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A STUDY OF PERFORMANCE OF QUALITY EVALUATION OF MUTUAL FUNDS IN INDIA

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ABSTRACT

The fundamental reason for the creation of mutual funds brought to the need of establishing regulations for the business. Two of the industry's primary goals have been the protection of investors' money via prudent fund management and the use of the capital market to direct that money where it will do the most good. Moreover, mutual funds market activities significantly affect savings, investment, liquidity, and the general state of financial markets since they entail purchasing, selling, and holding numerous listed scrip’s or debt instruments. The market structure of the business itself calls for special rules and oversight. The possibility of speculation has grown since the private sector began participating in the business. If not controlled, such behavior has the potential to cause a distortion in stock values. These factors indicated the need for the mutual fund business to expand in tandem with the creation of appropriate regulations.

KEYWORDS: Quality Evaluation, Mutual Funds, India, fund schemes

INTRODUCTION

Mutual funds couldn't be set up without a set of rules governing its formation, structure, and operation. Mutual fund structures, investment mandates and constraints, and pricing strategies were all addressed in detail. The disciplinary component, which was sorely lacking before, included things like inspections and disciplinary hearings. All mutual funds must be established as trusts in accordance with SEBI laws, which includes establishing a Board of Trustees and appointing a separate custodian. The regulations provide detailed eligibility requirements for mutual fund sponsors and the formation of an independent asset management firm. Asset management firms' (AMCs') ability to do business and collect fees from participants in investment schemes is limited. Asset management firms are subject to severe reporting and accounting obligations under the new rules. In its capacity as a regulator, SEBI is authorized to conduct audits of mutual funds and take corrective action against those that break the rules.

SEBI (MUTUAL FUNDS) REGULATIONS, 1996

The Securities and Exchange Board of India (SEBI) rescinded the 1993 rules governing mutual funds with the Securities and Exchange Board of India (Mutual Funds) Regulation 1996. Mutual fund establishment, operation, and management are all outlined in further detail in the laws from 1996. Investment valuation standards, investment limitations, an advertising code, and a code of conduct for mutual funds and assets management firms are all spelled out in detail in these rules and regulations. These rules have been updated on several occasions. The same rules apply to all mutual funds, regardless of whether they are marketed by a government agency, a private company, or a foreign government. All mutual funds are subject to SEBI's oversight and inspections, and there are no exceptions to this rule. The new rules include provisions for:

- Higher safety for financial backers.
- Providing investors with more agencies.
- To ensure that investors are fully apprised of the opportunities and threats involved, offer papers must adhere to stringent disclosure rules.
- The harmonization of asset valuation standards, NAV calculation methodologies for mutual fund schemes, and accounting principles and practices.
- Mutual fund investment quotas should be eliminated and replaced with prudential regulation.
- Enhanced mutual fund governance as a result of trustees' increased authority and responsibility in their role as the industry's frontline regulators.
- Asset management firms should adhere to a code of ethics.

Some of these components are also covered at length below.

1. Registration of Mutual Fund

- The sponsor of a mutual fund must submit Form A to the Board in order to apply for the fund to be registered with the Board.
- Sponsors seeking registration under Regulation 3 must submit an application in the form of a Performa and pay the application fee (which is not refundable) as detailed in the Second Schedule.
- Applications that are missing required information will likely be denied. The Board may reject an application without first giving the applicant a chance to complete the necessary procedures within a reasonable amount of time.
- The Board will provide a registration number to those who meet the following requirements. In all of his dealings with others, the sponsor should have a solid reputation for honesty and fairness. The sponsor must have been in the financial services industry for at least five years and have maintained positive net worth during that time. The sponsor's net worth in the prior year must have exceeded the capital contribution to the asset management company, and the sponsor must have had a net profit after depreciation, interest, and taxes in three of the five years prior to the current year.
- If a mutual fund already exists, it must be organized as a trust with a trust deed that has been authorized by the Board.
- At least 40% of the asset management firm's total net value must come from the sponsor.
- There should not be any history of fraud, convictions for crimes involving moral turpitude, or economic wrongdoing on the part of the mutual fund's sponsor or any of its directors or main officers.

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- The trustees, the sponsor, the asset management company, and the custodian shall comply with the provisions of these regulations.
- The trustees and the asset management company shall be appointed to manage the affairs of the mutual fund and to operate the schemes of the fund, and the custodian shall be appointed to keep custody of the securities or gold and gold related instrument or other assets of the mutual fund held in terms of these related regulations.
- If the mutual fund discovers that any information or particulars previously submitted to the Board were misleading or false in any material respect, it must notify the Board immediately.
- Annual fees as specified in the Second Schedule must be paid by each mutual fund by April 15 of each year beginning with the fiscal year following the year of registration.

2 Constitution and Management of Mutual Fund and Operation of Trustees, etc.

- A mutual fund must be established in the form of a trust, with the sponsor executing a deed of trust in favor of the trustees and having it registered under the Indian Registration Act, 1908 (16 of 1908).
- The trust deed must comply with the regulations established by SEBI. The agreement should include provisions deemed appropriate to protect the interests of the unit holders.
- Trustees of a mutual fund must be selected in line with these rules. A trustee should be a competent, honorable individual who has not been convicted of any crime involving moral turpitude or of violating any securities legislation.
- To be qualified to serve as a trustee of any mutual fund, neither an asset management firm nor any of its directors (including independent directors), officers, or employees may be an asset management company.
- A person who has been appointed as a trustee of a mutual fund is ineligible to serve in such capacity for any other mutual fund.
- At least two-thirds of the trustees must be unaffiliated with the sponsors in any way and must have no business or personal ties to them.
- In the event that a corporation is designated as trustee, its directors are free to serve as trustees of any other trust, so long as the purpose of the latter does not contradict with the purpose of the former mutual fund.
- With the Board's permission, the trustees and the asset management firm will enter into an investment management agreement that includes the provisions listed in the Fourth Schedule as well as any additional provisions deemed appropriate for the making of investments.
- The trustees are authorized to request relevant data from the asset manager.
- Before a scheme is released to the public, trustees must make certain preparations have been made, including the hiring of essential people, auditors, and registrars for the

asset management business. They must also verify that the compliance manual has been written, an internal control mechanism, including internal audit systems, has been developed, and standards for the selection of brokers and marketing agents have been established.

- The trustees are responsible for ensuring that the asset management company is not giving any associate an unfair or undue advantage and that it is diligently monitoring securities transactions with brokers to prevent any undue concentration of business with any broker.
- The trustees are responsible for making sure the asset management firm is acting in the investors' best interests and has taken all necessary measures to do so. They must also make sure that the asset management firm complies with all applicable laws and rules. If a mutual fund's operations are not in line with SEBI laws, they must take corrective measures and report the infringement and their actions to the Board.
- Each trustee is required to report his or her quarterly securities dealings to the mutual fund.
- Each scheme's trustee is responsible for safeguarding and accounting for its assets. They should figure out how much money is owed to the mutual fund and how much money is brought in by the mutual fund for the unitholders of any plan.
- When the Board determines that it is in the best interests of the unitholders to do so, or upon a requisition made by three-fourths of the unitholders of any schemes, or if a majority of the trustees decides to wind up or prematurely redeem the units, the trustees must obtain the unitholders' approval before making any such changes.
- When requested by the Board, the trustee must disclose any securities transactions conducted in his name or on behalf of the asset management company's key staff.
- All transactions involving the mutual funds and the asset management business will be reviewed by the trustees on a quarterly basis.
- A quarterly examination of the asset management company's net value, as well as frequent reviews of all service contracts (custody arrangements, transfer agency of securities, etc.) to ensure they are being carried out in the unitholders' best interests, are required of the trustee.
- The trustees are responsible for making sure the asset management firm is acting in the unitholders' best interests when deciding how to allocate the fund's assets.
- The trustees are responsible for monitoring the asset management firm's response to investor concerns.
- The trustees are required to follow the code of behavior outlined in the Fifth Schedule.
- Every six months, the mutual fund's trustees must provide the board with a report detailing the fund's activities and a certificate stating that the trustees are confident that no trustees, directors, or key employees of the asset management company have engaged in self-dealing or front running.

GROWTH OF MUTUAL FUNDS INDUSTRY IN INDIA

The evolution of mutual funds in India is described here. This has been accomplished through research into things like the total number of mutual fund schemes, the total number of open-ended mutual fund schemes, the total number of close-ended mutual fund schemes, the total amount of resources that mutual funds have raised, the amount of resources that open-ended mutual fund schemes have raised, the amount of resources that close-ended mutual fund schemes have raised, and the amount of resources that mutual funds have raised by category.

1. Total Number of Schemes under Mutual Funds

From 406 in March 2003 to 1309 in March 2012, a rise of 222.41 percent is seen in Table 1.1 for the total number of mutual fund schemes. The income schemes grew at a pace of 457.55%, much outpacing the growth schemes' rate of 150.41%. It's important to note that the growth rate for ELSS plans was just 4.26 percent. In addition, the negative growth rate for balanced schemes was 16.67 percentage points. Income schemes, which accounted for 34.24 percent of the market in March 2003, continued to do so in March 2012, accounting for 59.21 percent. The second-placed growth plans, which had a 29.80% share in March 2003, remained in that position with a 23.15 % share in March 2012. However, between March 2003 and March 2013, the percentage held in gilt funds and Liq/MM funds fell from 7% to 3-4%. The percentage of investors using ELSS plans also fell, from 11.58 percent in March 2003 to 3.74 percent in March 2012. Gold exchange-traded funds (ETFs) and other exchange-traded funds (ETFs) that invest internationally have quickly become popular.

2. Category-Wise Total Number of Open-Ended Schemes under Mutual Funds

From 337 in March 2003 to 745 in March 2012, as shown in Table 1.2, the total number of open-ended mutual fund schemes expanded at an annualized rate of 121.07 percent.

The table shows that throughout the research period, growth schemes grew by 160%, income schemes by 118.10%, ELSS schemes by 80%, and liquid/money market schemes by 71.88%.

Growth plans maintained their lead over income schemes in terms of market share. The percentage shares of all the other groups also went down.

3. Category-Wise Total Number of Close-Ended Schemes under Mutual Funds

According to Table 1.3, the overall growth rate of close-ended mutual fund schemes from March 2003 to March 2012 was 668.12%. The overall number of closed-end schemes is on the decline, with the exception of income schemes. ELSS schemes (51.85%) had the highest negative growth rate, followed by balanced schemes (50%) and growth

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schemes (33.34%). On the other hand, the number of income schemes increased from 34 in March 2003 to 512 in March 2012, a rate of growth of 1405.88%. In March 2003, ELSS schemes accounted for 39.13% of the market; by March 2012, that figure had dropped to 2.45%. The vast majority (96.6%) of the available close ended programs were income schemes.

4. Nature-Wise Total Resources Mobilised by Mutual Funds

Mutual funds may be broken down into three distinct categories according to their structure: open-ended, closed-end, and interval. From Table 1.4, it is clear that in March 2012, open ended schemes accounted for 75.2% of the money created, with close ended schemes coming in at 23.44% and interval funds at 1.36%. During the research period, open-ended plans expanded by 393.52%, whereas close-ended schemes expanded by 594.49 percent. Additionally, within the time frame of this research, the percentage of resources created by open-ended schemes decreased while the percentage generated by close-ended schemes grew.

CONCLUSION

The costs associated with maintaining one's current level of living, in terms of both time and money, climb as one ages. Without enough savings, meeting these commitments in the future might seem like an uphill battle. Bank deposits, postal savings, corporate bonds, gold, real estate, equities, etc. are only few of the many investment vehicles now accessible. Investors with an interest in the stock market but without the necessary time, knowledge, and experience to make sound stock-picking decisions are more likely to put their money into mutual funds. The development of mutual funds has mitigated some of the issues experienced by small investors in the stock market. There is always a chance of loss with every investment. Before making any investment choices, investors should evaluate the relative risks and after-tax returns of available investment options. So far, the nation's mutual fund business has catered mostly to metropolitan consumers and institutional financiers. Now is the opportunity for the sector to expand into previously untouched rural areas. Corporate governance and transparency procedures demand greater attention from the sector as a whole. Because a single bad decision can plunge investors into a financial crisis, sometimes even to the point of bankruptcy, issues relating to the choice between public and private sector schemes, on the one hand, and growth, income, balanced, liquid/money market, and gilt schemes, on the other, have become highly important. More research is needed to see whether mutual funds are meeting their stated goals and living up to the expectations of their average investors. Investors may use the evaluation of these funds' performance to make informed judgments about their portfolio allocations. Furthermore, investor perspectives must be analyzed so that mutual funds may design appropriate plans for investors. The current research, Performance Evaluation of Mutual Funds in India: A research of Equity and Hybrid Schemes, was inspired by this reality.

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