

Chapter 4 LEGAL AND REGULATORY FRAMEWORK

4.1 Role of Regulators in India

In India, the mutual fund industry operates under the oversight of several regulatory bodies that ensure transparency, protect investor interests, and promote fair practices. The key regulators include:

Securities and Exchange Board of India (SEBI): SEBI is the primary regulator of the securities market in India, including mutual funds. Its role involves:

Formulating regulations and guidelines for mutual funds.

Monitoring and regulating the activities of mutual funds, AMCs, trustees, and other intermediaries.

Protecting the interests of investors by ensuring proper disclosures and transparency in operations.

Reserve Bank of India (RBI): RBI regulates certain aspects related to mutual funds, especially those involving foreign investments and regulations concerning banks and financial institutions.

Ministry of Finance: The Ministry oversees policy decisions related to the financial sector, including taxation and fiscal policies that impact mutual funds.

Quiz Questions:

Which regulatory body is responsible for formulating regulations for mutual funds in India?

- A. Reserve Bank of India (RBI)
- B. Securities and Exchange Board of India (SEBI)
- C. Ministry of Finance

Answer: B

What is one of SEBI's roles in regulating mutual funds?

- A. Providing loans to mutual funds
- B. Protecting the interests of investors
- C. Managing mutual fund operations

Answer: B

4.2 Role of Securities and Exchange Board of India (SEBI)

SEBI plays a crucial role in regulating and supervising the mutual fund industry to ensure investor protection and market integrity. Its responsibilities include:

Regulatory Framework: SEBI formulates regulations, guidelines, and codes of conduct for mutual funds and related entities.

Registration and Compliance: SEBI registers mutual funds, AMCs, trustees, and other intermediaries and ensures compliance with regulatory requirements.

Monitoring and Surveillance: SEBI monitors market activities to detect and prevent fraudulent practices, insider trading, and market manipulation.

Investor Education: SEBI promotes investor education initiatives to enhance financial literacy and awareness about mutual fund investments.

SEBI's stringent oversight aims to maintain trust and confidence in the mutual fund industry among investors.

Quiz Questions:

What does SEBI do to promote investor confidence in mutual funds?

- A. Conducts market research
- B. Formulates regulations and guidelines
- C. Manages fund distributions

Answer: B

Which regulatory body registers mutual funds and ensures compliance with regulations?

- A. Ministry of Finance
- B. Reserve Bank of India (RBI)
- C. Securities and Exchange Board of India (SEBI)

Answer: C

4.3 Due Diligence Process by AMCs for Distributors of Mutual Funds

Asset Management Companies (AMCs) conduct due diligence on distributors to ensure they meet certain standards and are capable of distributing mutual funds effectively. The process includes:

Background Verification: AMCs verify the distributor's credentials, experience, infrastructure, and regulatory compliance.

Training and Certification: Distributors are required to undergo training programs and obtain certifications such as NISM certifications to enhance their knowledge and professionalism.

Compliance Check: AMCs ensure that distributors comply with regulatory requirements, including SEBI guidelines on selling mutual funds.

Performance Evaluation: AMCs may periodically evaluate distributors based on their sales performance, client feedback, and adherence to ethical practices.

A robust due diligence process helps AMCs select competent distributors who can promote mutual funds responsibly and ethically.

Quiz Questions:

What is one of the purposes of AMC's due diligence on distributors?

- A. Monitoring investor transactions
- B. Verifying distributor compliance and capabilities

C. Conducting market research

Answer: B

Which certification is often required for distributors of mutual funds?

A. CA (Chartered Accountant)

B. NISM (National Institute of Securities Markets)

C. MBA (Master of Business Administration)

Answer: B

4.4 Investor Grievance Redress Mechanism

Mutual funds are required to establish a robust grievance redress mechanism to address investor complaints promptly and fairly. Key aspects of the mechanism include:

Designated Officer: Each mutual fund appoints a designated officer responsible for handling investor grievances.

Complaint Registration: Investors can lodge complaints through various channels, including email, phone, or directly at investor service centers.

Timely Resolution: Mutual funds are required to acknowledge complaints promptly and resolve them within a specified timeframe, typically within 30 days.

Escalation: If investors are not satisfied with the resolution, they can escalate the matter to higher authorities within the mutual fund or approach SEBI and AMFI.

The grievance redress mechanism ensures that investors' concerns are addressed efficiently, promoting trust and confidence in mutual fund investments.

Quiz Questions:

What is the role of a designated officer in a mutual fund?

A. Handling investor grievances

B. Managing fund investments

C. Conducting audits

Answer: A

How long does a mutual fund typically have to resolve investor complaints?

A. 15 days

B. 30 days

C. 60 days

Answer: B

4.5 AMFI Code of Conduct for Intermediaries

The Association of Mutual Funds in India (AMFI) has established a Code of Conduct for intermediaries involved in the distribution of mutual funds. The code emphasizes ethical behavior, professionalism, and adherence to regulatory guidelines. Key provisions include:

Ethical Practices: Intermediaries must act in the best interest of clients and avoid conflicts of interest.

Transparency: Intermediaries must provide clear and accurate information to clients about mutual fund products, risks, and costs.

Disclosure: Intermediaries disclose their remuneration structure, fees, and commissions to clients upfront.

Training and Certification: Intermediaries are required to undergo continuous training and obtain necessary certifications to enhance their knowledge and skills.

The AMFI Code of Conduct aims to promote integrity and investor protection in the distribution of mutual funds.

Quiz Questions:

What does the AMFI Code of Conduct emphasize for intermediaries?

- A. Profit maximization
- B. Ethical behavior and professionalism
- C. Market speculation

Answer: B

What must intermediaries disclose to clients according to the AMFI Code of Conduct?

- A. Personal investment strategies
- B. Fees and commissions
- C. Market predictions

Answer: B