

Chapter 3 LEGAL STRUCTURE OF MUTUAL FUNDS IN INDIA

3.1 Structure of Mutual Funds in India

The mutual fund industry in India operates under a well-defined legal framework designed to protect investors and ensure transparency. A mutual fund is set up as a trust, which is established under the Indian Trusts Act, 1882. The structure typically includes the following components:

Sponsor: The entity that establishes the mutual fund. The sponsor must have a sound track record and financial stability.

Trustees: Appointed by the sponsor, the trustees hold the fund's assets in trust for the benefit of the unit holders. They ensure that the mutual fund operates in compliance with SEBI regulations.

Asset Management Company (AMC): The AMC manages the mutual fund's investments and day-to-day operations. It is appointed by the trustees and must be approved by SEBI.

Custodian: A custodian is responsible for holding and safeguarding the mutual fund's securities. They also handle the settlement of trades and ensure the safekeeping of assets.

Quiz Questions:

Under which act is a mutual fund trust established in India?

- A. Companies Act, 1956
- B. Indian Trusts Act, 1882
- C. SEBI Act, 1992

Answer: B

Who manages the day-to-day operations of a mutual fund?

- A. Trustees
- B. Sponsor
- C. Asset Management Company (AMC)

Answer: C

3.2 Key Constituents of a Mutual Fund

The key constituents of a mutual fund include:

Sponsor: The entity that establishes the mutual fund and appoints the trustees and AMC.

Trustees: Individuals or a trustee company responsible for ensuring that the mutual fund complies with all regulations and operates in the best interest of the unit holders.

Asset Management Company (AMC): The entity that manages the investment portfolio of the mutual fund. The AMC conducts research, selects securities, and manages the fund's assets.

Custodian: Responsible for holding the securities and other assets of the mutual fund. They ensure the safety and proper handling of the fund's assets.

Registrar and Transfer Agents (RTA): RTAs handle the administration of investor accounts, including processing of transactions, issuance of account statements, and updating records.

Quiz Questions:

Who appoints the trustees of a mutual fund?

- A. SEBI
- B. AMC
- C. Sponsor

Answer: C

What is the role of the custodian in a mutual fund?

- A. Managing the fund's investments
- B. Holding and safeguarding the fund's securities
- C. Conducting audits

Answer: B

3.3 Organization Structure of Asset Management Company

The organization structure of an Asset Management Company (AMC) is designed to efficiently manage the investments and operations of mutual funds. Key components include:

Board of Directors: The AMC is governed by a board of directors, which includes representatives from the sponsor and independent directors.

Chief Executive Officer (CEO): The CEO oversees the overall functioning of the AMC.

Fund Managers: Fund managers are responsible for managing the investment portfolios. They make decisions on buying and selling securities based on market research and analysis.

Research Analysts: Analysts provide the necessary research and data analysis to support investment decisions.

Operations Team: This team handles the administrative functions, including compliance, legal, accounting, and investor services.

Quiz Questions:

Who oversees the overall functioning of the AMC?

- A. Fund Manager
- B. Chief Executive Officer (CEO)
- C. Custodian

Answer: B

What is the main responsibility of fund managers?

- A. Conducting audits
- B. Managing investment portfolios
- C. Handling investor grievances

Answer: B

3.4 Role and Support Function of Service Providers

Service providers play a crucial role in the efficient functioning of mutual funds by providing various support services. Key service providers include:

Custodians: They hold and safeguard the mutual fund's securities and handle the settlement of trades.

Registrar and Transfer Agents (RTAs): RTAs manage the administration of investor accounts, process transactions, maintain records, and provide customer support.

Distributors: Distributors help in marketing and selling mutual fund schemes to investors. They include banks, financial advisors, and brokerage firms.

Auditors: Auditors conduct periodic audits to ensure that the mutual fund complies with regulatory requirements and follows proper accounting practices.

Quiz Questions:

Which service provider is responsible for maintaining investor records and processing transactions?

- A. Custodian
- B. Auditor
- C. Registrar and Transfer Agent (RTA)

Answer: C

Who helps in marketing and selling mutual fund schemes to investors?

- A. Fund Manager
- B. Distributor
- C. Auditor

Answer: B

3.5 Role and Function of AMFI

The Association of Mutual Funds in India (AMFI) is a non-profit organization that represents the mutual fund industry in India. Its key roles and functions include:

Promoting Best Practices: AMFI works to promote best practices in the mutual fund industry, ensuring that fund houses adhere to high standards of transparency and integrity.

Investor Education: AMFI conducts investor education programs to enhance financial literacy and help investors make informed decisions.

Industry Representation: AMFI represents the mutual fund industry in discussions with regulators, government bodies, and other stakeholders.

Standardization: AMFI standardizes the practices and codes of conduct for mutual funds to ensure uniformity and fairness across the industry.

Quiz Questions:

What is the main purpose of AMFI?

- A. To manage mutual fund investments

- B. To promote best practices and standards in the mutual fund industry
- C. To regulate mutual funds

Answer: B

How does AMFI contribute to investor education?

- A. By providing investment capital
- B. By conducting financial literacy programs
- C. By setting interest rates

Answer: B