Skill India

GOVERNMENT OF INDIA
MINISTRY OF SKILL DEVELOPMENT
& ENTREPRENEURSHIP

N·S·D·C
National
Skill Development
Corporation
Transforming the skill landscape

BFSI

Participant Handbook

Sector
Banking Financial Services and Insurance (BFSI)

Sub-Sector
Non-Banking Financial Services

Occupation
Mutual Fund Agent

Reference ID: **BSC/Q0601, Version 1.0**
NSQF Level 4

Mutual Fund Agent

Mutual Fund Agent

Participant Handbook

BFSI

Skilling is building a better India.
If we have to move India towards development then Skill Development should be our mission.

Shri Narendra Modi
Prime Minister of India

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Certificate

CURRICULUM COMPLIANCE TO QUALIFICATION PACK – NATIONAL OCCUPATIONAL STANDARDS

is hereby issued by the

BFSI SECTOR SKILLS COUNCIL OF INDIA

for the

MODEL CURRICULUM

Complying to National Occupational Standards of
Job Role/ Qualification Pack: '**Mutual Fund Agent**' QP No. '**BSC/Q0601 NSQF Level 4**'

Date of Issuance: December 22nd, 2015

Valid up to: December 22nd, 2016

* Valid up to the next review date of the Qualification Pack

Authorised Signatory
(BFSI Sector Skill Council of India)

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कौशल भारत-कुशल भारत

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1. Conduct Research

BFSI
BFSI Sector Skill Council of India

(BSC/ N 0601)

Unit 1.1 - Introduction

Unit Objectives

At the end of the session, the participants will be able to:

- State and explain Mutual Funds
- Demonstrate the working of Mutual Funds
- List the advantages and disadvantages of Mutual Funds
- List markets where Mutual Funds can be invested
- Define common terms used in Mutual Funds
- Differentiate between different schemes of Mutual Funds
- Differentiate between types of funds

A financial market is a broad term that describes the marketplace where buyers and sellers trade assets such as equities, bonds, currencies and derivatives. Capital markets are an important part of financial markets where people and institutions trade financial securities. Mutual Funds are traded as a part of these markets.

1.1.1 Mutual Fund

A mutual fund is essentially an investment security that helps investors to pool their finances together into one investment that is professionally managed. Mutual funds are invested in bonds, stocks, cash and/pr other assets. These security types are called holdings and are combined together to form a portfolio.

For example:

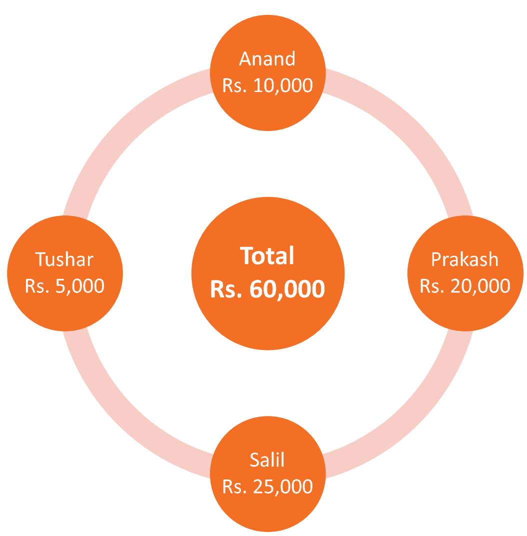

Figure 1.1.1

If Anand, Prakash, Sahil and Tushar-all invest in a new Mutual Fund, Issuing units of Rs FV 10.00, each one will get:

Contribution	Amount (Rs)	# Units
Anand	10,000.00	1,000
Prakash	20,000.00	2,000
Salil	25,000.00	2,500
Tushar	5,000.00	500
Total	**60,000.00**	

What is a Mutual Fund?

It is a pool of money from various investors who wish to save or make money.

It is easier to invest in a mutual vis a vis buying and selling individual stocks and bonds.

Investors can sell their shares when they want.

Representation of a Mutual Fund

1.1.2 Concept of Mutual Fund and Need for Mutual Fund

How a Mutual Fund Works

Pools savings of investors sharing a common financial goal

↓

Collected money invested in capital market instruments

↓

Income earned through investments/capital appreciation shared by unit holders according to units owned

Thus, a Mutual Fund is the most suitable investment for the common man as it offers an opportunity to invest in a diversified, professionally managed basket of securities at a relatively low cost.

Need of a Mutual Fund

Mutual Funds are needed because

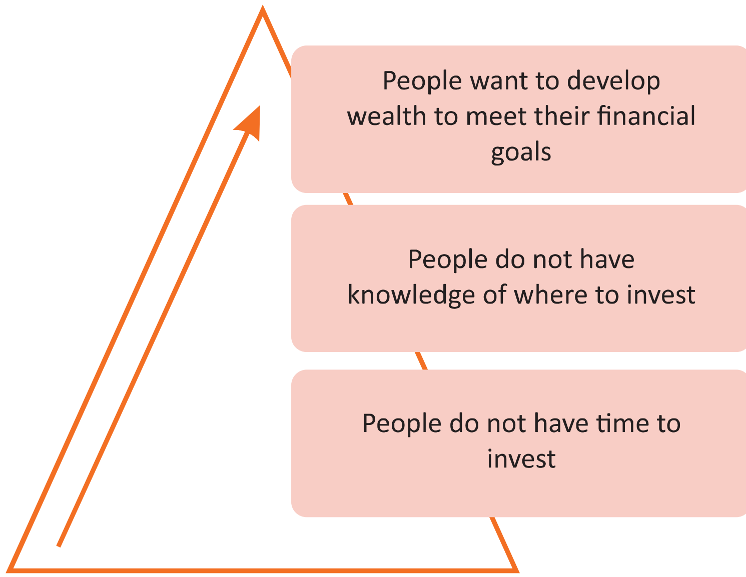

Figure 1.1.2

1.1.3 How does a Mutual Fund Work?

Working of a Mutual Fund:

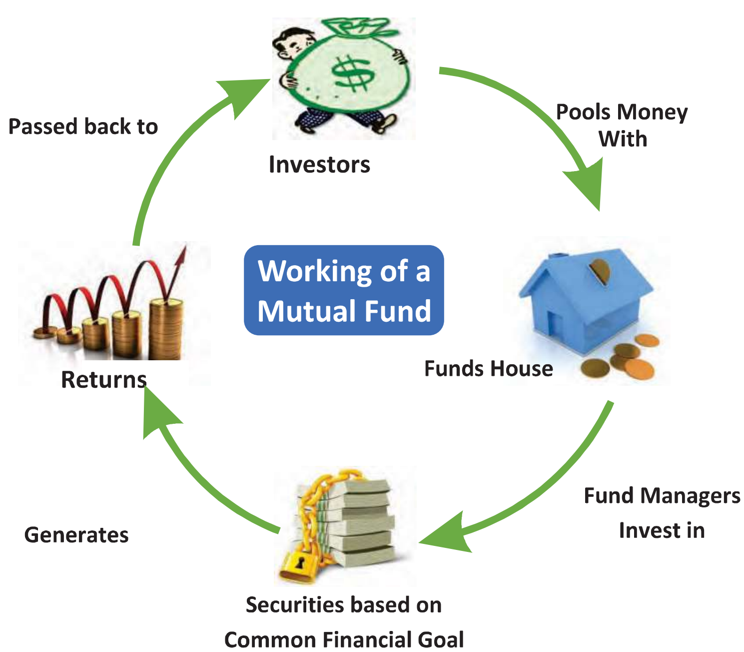

Figure 1.1.3

People with money who want to invest in the capital markets are called investors. They invest into a fund house, where money collected from a group of people is invested in securities to attain common financial goals. This investment results in positive or negative returns, which is passed back to the investors.

Exercise

Read up about the various kinds of financial markets and explain the following in 2 lines:

Capital Market

Money Market

Spot Market

Forex Market

OTC Market

Activity

Overview

This activity will help you to understand a Mutual Fund and describe it to others.

Goals and Objectives:

- To be able to talk about Mutual Funds
- To understand the difference between Mutual Funds

Props/Material Required:

- Paper and Pen
- Laptop and Projector
- Classroom
- White/Black Board

Methodology/Procedure:

1. Get together in a group and select one existing Mutual Fund scheme in the market. Research on how it works and present it in the class.

2. Make groups of 4 and try to create a small corpus to invest in a basic Mutual Fund scheme. Monitor it every week and explain it using visual means.

Outcome:

1.1.4 Mutual Fund - Advantages

There are many benefits of Mutual Funds because of which they are popular with smaller investors.

- Affordability
- Diversification
- Variety
- Professional Management
- Transparency
- Liquidity
- Economies of Scale
- Tax Deferral
- Tax Benefits
- Convenient Options
- Investment Comfort
- Systematic Approach to Investment

Let us Look at These Benefits in Detail

Affordability

A Mutual Fund invests in a portfolio of assets, i.e. bonds, shares, etc. depending upon the investment objective of the scheme. An investor can buy in to a portfolio of equities, which would otherwise be extremely expensive. Each unit holder thus gets an exposure to such portfolios with an investment as modest as Rs. 5000.

Diversification

Investments must be spread across different securities- stocks, bonds, money market instruments, real estate, fixed deposits etc.) and different sectors - auto, textile, information technology etc.

Variety

Mutual Funds offer a tremendous variety of schemes.

Professional Management

Qualified investment professionals who seek to maximize returns and minimize risk monitor the investor's money.

Transparency

Being under a regulatory framework, Mutual Funds have to disclose their holdings, investment pattern and all the information that can be considered as material, before all investors.

Liquidity

1. A distinct advantage of a Mutual Fund over other investments is that there is always a market for its unit/ shares.
2. It's easy to get one's money out of a Mutual Fund.
3. Redemptions can be made by filling a form attached with the account statement of an investor.

Economies of Scale

1. Mutual Funds hire professional managers to manage their investment. They are able to do so due the large sums of money available from investors.
2. Individual investors with small amounts to invest cannot, by themselves, afford to engage such professional management.
3. Large investment corpus leads to various other economies of scale.

Tax Deferral

1. Mutual Funds are not liable to pay tax on the income they earn.
2. If the same income were to be earned by the investor directly, then tax may have to be paid in the same financial year.
3. Mutual Funds offer options, whereby the investor can let the moneys grow in the scheme for several years.
4. By selecting such options, it is possible for the investor to defer the tax liability.
5. Investors are legally able to build their wealth faster unlike the case if they paid tax on the income each year.

Tax Benefits

1. Equity Linked Savings Scheme help investors take the benefit of deduction on the amount invested from their income that is liable to tax.

2. This reduces their taxable income, and therefore the tax liability.
3. Further, the dividend that the investor receives from the scheme is tax-free in his hands.

Convenient Options

1. The options offered under a scheme allow investors to structure their investments in line with their liquidity preference and tax position.
2. There is also great transaction conveniences like the ability to withdraw only part of the money from the investment account, ability to invest additional amounts to the account, setting up systematic transactions, etc.

Investment Comfort

1. Once an investment is made with a Mutual Fund, they make it convenient for the investor to make further purchases with very little documentation.
2. This simplifies subsequent investment activity.

Systematic approach to investments

1. Mutual Funds also offer facilities that help investor invest amounts regularly through a Systematic Investment Plan (SIP); or withdraw amounts regularly through a Systematic Withdrawal Plan (SWP); or move moneys between different kinds of schemes through a Systematic Transfer Plan (STP).
2. Such systematic approaches promote an investment discipline, which is useful in long term wealth creation and protection.
3. SWPs allow the investor to structure a regular cash flow from the investment account.

Mutual Funds - Disadvantages

- Fund managers might create losses if not managed properly.
- Funds have their own strategy for investment to hold, to sell, to purchase unit at particular time period.
- Cost control not in the hands of investors
- Investment decisions are often changed at the discretion of the Fund Manager.
- Investors cannot interfere in the decision making process of a fund manager
- Difficult for investors to select a scheme of Mutual Fund and needs help of financial planner.
- Sales Personnel / Financial Advisors advise scheme where they get maximum commission.

1.1.5 Growth of Mutual Fund Industry

The Beginning...

Introduced in Europe & Great Britain

↓

In 1868, Robert Fleming set up the first investment trust called Foreign and Colonial investment trust

↓

It was to manage the finances of the moneyed classes of Scotland

↓

Investment was spread over a number of different stocks

↓

Investment trust set up in Britain and the U.S. resembled today's close-ended Mutual Funds

Growth of the market...

First Mutual Fund set up in March 1924

Place: U.S. Massachusetts Investor's Trust, which was an open-ended MF

1925: Open-ended funds with redemption features were started

1929: Stock Market crash followed by great depression of 1930 required stricter regulation

1930-1940: Securities Act 1933, Securities Exchange Act 1934, Investment Companies Act 1940 set up

1940: First international stock MF introduced in US

1950s and 1960s: Popularity of MFs rose

1976: First tax-exempt municipal bond funds emerged.

1996: MF assets exceed bank deposits

Exercise

Make groups and create a presentation on any one topic:

- Concept and working of a Mutual Fund
- Need for a Mutual Fund
- MF - Advantages & Disadvantages
- Growth of Mutual Fund Industry

Exercise

1. Create a presentation in a group on any one of the topics from: Concept and working of a Mutual Fund, Need for a Mutual Fund, MF - Advantages & Disadvantages, Growth of Mutual Fund Industry.

2. Create a group presentation and present it in the next session.

Notes

UNIT 1.2 History of Mutual Funds

Unit Objectives

At the end of the session, the participant will be able to:

- Look at the introduction of Mutual Funds in India
- Identify the constituents of a Mutual Fund
- Identify players in the Mutual Fund market

1.2.1 Mutual Funds – History in India

The 4 phases of Mutual Fund history in India are as follows

Phase I (1964 – 1987)

ESTABLISHMENT OF UNIT TRUST OF INDIA

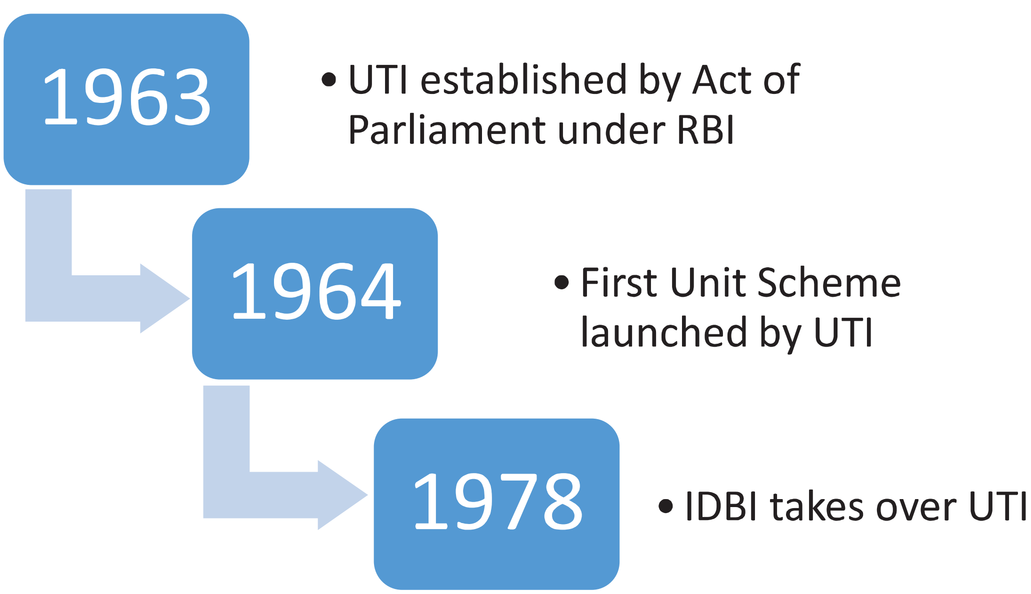

Figure 1.2.1

Phase II (1987 -1993)

Entry of Public Sector Funds

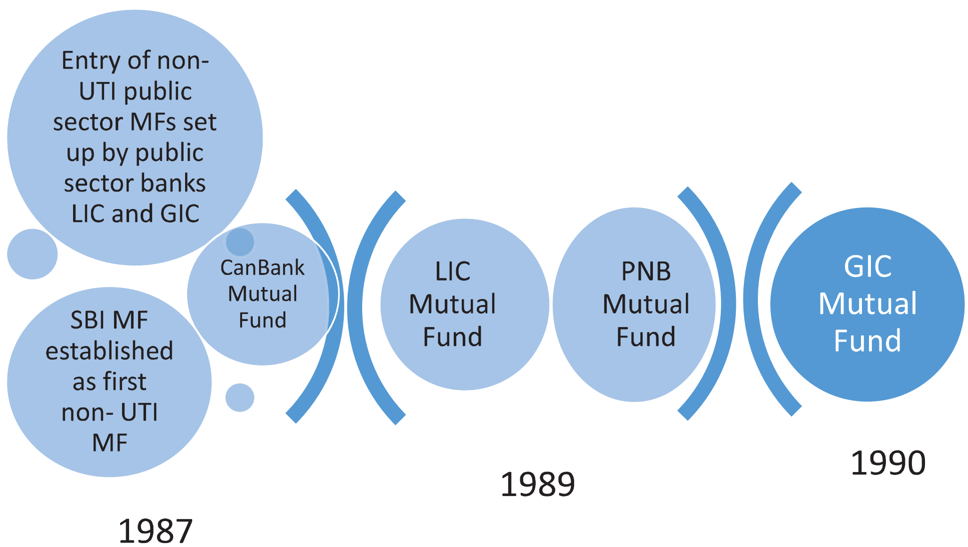

Figure 1.2.2

Phase III (1993 – 2003)

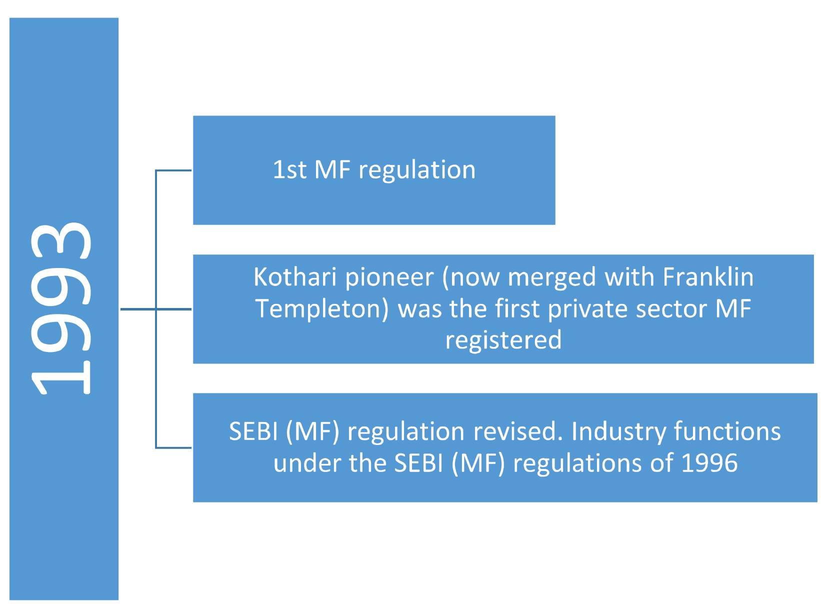

Figure 1.2.3

Phase IV

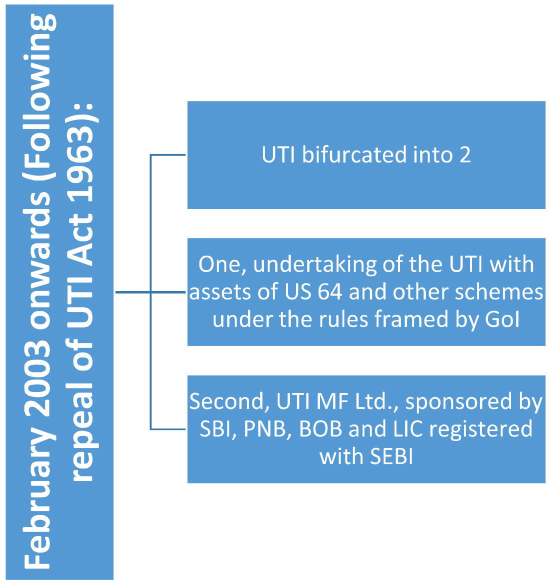

Figure 1.2.4

1.2.2 Constituents of a Mutual Fund

Structure of Mutual Funds In India

Mutual Funds in India follow a 3-tier structure:

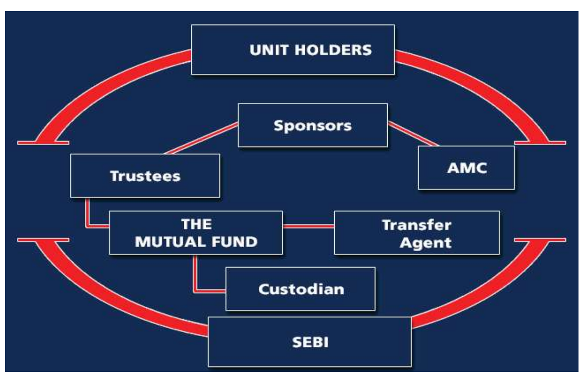

Figure 1.2.5

Tier I – This is the Sponsor or the person who thinks of starting a mutual fund. The Sponsor approaches the market regulator (SEBI) and the regulator for mutual funds (AMFI).

Tier II – When SEBI approves, the sponsor launches a Public Trust as per the Indian Trusts Act, 1882. Trustees of the Fund enter into contracts. Trust is created and registered with SEBI to make a mutual fund.

Tier III - The third Tier is the Asset Management Company (AMC), who manage the money on a day-to-day basis. They charge a fee for their services.

Let us look at the role of all these different people in a Mutual Fund:

Sponsor:

- Akin to the promoter of the company
- Contribution of minimum 40% of net worth of AMC
- Possesses sound financial record over five years period
- Establishes the Fund
- Gets it registered with the SEBI
- Forms a trust& appoints Board of Trustees

SEBI provides guidelines for Mutual Funds organization with the objective of:

- Controlling
- Promote
- Regulate
- Protect the investors right and
- Efficient trading of units

Trustees

- Holds assets on behalf of unit holders in trust
- Caretakers of unit holders' money
- Two third of the trustees shall be independent persons (not associated with the sponsor)
- Trustees ensure that the system, processes & personnel are in place
- Resolve unit holder's grievances
- Appoint AMC & Custodian, & ensure that all activities are in accordance with the SEBI regulation.

Custodian

- Holds the fund's securities in safekeeping
- Settles securities transaction for the fund
- Collects interest& dividends paid on securities
- Records information on corporate actions

Asset Management Company

- Floats schemes & manages according to SEBI
- Cannot undertake any business activity, other than portfolio mgmt services
- 75% of unit holders can jointly terminate appointment of AMC

- At least 50% of independent directors
- Chairman of AMC cannot be a trustee of any MF

Distributor / Agent

- Sells units on the behalf of the fund
- It can be bank, NBFC, individual

Banker

- Facilitates financial transactions
- Provides remittance facilities

Registrar & Transfer Agent

- Maintains records of unit holders' accounts & transactions
- Disburses & receives funds from unit holders' transactions
- Prepares & distributes a/c settlements
- Tax information, handles unit holder communication
- Provides unit holder transaction services

1.2.3 Mutual Funds in India

Sponsor

Corporate body which initiates launch of Mutual Fund is "The sponsor".

The sponsor should have a sound track record and a minimum experience of 5 years in financial services.

According to SEBI, the sponsor should have:

- Professional competence
- Be financially sound
- A reputation for fairness
- Contributes 40% of the net worth of the AMC
- Appoints the trustee, AMC and custodians in compliance with regulations

Let us take the example of UTI Mutual Fund. The Sponsors of this Fund are State Bank of India, Life Insurance Co. of India, Punjab National Bank & Bank of Baroda.

Trustee

- Sponsor creates a public trust and appoints trustees.
- Trustees are the people authorized to act on behalf of the Trust.
- They hold the property of Mutual Fund.
- Once the Trust is created, it is registered with SEBI after which this trust is known as the Mutual Fund.
- Job is to see whether the money is being managed as per stated objectives.
- Trustees may be seen as the internal regulators of a Mutual Fund.
- A minimum of 75% of the trustees must be independent of the sponsor to ensure fair dealings.
- Trustees appoint the Asset Management Company (AMC), to manage investor's money.

The Trustees of UTI Mutual Fund are: Shri. Ashok K Kini, Trustee Chairman, Dr. P G Apte,

Shri A Ramesh Kumar, Shri. S Ravi, Shri. C E S Azariah and Mr. Suhail Nathani.

Custodian

- A custodian's role is keeping custody of the securities that are bought by the fund manager.
- Keeping a tab on the corporate actions like rights, bonus and dividends declared by the companies in which the fund has invested.
- Appointed by the Board of Trustees.
- The custodian also participates in a clearing and settlement system through approved depository companies on behalf of Mutual Funds, in case of dematerialized securities.
- Only the physical securities are held by the Custodian.

Asset Management Company (AMC)

- Trustees appoint the Asset Management Company (AMC), to manage investor's money.
- In return, the AMC charges a fee for the services provided. This expense is borne by the investor. It is deducted from the money collected from them.
- The AMC's Board of Directors must have at least 50% of Directors who are independent directors.
- The AMC has to be approved by SEBI.
- The AMC functions under the supervision of its Board of Directors, and also under the direction of the Trustees and SEBI.
- AMC floats new schemes and manages these schemes by buying and selling securities.

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Address: P J Towers, 25th Floor, Dalal Street,
Mumbai - 400001, India
Email: operations@bfsissc.com
Website: www.bfsissc.com
Phone: 022 - 22728748 / 22728866 / 22728965

ISBN 978-93-86620-73-6

Price: ₹ 170

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