

PART- C

TEN MARK QUESTIONS:

1. Explain the SEBI guidelines in respect of Merchant Banking?

SEBI has made the following reforms for the Merchant banker.

1. Multiple categories of merchant banker will be abolished and there will be only one equity merchant banker.
2. The merchant banker is allowed to perform underwriting activity. For performing portfolio manager, the merchant banker has to seek separate registration from SEBI.
3. A merchant banker cannot undertake the function of a non banking financial company, such as accepting deposits, financing others' business, etc.
4. A merchant banker has to confine himself only to capital market activities.

Recognition by SEBI on merchant bankers

SEBI will grant recognition a merchant banker after taking into account the following aspects.

1. Professional competence of merchant bankers.
2. Their capital adequacy.
3. Track record, experience and general reputation of merchant bankers.
4. Adequacy and quality of personal employed by them and also the available infrastructure.

After considering the above aspects, SEBI will grant permission for the merchant banker to start functioning.

Conditions by SEBI has laid for merchant bankers

SEBI the following conditions on the merchant bankers, for conducting their operations. They are:

- a. SEBI will give authorization for a merchant banker to operate for 3 years only. Without SEBI's authorization, merchant bankers cannot operate.

- b. The minimum net worth of merchant banker should be Rs. 1 crore.
- c. Merchant banker has to pay authorization fee, annual fee and renewal fee.
- d. All issue of shares must be managed by one authorized merchant banker. It should be the lead manager.
- e. The responsibility of the lead manager will be clearly indicated by SEBI.
- f. Lead managers are responsible for allotment of securities, refunds, etc.,
- g. Merchant banker will submit to SEBI all returns and send reports regarding the issue of shares.
- h. A code of conduct for merchant bankers will be given by SEBI which has to be followed by them.
- i. Any violation by the merchant banker will lead to the revocation of authorization by SEBI.

Conditions by SEBI pertaining to pre issue obligations:

Recent regulations by SEBI on Merchant bankers with regard to pre issue obligations involve the following;

1. Registration
2. Capital structure decision
3. Public issue
4. Rights issue
5. Prospectus, etc.,

1. Registration:

All merchant bankers must compulsorily register themselves with SEBI. SEBI has classified merchant bankers under categories. They are given below:

Classification of Merchant Bankers by SEBI

Issue Managem ent	Underwrite rs	Consul tants to issue	Mobalis ation of foreign funds for
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			companies.
1.Prospectus 2.Financial structure 3.Tie up of finance. 4.Allotment of securities 5.Refund of subscription	1.Advisory 2.Consultancy 3.Co-Manager, 4.Portfolio Manager		

SEBI will grant certificate of registration to merchant bankers under following conditions;

1. Merchant bankers should be a body corporate and should not be a NBFC.
2. They must have necessary infrastructure for maintaining an office.
3. They must have employed a minimum of two persons with experience in merchant banking business.
4. They should not be connected with any company directly or indirectly.
5. They should not have involved in any litigation connected with Stock Exchanges.
6. They must have a professional qualification in finance, law or business management.
7. Their registration must be in public interest.

Capital structure decision:

According to SEBI, they must have a minimum net worth (paid up capital + Free reserves) of Rs. 5 crores. But this will vary according to the category Rs. 5 crores for first category and none for the fourth category.

Registration fee to be paid to SEBI:

1. For category 1, Rs. 2.5 crores per annum for the first 2 years and Rs. 1 lakh for the third year have to be paid to SEBI towards registration fee.
2. For category 2, Rs. 1.5 lakhs for the first 2 years per annum and Rs. 50,000 for the third year.
3. For category 3, Rs. 1 lakh per annum for the first 2 years and Rs. 25,000 for the third year.
4. From 1999 onwards, Rs. 2.5 lakhs for every year, failing which the registration will be suspended for all categories.

Role of Merchant banker in public issue:

While acting as a banker to an issue, a merchant banker has to disclose full details to SEBI. The details should contain the following.

1. Furnishing information:

- a. Number of issues for which the merchant banker is engaged as banker to issue.
- b. Number of applications received and details of application money received.
- c. Dates on which applications from investors were forwarded to issuing company.
- d. Details of amount as refund to investors.

2. Books to be maintained:

- a. Books of accounts for a minimum period of 3 years.
- b. Records regarding the company.
- c. Documents such as company applications, names of investors, etc.,

3. Agreement with issuing company:

- a. Number of collection centers.
- b. Application money received.
- c. Daily statement by each branch which is a collecting centre.

4. Action by RBI:

Any action by RBI on Merchant banker should be informed to SEBI by the Merchant banker concerned.

5. Code of Conduct:

- a. Having high integrity in dealing with clients.

- b. Disclosure of all details to the authorities concerned. Avoiding making exaggerated statements.
- c. Disclosing all the facts to its customers.
- d. Not disclosing any confidential matter of the clients to third parties.

Responsibilities of Merchant Banker in Right Issue:

1. The merchant banker will ensure that when Rights issues are taken by a company, the merchant banker who is responsible for the right issue shall see that an advertisement regarding the same is published in an English national daily, in an Hindi national daily and in a regional daily. These newspapers should be in circulation in the city/town where the registered office of the company is located.
2. It is the duty of the merchant banker to ensure that the application forms for Rights issue should be made available to the shareholders and if they are not available, a duplicate composite application form is made available to them within a reasonable time.
3. If the shareholders are not able to obtain neither the original not the duplicate application for Rights shares, they can apply on a plain paper through the merchant banker.
4. The details that should be furnished in the plain paper , while applying for rights shares should be provided by the merchant banker.
5. The merchant banker should mention in the advertisement, the company official to whom the shareholders should apply for Rights shares.
6. The merchant banker should also inform that no individual can apply twice, in standard form as well as in plain paper.

Role of Merchant banker in the issue of prospectus:

It is the duty of the lead merchant banker to ensure that the prospectus are properly made and should not contain any false information. The merchant banker will also ensure that

- a. the application form issued will be accompanied by abridged prospectus by the issuer company.
- b. In the abridged prospectus, application form may be inked as a perforated part.
- c. Unconnected matters should not be furnished in the prospectus.

Managing public issue:

- 1. No merchant banker is permitted to carry on business other than that in the securities market with effect from December 1997.
- 2. The maximum number of lead managers is related to the size of the issue. For an issue of Rs. 50 crores two lead managers are appointed.
- 3. Between Rs. 50 crores to Rs. 100 crores, three lead managers and Rs. 100 to Rs. 200 crores 4 lead managers are appointed.
- 4. 5 or more lead managers are appointed, if size of the issue is between Rs. 200 and Rs. 400 crores.

Disclosure to SEBI:

Action can be taken against a merchant banker when he is found guilty of non compliance of regulations. The defaults committed by the merchant banker can be categorized into a. general, b. minor, c. major, d. Serious defaults.

General default: The general default may be the failure to submit the diligence certificate in the prescribed manner to SEBI or failure to despatch refund orders, etc.,

Minor default: May consist of advertisements not being in conformity with prospectus, delay in allotment of securities, etc.,

Major default: When underwriting is not properly taken up or when there are excess members of merchant bankers for an issue that the permissible limit.

Serious default: Unethical practice or non cooperation with SEBI.

Furnishing details on capital structure of the company:

A merchant banker should provide details of the capital structure of the company in the following manner.

1. Authorized, Issued, Subscribed and paid up capital.

2. Size of the present issue including contribution by promoters.

3. Paid up capital after the issue

4. Share premium account.

The merchant banker should also provide details regarding lock-in-period nature of allotments rights, bonus and face value of securities and issue price of securities etc.,

Issue price:

1. Earning per share.

2. P/E ratio in comparisons with the industries P/E.

3. Average return on net worth in the last 3 years.

4. Minimum return on increased net worth.

5. NAV method.

Approval for raising foreign capital:

When a company decides to raise foreign capital, it requires the approval of the following:

1. At the company level.

2. AT the government level.

3. At the market level

4. From the monetary authority.

If the foreign capital is raised through a merchant banker or venture capital company, then it requires the approval of SEBI.

Approval for raising foreign capital.

1. Monetary authority = RBI

2. All the company level= Share holders, Board of Directors.

3. All the Government level= Department of company affairs,

Ministry of finance.

4. At the market level = Financial institutions, stock exchange.

Document to be furnished for raising foreign capital:

1. Subscription agreement: the leading merchant banker has to give an undertaking for subscribing the GDR as underwriters.
2. Depository agreement : Detailed agreements entered into by the company with the depository company. It should clearly spell out the rights and duties of the depository with whom shares and securities are deposited against which cash and other securities are received.
3. Custodian agreement: A custodian is fully responsible to the depository and he undertakes the responsibility of fulfilling the agreement for the repayment of the amount.
4. Agency agreement: A company enters into an agreement with an agency which takes the responsibility of principal and interest payment to the holders of FCCB, from the funds provided by the company.
5. Trust Deed: It is an agreement entered by the trustees with whom the foreign capital is entrusted and they should guarantee for the repayment of principal and interest.

Arranging inter corporate loans:

With the amendments to companies act, no company can purchase the shares of other companies. However existing investments made will be valid. A company may invest its funds as an investing company in another company known as investee company subscribed equity share capital. Moreover the investing company cannot invest more than 30 % of its paid up capital in other companies.

Investing companies can invest funds under the same management upto 30 % of its subscribed capital.

The borrowing powers of the company are restricted to its paid up capital and free reserves under section 293 of the Indian companies Act. Hence a merchant banking company while arranging

for the borrowings of a company has to take this aspect into account.

2. Explained the Indian Scenario of Financial Service.

When First Leasing Company of India was started in Chennai in 1973, equipment leasing, as an industry, had its birth.

The need for financial services was not felt in the 70's and early 80's. so this line of activity did not take roots.

The public sector financial institutions like IDBI, IFCI, ICICI and the several state finance companies catered to the needs of terms loans and the commercial banks looked after the working capital requirements at easier terms.

The need for alternative other source of financing was not felt and so the 20th Century leasing limited started its operation only in 1979.

There was a change in the scenario in the early 80's the credit squeeze announced by the RBI and the implementation of Tendon and Chore committee norms on maximum permissible bank finance for working capital made the manufacturing companies set apart a portion of long-term funds for working capital.

The paucity of funds for working capital requirements made the companies seek out alternative sources of funding their capital expenditure plans.

Equipment leasing was seen as a viable alternative because of :

1. Easy documentation.
2. Fewer restrictive terms and conditions.
3. Absence of convertibility clause that may dilute ownership and control
4. Availability of hundred percent finance.

The existing leasing companies started performing well because of increased demand and this paved the way for active investor's participation in equity stocks of these companies.

As a result of this upsurge in the leasing business by the end of 1985 there were about 300 leasing and finance companies in these industries. The enhanced demand lured the financial institutions and commercial banks to enter this industry.

In 1983 the ICICI entered this industry, followed by industrial reconstruction bank of India and a host of state finance corporations. IDBI also joined the list of operators.

In 1983 with an amendment to the banking regulation act of 1949, commercial banks were allowed to promote subsidiaries specializing in equipment leasing and financial services, but not hire purchase.

SBI was the first commercial bank to have its subsidiary- SBI capital markets limited which started functioning in 1986.

Canare Bank established can bank financial services limited, Punjab National Bank, Promoted PNB Financial Services Limited. Some commercial banks promoted subsidiaries with equity participation from financial institutions.

The Infrastructure leasing and financial services limited (LIFS) was one such promoted by central bank of India, HDFC and UTI.

The international finance corporation Washington (IFCW) and a host of multinational banks entered the leasing industry as co-promoters.

The IFCW promoted two leasing companies with commercial banks and finance companies in the private sector.

1. the India Equipment Leasing Limited (IEL) at Chennai with equal equity participation from State Bank of India and Sundaram finance.
2. The Leasing corporation of India, at Mumbai, with equal equity participation from the bank of India and the Twentieth century finance corporation limited.

The first foreign bank to participate in the equity of a leasing company was the standard chartered bank.

It promoted the cholamandalam investment and finance company in Chennai with Tube Investments of India limited a constituent of Murugappa Group. Foreign banks began offering the service of lease brokering to their corporate clientele as an agent of the corporate customer. The bank locates the lessor who presents a lease package to suit the requirements of the customers. The bank receives a commission for its services.

There were no entry barriers and this opened the floodgates scale entry of private sector companies, financial institutions and banks into the industry. This created stiff competition and resulted in fall in the lease rates.

The lease rate of a five-year non-cancelable lease had declined 32 ptpm to Rs. 25 ptpm, by 1985-86. the excess pressure on the profit margins with increase in the cost of lease; several state governments imposed a sales tax on lease rental further aggravated this problem.

Hence several small leasing companies in the private sector either down or diversified by adding related activities like bill discounting portfolio. Some others diversified into unrelated areas like manufacturing.

3., Explain the Importance of Mutual Funds?

The Mutual fund industry has grown at a phenomenal rate in the recent past. One can witness a revolution in the mutual fund industry in view of its importance to the investors in general and the country economy at large. The following are some of the important advantages of mutual funds:

1.Channelling Savings for Investment:

Mutual funds act as a vehicle in galvanizing the savings of the people by offering various schemes suitable to the various classes of customers for the development of the economy as a whole. A number of schemes are being offered by MFs so as to meet the varied requirements of the masses, and thus, savings are directed towards capital investments directly. In

the absence of MFs these savings would have remained idle. Thus, the whole economy benefits due to the cost efficient and optimum use and allocation economy benefits due to the cost efficient and optimum use and allocation of scarce financial and real resources in the economy for its speedy development.

2.Offering wide portfolio investment:

Small and medium investors used to burn their fingers in stock exchange operations with a relatively modest outlay. If they invest in a select few shares, some may even sink without a trace never to rise again. Now these investors can enjoy the wide portfolio of the investment held by the mutual fund. The fund diversifies its risks by investing large varieties of shares and bonds which cannot be done by small and medium investors. This is in accordance with the maxim 'Not to lay all eggs in one basket'. These funds have large amounts at their disposal, abed disposal, and so, they carry a clout in respect of stock exchange transactions. They are in a position to have a balanced portfolio which is free from risks. Thus MFs provide instantaneous portfolio diversification.

3.Providing Better Yields:

The pooling of funds from a large number of customers enables the fund to have large funds at its disposal. Due to these large funds, mutual funds are able to buy cheaper and sell dearer than the small and medium investors. Thus, they are able to command better market rates and lower rates of brokerages. So they provide better yields to their customers. They also enjoy the economies of large scale and can reduce the cost of capital market participation. The transaction costs of large investments are definitely lower than that of small investments. In fact all the profits of a mutual fund are passed on to the investors by way of dividends and capital appreciation. The expenses pertaining to a particular scheme alone are charged to the respective scheme. Most of the mutual funds so far floated have given a dividend at the rate ranging between 12% p.a. and 17% p.a. it is fairly a good yield. It is an ideal

vehicle for those who look for long term capital appreciation.

4. Rendering Expertise Investment service at Low cost:

The management of the fund is generally assigned to professionals who are well trained and have adequate experience in the field of investment. The investment decisions of these professionals are always backed by informed judgments and experience. Thus, investors are assured of quality services in their best interest. Due to the complex nature of the securities market, a single investor cannot do all these works by himself or he cannot go to a professional manager who manages individual portfolios. In such a case, he may charge hefty management fee. The intermediation fee is the lowest being 1 percent in the case of a mutual fund.

5. Providing Research Service:

A Mutual fund is able to command vast resources and hence it is possible for it to have an in-depth study and carry out research on corporate securities. Each fund maintains a large research team which constantly analyses the companies and the industries and recommends the fund to buy or sell a particular share. Thus, investments are made purely on the basis of a thorough research. Since research involves a lot of time, efforts and expenditure, an individual investor cannot take up this work. By investing in a mutual fund, the investor gets the benefit of the research done by the fund.

6. Offering Tax Benefits:

Certain funds offer tax benefits to its customers. Thus apart from dividends, interest and capital appreciation, investors also stand to get the benefit of tax concession.

For instance, under section 80L of the Income tax Act, a sum of Rs, 10,000 received as dividend (Rs.13,000 to UTI) from a MF is deductible from the gross total income. Under section 88 A 20% of the amount

invested is allowed to be deducted from the tax payable. Under the wealth Tax Act, investments in MF are exempted upto RS. 5 lakhs.

The Mutual funds themselves are totally exempt from tax on all income on their investments. But all other companies have to pay and they can declare dividends only from the profits after tax. But mutual funds do not deduct tax at source from dividends. This is really a become to investors.

7.Introducing Flexible Investment schedule:

Some Mutual funds have permitted the investors to exchange units from one scheme to another and this flexibility is a great boon investors. Income units can be exchanged for growth units depending upto the performance of the fund. One can not derive such a flexibility in an other investments.

8.Providing Greater Affordability and Liquidity:

Even a very small investor can afford to invest in Mutual fund they provide an attractive and cost effective alternative to direct purchase of shares. In the absence of MFs, small investors cannot think participating in a number of investments with such a meager sum. Again there is greater liquidity units can be sold to the fund at any time at the Net Asset Value and thus quick access to liquid cash is assured. Beside branches of the sponsoring bank is always ready to provide loan facility against the unit certificates.

9.Simplified Record Keeping:

An investor with just an investment in 500 shares or so in 3 or companies has to keep proper records of dividend payments, bonus issue price movements, purchase or sale instruction, brokerage and other relate items. It is tedious and it consumes a lot of time. One may even forget record the rights issue and may have to forfeit the same. Thus, record keeping is the biggest problem for small and medium investors. Now mutual fund offers a single investment source facility, i.e., a single by order of 100 companies. The investor has to

keep a record of only one do with the Mutual fund. Even if he does not keep a record, the MF send statements very often to the investor. Thus, by investing in MFs, the record keeping work is also passed on to the fund.

10.Supporting capital market:

Mutual funds play a vital role in supporting the development of capital markets. The mutual funds make the capital market active by means providing a sustainable domestic source of demand for capital market instruments. In other words, the saving of the people is directed towards investments in capital markets through these mutual funds. Thus funds serve as a conduit for dis-intermediating bank deposits into stocks, shares and bonds. Mutual funds also provide a valuable liquidity to the capital market, and thus, the market is made very active and stable. When foreign investors and speculators exit and re-enter the markets en masse mutual funds keep the market stable and liquid. In the absence of mutual funds, the prices of shares would be subject to wide price fluctuation due for the exit and re-entry of speculators into the capital market en masse. Thus it is rendering an excellent support to the capital market and helping in the process of institutionalization of the market.

11.Promoting Industrial Development:

The economic development of any nation depends upon its industrial advancement and agricultural development. All industrial units have to raise their funds by resorting to the capital market by the issue of shares and debentures. The mutual funds not only create a demand for these capital market instruments but also supply a large source of funds to the market, and thus, the industries are assured of their capital requirements. Infact the entry of mutual funds has enhanced the demand for India stock and bonds. Thus mutual funds provide financial resources to the industries at market rates.

12.Acting as substitute for initial public offering (IPO's)

In most cases investors are not able to get allotment in IPO's of companies because they are offer

oversubscribed many time. Moreover, they have to apply for a minimum of 500 s larger which is very difficult particularly for small investors. But in mutual funds, allotment is more or less guaranteed. Mutual funds are also guaranteed a certain percentage of IFOs by companies. Thus, by participating in MFs, investors are able to get the satisfaction of participating in hundre is of varieties of companies.

13.Reducing the Marketing cost of new issue:

The Mutual funds help to reduce the marketing cost of the new issues. The promoters used to allot a major share of the Initial Public offering to the mutual funds and thus they are saved from the marketing cost of such issues.

14. Keeping the money market active:

An individual investor can not have any access to money market instruments since the minimum amount of investment is out of his reach. On the other hand, mutual funds keep the money market active by investing money on the money market instruments. In fact, the availability of more money market instruments itself is a good sign for a developed money market which is essential for the successful functioning of the central bank in a country.

Thus Mutual funds provide stability to share prices, safety to investors and resources to prospective entrepreneurs.

4.. The Recommendation of KALYANASUNDARAM COMMITTEE on factoring?

Recommendations of Kalyanasundaram committee:

Kalyanasundaram committee was appointed in 1989 by RBI to study the feasibility of introducing factoring services in India. Accordingly in 1990 the

recommendations of the committee were accepted.

These are:

1. There is more scope for introducing factoring in India, especially through banks.
2. Exporters can enjoy more benefits by factoring services.
3. The growth of factoring will be so fast that within 2 or 3 years, it will be a viable business.
4. Export factors can provide various other services also.
5. All the industries as well as services can avail factoring services.
6. Factors can arrive at a price by taking into account various cost of funds and provide a low cost fund to the seller.
7. The discount and finance house of India Ltd., (DFHI) can be approached by factors for discounting time bills of different periods.
8. Initially, the factoring can be introduced at the zonal level.
9. Banks can take up factoring business due to their excellent network of branches.
10. SIDBI can also take up factoring along with other commercial banks for the benefit of small-scale industries.
11. The commercial banks should educate the business community on the benefits of factoring.
12. Factors should use computers for efficient and economical operations.
13. Competition among factors will ensure efficient service to clients.
14. Government can enact suitable legislations to make factoring more attractive

5, Problems of Unit Trust of India:

1. Lack of investor confidence: For the first time in 2002, UTI suspended the repurchase of its units as the NAV of Unit 64 not only fell below its par value,

but fell to less than 50% of its value. This has affected the confidence of investors.

2. Wrong investment policies: Some of the companies in which investments were made did not perform well and the market value of these shares fell far below, bringing down NAV of Unit 64.

3. Securities scam: the Securities scam in the Bombay Stock Exchange has affected the share prices of many companies which has affected UTI.

4. Multiplicand of Mutual funds: In 1964, UTI was a monopoly in the public sector and could play a major role in the stock market. But during 1980s and 1990s, we could see a plethora of mutual funds springing up both in the public sector and in the private sector, thereby reducing the quantum of investible funds in the hands of UTI.

5. Lack of efficient investment policy: The officials of UTI could not play a dynamic role in investing in various companies' equity as they are more governed by government regulations. UTI lacks the dynamism and business acumen shown by the private sector mutual funds.

5, How factoring is functioning in India?

There are two factoring companies in public sector banks:

- 1, SBI Factors and Commercial Service Ltd.,
- 2, Can bank Factors Ltd.,

1. SBI Factors and commercial services Ltd.,: SBI factors and commercial services Ltd., was floated jointly by SBI, SIDBI and Union Bank of India in March 1991. this factoring company has become an associate member of the factors Chain International, based in Amsterdam. It also joined recently EDIFACT- which is a communication network of factors chauin international for electronic data interchanges.

2. Can bank Factors Ltd: Can bank Factors Limited was jointly proofed by Canada Bank, Andhra Bank and SIDBI, in August 1992 to operate in South India. Its paid up capital of RS. 10 crores is contributed in the ratio of 60:20:20 by its three

promoters. It can have its operations throughout India due to the lifting up of restrictions by RBI.

Export factoring is undertaken by Export credit Guarantee corporation (ECGC). Here, ECGC provides 100% finance for export bills drawn on overseas buyers.

Factoring in India is still in the infant stage. If we have to improve factoring organizations in the country, there should be more credit investigating agencies so that they can recommend genuine business transactions. However, factoring service has a very bright future in India. In fact, it will be a boon for small scale sector.

7, Difference types of Mutual Fund?

In the investment market, one can find a variety of investors with different needs, objectives and risk taking capacities. For instance, a young businessman would like to get more capital appreciation for his funds among he would be prepared to take greater risks than a person who is just on the verge of his retiring age. So, it is very difficult to offer one fund to satisfies all the requirements of investors. Just as one shoe is not suitable for all legs, one fund is not suitable to meet the vast requirements of all investor. Therefore, many types of funds are available to the investor. It is completely left to the discretion of the investor to choose any one of them depending upon his requirement and his risk taking capacity.

Mutual fund schemes can broadly be classified into many types as given:

(a) Close-ended Funds: Under this scheme, the corpus of the fund and its duration are prefixed. In other word, the corpus of the fund and the number of unit are determined in advance. Once the subscription reaches the pre-determined level the entry of investors is closed. After the expiry of the fixed period of the entire corpus is disinvested and the proceeds are distributed to the various unit holders in proportion to their

holding. Thus, the fund ceases to be a fund, after the final distribution.

Features: the main features of the close-ended funds are:

1. the period and/or the target amount of the fund is definite and fixed beforehand.
2. Once the period is over and/or the target is reached, the door is closed for the investors. They cannot purchase any more units.
3. These units are publicly traded through stock exchange and generally, there is no repurchase facility by the fund.
4. The main objective of this fund is capital appreciation.
5. The whole fund is available for the entire duration of the scheme and there will not be any redemption demands before its maturity. Hence the fund manager can manage the investments efficiently and profitably without the necessity of maintaining may liquidity.
6. At the time of redemption the entire investment pertaining to a closed-end scheme is liquidated and the proceeds are distributed among the unit holders. At the time of redemption, the entire investment pertaining to a closed-end scheme is liquidated and the proceeds are distributed among the unit holders.
7. From the investors point of view, it may attract more tax since eht entire capital appreciation is realized in at one stge itself.
8. If the market condition is not favourable, it may also affect the investor since he may not get the full benefit of capital appreciation in the value of the investment.
9. Generally, the prices of closed-end scheme units are quoted at the discount of upto 40 % below their Net Asset Value (NAV).

(B) Open-ended funds:

It is just the opposite of close-ended funds. Under this scheme, the size of the fund and / or the period of the fund is not pre-determined. The

investors are free to buy and sell any number of units at any point of time. For instance, the unit scheme (1964) of the Unit Trust of India is an open ended one, both in terms of period and target amount. Anybody can buy this unit ny time and sell it also at any time at his discretion

The main features of the Open-Ended Funds are:

1. There is complete flexibility with regard to one's investment or disinvestment. In other words, there is free entry and exit of investors in an open-ended fund, There is no time limit. The investor can join in and come out from the fund as and wheare he desires.
2. These units are not publicly traded but, the fund is ready to repurchase them and resell them at any time.
3. The investor is offered instant liquidity in the sense that the units can be sold on any working day. Infact the fund operates just like a bank account wherein one can get cash across the counter for any number of units sold.
4. The man objective of this fund is income generation. The investors get dividend, rights or bonuses s rewards for their investment.
5. Since the units are not listed on the stock market, their prices are linked to the Net Asset Value (NAV) of the units. The NAV is determined by the fund and it varies from time to time.
6. Generally, the listed prices are very close to their Net Asset Value. The fund fixes a different price for their purchases and sales.
7. The fund manager has to be very careful in managing the investments because he has to meet the redemption demands at any time made during the life of the scheme.

To put it in a nutshell, the open ended funds have a perpetual existence and their corpus is ever-changing depending upon the entry and exit of members.

On the Basis of Income:

(a) Income Funds: As the name suggests, this fund aims at generating and distributing regular income to the members on a periodical basis. It concentrates more on the distribution of regular income and it also sees that the average return is higher than that of the income from bank deposits.

The main features of the income funds are:

- (1) The investor is assured of regular income at periodic intervals, say half-yearly or yearly and so on.
- (2) The main objective of this type of fund is to declare regular dividends and not capital appreciation.
- (3) The pattern of investment is oriented towards high and fixed income yielding securities like debentures, bonds etc.,
- (4) This is best suited to the old and retired people who may not have any regular income.
- (5) It concerns itself with short run gains only.

(B) Pure Growth funds (Growth Oriented Fund):

Unlike the income funds, growth funds concentrate mainly on long run gains, capital appreciation,. They do not offer regular income and they aim at capital appreciation in the long run.

The main features of the growth fund are:

- (1) The growth oriented fund aims at meeting the investors need for capital appreciation.
- (2) The investment strategy therefore, conforms to the fund objective by investing the funds predominantly in equities with high growth potential.
- (3) The fund tries to get capital appreciation by taking much risks and investing on risk bearing equities and high growth equity shares. The fund may declare dividend, but its principal objective is only capital appreciation.
- (4) This is best suited to salaried and business people who have high risk bearing capacity

andability to defer liquidity. They can accumulate wealth for future needs.

© Balanced Funds: This is otherwise called “Income-Cum-Growth” fund. It is nothing but a combination of both income and growth funds. It aims at distributing regular income as well as capital appreciations. This is achieved by balancing the investments between the high growth equity shares and also the fixed income earning securities.

(d) Specialised Funds: Besides the above a large number of specialised funds are in existence abroad. They offer special schemes so as to meet the specific needs of specific categories of people like pensioners, widows etc. there are also funds for investments in securities of specified areas. For instance, Janan fund, South Korea fund etc. in fact these funds open the door for foreign investors to invest in the domestic securities of these countries.

(E) Money-Market Mutual Funds (MMMDs):

These funds are basically open ended mutual funds and as such they have all the features of the open ended fund. But they invest in highly liquid and safe securities like commercial paper, bankers acceptances, certificates of deposits, treasury bills etc. these instruments are called money market instruments. They take the place of share, debentures and bonds in capital market. They pay money market rates of interest. These funds are called money funds in USA and they have been functioning since 1972. investors generally use it as a parking place or stop gap arrangement for their cash resources till they finally decide about the proper avenue for their investment in long-term financial assets like bonds and stocks.

Since the RBI has fixed the minimum amount of investment as Rs. 1 lakhs it is out of the reach of many small investors. In the USA the minimum amount is only \$100. recently, the private sector funds have been permitted to deal in money market mutual funds. Generally, it is best suited only

to institutional investors like banks and other financial institutions.

(F) Taxation funds: A taxation fund is basically a growth oriented but it offers tax rebates to the investors either in the domestic or foreign capital market. It is suitable to salaried people who want to enjoy tax rebates particularly during the month of February and March. In India at present the law relating to tax rebates is covered under sec.88 of the Income Tax Act, 1961. An investor is entitled to get 20% rebate in Income Tax for investments made under this fund subject to a maximum investment of Rs. 10,000/- per annum. The Tax Saving fund of SBI Capital Market Limited is the best example for the domestic type. UTI's US \$60 million India fund, based in the USA is an example for the foreign type.

