

Parties to a mutual fund

There are four principal parties to a mutual fund in addition to other parties rendering specialised services. The parties are listed below.

- a. Sponsor
- b. Trustee
- c. Asset management company
- d. Custodian
- e. Other functionaries

A. Sponsor: Sponsor of a mutual fund is like the promoter of a joint stock company. He brings the mutual fund into existence. Every mutual fund bears the name of the sponsor. UTI Mutual Fund; HDFC Mutual Fund; Canbank Mutual Fund etc.

Activities of a Sponsor:

- 1) Promotion: He promotes a mutual fund. He establishes it under Indian Trust Act and gets it registered with the SEBI.
- 2) Appointment: The Sponsor appoints the Trustees, Custodians and the Asset Management Company with the approval of SEBI. He should comply with the guidelines of SEBI governing such appointments. The Sponsor also appoints other parties like Brokers, Registrar & Transfer Agents, Depository Participants, Bankers, Auditors, Selling agents and distributors.
- 3) Track Record: The Sponsor must have a track Record of operating in the financial markets at least in the last 5 years.
- 4) Profit Making: Out of the 5 years track record mentioned above, the sponsor must have made profit at least in 3 years.
- 5) Capital Contribution: the sponsor should contribute to a minimum of 40% of capital of the Asset Management Company. The income of the sponsor is the return it gets on such capital contribution.

B. Trustees: The sponsor appoints a Board of Trustee. Alternatively, a company registered under the Companies Act can be appointed as the Trustee Company. The Trustee Company or Board of Trustees should act according to the provisions of the Indian Trust Act, 1882. The Trustees should protect the interest of the investors. The AMC and all the other functionaries like Brokers, Selling Agents, Custodian etc., are accountable to the Trustees. The Trustees get these powers through a Trust Deed executed by the sponsor in favour of the Trustees as per SEBI regulation. In addition, the Deed is registered under Indian Trust Act.

The Trustees supervise the activities of the AMC. They also ensure all the regulation and law are complied with in the operations. The AMC has to obtain the concurrence of the trustees for floating any scheme to raise funds. They can also seek any information pertaining to the operation. In the extreme case, the Trustees can dismiss the AMC.

C. Asset Management Company [AMC]: the operational management of a mutual fund is in the hands of the AMC. It is also known as Fund Manager. It designs various schemes of the mutual fund, analyses corporate performance and securities, and buys and sells securities.

Features:

- 1) An AMC is registered as a private limited company.
- 2) Every AMC must be registered with SEBI.
- 3) The capital of the AMC is provided by the sponsor, its associates or its joint-venture partners.
- 4) Every AMC must have a minimum networth of Rs.10Crores at all times.
- 5) An AMC cannot act as an AMC for more than one mutual fund.
- 6) AMC cannot undertake any business other than asset management of a mutual fund.
- 7) The AMC signs an investment management agreement with the Trustees. The provisions of the agreement should be in accordance with SEBI Regulation.
- 8) The AMC charges a fee for the investment management. It is calculated at a fixed percentage of the funds managed by it. It distributes this, after meeting its expenses and staff cost, as dividend to the sponsors, its associates or joint venture partners.
- 9) All the investments, sale and purchase of securities are done by the AMC.

D. Custodian: Custodians are responsible for maintaining the securities bought. They perform the back-office function of acting on the corporate action. Where the securities are held in the dmat form, they ensure that the securities bought are transferred to the demat account. When the shares are sold, delivery instruction is issued by the custodian. Custodians also receive dividend or interest on the mutual fund's investment. Custodians also do what is necessary regarding any corporate action like bonus issue, rights offer, offer for sale, buy-back and such other things on the advice of AMC.

E. Other Functionaries: The following functionaries are appointed for specialised functions.

1. **Registrar and transfer agents:** when the units are sold by mutual funds to the public, the registrar and transfer agents open the Register of Unit Holders. Throughout the life of the fund, purchase and sale of units by the fund are entered in the Register continuously.
2. **Brokers:** brokers are appointed for purchase and sale of securities by the AMC as a part of investment. Brokers are members of any recognised stock exchange holding SEBI registration.
3. **Selling agents and distributors:** these are agents appointed to popularise the units of the mutual fund among the investors. They are marketing agents or salesmen for the units of mutual funds.
4. **Depository participants:** AMC purchases corporate and other securities which may have to be held in the demat form. For this purpose, the trustees open a demat account with a depository participant. Deository participant is any bank or Financial service company opening and operating demat accounts on behalf of clients either with National Securities Depository limited[NSDL] or Central Depository Services limited[CDSL].

5. **Bankers:** bank accounts are opened to carry on the cash transactions of the mutual fund. They maintain current accounts and other accounts of the mutual fund. There are many receipts and payments everyday made by the mutual fund through the bank accounts.
6. **Legal advisors:** lawyers for advocates are employed to comply with the legal formalities. Any dispute or litigation arising may also be looked after by the legal advisors.
7. **Auditors:** like the auditor of any other firm, inspects the books of accounts maintained and the transactions carried on. He also audits the accounts and gives his report every year.