fund, increasing the NAV.

Dividend Plan: Dividends are paid out to investors from the fund's earnings.

Systematic Investment Plan (SIP): Allows investors to invest a fixed amount regularly, promoting disciplined investing.

Systematic Withdrawal Plan (SWP): Allows investors to withdraw a fixed amount regularly.

Systematic Transfer Plan (STP): Enables investors to transfer a fixed amount from one scheme to another.

These plans and services offer flexibility and cater to various investment strategies.

Quiz Questions:

Which plan reinvests earnings back into the fund?

- A. Growth Plan
- B. Dividend Plan
- C. Systematic Transfer Plan

Answer: A

What is the primary benefit of a SIP?

- A. Lump-sum investment
- B. Regular, disciplined investing
- C. Immediate liquidity

Answer: B

9.4 Allotment of Units to the Investor

Units are allotted to investors based on the investment amount and the NAV at the time of purchase.

NFO Period: Units are allotted after the NFO period closes at the fixed NFO price.

On-going Subscriptions: Units are allotted based on the NAV of the day on which the application is received and processed.

Timely and accurate allotment of units is crucial for investor satisfaction.

Quiz Questions:

When are units allotted during the NFO period?

- A. Immediately upon application
- B. After the NFO period closes
- C. At the end of the financial year

Answer: B

On what basis are units allotted during on-going subscriptions?

- A. Previous day's NAV
- B. NAV of the day the application is received
- C. Next day's NAV

Answer: B

9.5 Account Statements for Investments

Account statements provide investors with details of their mutual fund holdings and transactions.

Monthly Statements: Sent if there are any transactions in the month.

Consolidated Account Statement (CAS): Sent monthly, detailing all mutual fund holdings across AMCs, provided there is a transaction in the month.

Yearly Statements: Provided annually if there are no transactions during the year.

Account statements help investors track their investments and ensure transparency.

Quiz Questions:

How often is a Consolidated Account Statement (CAS) sent if there are transactions?

- A. Daily
- B. Monthly
- C. Annually

Answer: B

What information does an account statement provide?

- A. Mutual fund holdings and transactions
- B. Bank account details
- C. Tax returns

Answer: A

9.6 Mutual Fund Investors

Mutual fund investors can be individuals, institutions, or non-resident Indians (NRIs).

Individuals: Retail investors who invest personal funds.

Institutions: Companies, trusts, and other organizations investing surplus funds.

NRIs: Indians living abroad can invest in Indian mutual funds, subject to certain regulations.

Understanding the different types of investors helps tailor services and communications.

Quiz Questions:

Can NRIs invest in Indian mutual funds?

- A. Yes, subject to regulations
- B. No
- C. Only through specific schemes

Answer: A

Who are considered retail investors?

- A. Institutions
- B. NRIs
- C. Individuals

Answer: C

9.7 Filling the Application Form for Mutual Funds

Filling out the mutual fund application form accurately is crucial for smooth processing.

Personal Details: Name, address, PAN, and other identification details.

Bank Details: Bank account number, IFSC code for dividend payments or redemptions.

Investment Details: Scheme name, plan, and option (growth or dividend).

KYC Compliance: Ensure KYC (Know Your Customer) details are updated.

Correctly filled forms prevent delays and ensure accurate processing of investments.

Quiz Questions:

What personal details are required in a mutual fund application form?

- A. Name and address
- B. Bank account details
- C. Both A and B

Answer: C

What does KYC stand for?

- A. Know Your Customer

B. Know Your Credit

C. Know Your Client

Answer: A

9.8 Financial Transactions with Mutual Funds

Financial transactions with mutual funds include purchasing, redeeming, and switching units.

Purchase: Investing in mutual fund units.

Redemption: Selling mutual fund units.

Switch: Transferring investments from one scheme to another within the same fund house.

These transactions can be done online or offline, providing flexibility to investors.

Quiz Questions:

What does redeeming mutual fund units mean?

A. Buying new units

B. Selling existing units

C. Transferring units to another scheme

Answer: B

What is a switch transaction in mutual funds?

A. Switching units between different fund houses

B. Transferring units within the same scheme

C. Transferring investments from one scheme to another within the same fund house

Answer: C

9.9 Cut-off Time and Time Stamping

Cut-off time and time stamping are crucial for determining the applicable NAV for transactions.

Cut-off Time: Specific time by which transactions must be submitted to be processed at the same day's NAV.

Time Stamping: Transactions are time-stamped to record the exact time they are received, ensuring fairness in processing.

These practices ensure transparency and fairness in transaction processing.

Quiz Questions:

Why is the cut-off time important in mutual fund transactions?

A. It determines the applicable NAV for transactions

B. It calculates dividends

C. It is irrelevant

Answer: A

What is the purpose of time stamping in mutual fund transactions?

- A. To record the exact time a transaction is received
- B. To calculate transaction fees
- C. To determine the scheme's performance

Answer: A

9.10 KYC Requirements for Mutual Fund Investors

KYC (Know Your Customer) compliance is mandatory for all mutual fund investors.

Documentation: Investors need to submit proof of identity and address, such as PAN card, Aadhaar card, or passport.

Process: KYC can be done online or offline, and once completed, it is valid across all mutual funds.

KYC ensures the authenticity of investors and prevents fraudulent activities.

Quiz Questions:

What documents are typically required for KYC compliance?

- A. Proof of identity and address
- B. Birth certificate
- C. Educational qualifications

Answer: A

9.11 Systematic Transactions

Systematic transactions help investors invest or withdraw money in a disciplined and regular manner. The main types of systematic transactions include:

Systematic Investment Plan (SIP): Allows investors to invest a fixed amount at regular intervals (monthly, quarterly, etc.). This helps in rupee cost averaging and instills discipline in savings.

Systematic Withdrawal Plan (SWP): Enables investors to withdraw a fixed amount at regular intervals. This can be useful for those seeking a regular income from their investments.

Systematic Transfer Plan (STP): Allows investors to transfer a fixed amount from one scheme to another at regular intervals. This can be used to gradually move investments from debt to equity or vice versa.

These plans provide flexibility and help in managing investments systematically.

Quiz Questions:

What is the primary benefit of a Systematic Investment Plan (SIP)?

- A. Lump-sum investment
- B. Regular, disciplined investing

C. Immediate liquidity

Answer: B

Which plan allows for regular withdrawals from mutual fund investments?

A. Systematic Investment Plan

B. Systematic Transfer Plan

C. Systematic Withdrawal Plan

Answer: C

9.12 Operational Aspects of Systematic Transactions

The operational aspects of systematic transactions include setting up the plan, executing transactions, and managing changes.

Setting Up: Investors need to fill out the appropriate forms, specifying the amount, frequency, and duration of the systematic plan.

Execution: The AMC will automatically execute the transactions as per the specified schedule, debiting or crediting the investor's bank account.

Changes and Cancellations: Investors can modify or cancel their systematic plans by submitting a written request to the AMC.

Understanding these operational details ensures smooth and efficient management of systematic transactions.

Quiz Questions:

How can an investor set up a Systematic Investment Plan (SIP)?

A. By visiting the AMC's office

B. By filling out the appropriate forms and specifying the details

C. By calling the customer care

Answer: B

Can an investor modify or cancel a systematic plan once it is set up?

A. No, it cannot be changed

B. Yes, by submitting a written request to the AMC

C. Yes, but only within the first month

Answer: B

9.13 Non-Financial Transactions in Mutual Funds

Non-financial transactions are changes or updates that do not involve the movement of money.

Examples include:

Updating Contact Details: Changing the address, phone number, or email address of the investor.

Bank Account Changes: Updating or changing the bank account details linked to the mutual fund investments.

Nominee Changes: Adding or changing the nominee for the mutual fund investments.

Transmission: Transfer of units in case of the death of the investor.
These transactions ensure that the investor's information is up-to-date and secure.

Quiz Questions:

Which of the following is considered a non-financial transaction?

- A. Redeeming units
- B. Changing the nominee
- C. Buying new units

Answer: B

How can an investor change their registered bank account for mutual fund investments?

- A. By updating the information online
- B. By submitting a written request with new bank details
- C. By visiting any bank

Answer: B

9.14 Change in Status of Special Investor Categories

Special investor categories, such as minors and NRIs, may experience changes in status that require updates to their mutual fund accounts.

Minors Turning Major: When a minor turns 18, they must provide necessary documents to update their status to major.

NRI to Resident: If an NRI becomes a resident, they need to update their residential status and submit relevant documents.

Keeping investor status updated ensures compliance with regulations and accurate processing of transactions.

Quiz Questions:

What must be done when a minor turns 18 and holds mutual fund investments?

- A. Nothing, the investments continue as is
- B. Update the status to major with necessary documents
- C. Close the account

Answer: B

What should an NRI do if they become a resident and hold mutual fund investments?

- A. Continue without any changes
- B. Update their residential status and submit relevant documents
- C. Withdraw all investments

Answer: B

9.15 Investor Transactions – Turnaround Times

Turnaround times refer to the time taken to process various investor transactions in mutual funds.

Purchases and Redemptions: Typically processed within one to three business days, depending on the scheme.

Switches: Usually completed within the same time frame as purchases and redemptions.

Non-Financial Transactions: Changes in contact details, bank accounts, and nominee updates may take up to a week to process.

Understanding turnaround times helps investors manage their expectations and plan their transactions accordingly.

Quiz Questions:

How long does it typically take to process a mutual fund redemption?

- A. One to three business days
- B. One week
- C. One month

Answer: A

What is the typical turnaround time for non-financial transactions?

- A. One day
- B. Up to a week
- C. One month

Answer: B