

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:1536  
ANSWERED ON:05.03.2010  
IRREGULARITIES IN MUTUAL FUND  
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**Will the Minister of FINANCE be pleased to state:**

- (a) the details of irregularities in Mutual Funds (MFs) detected during each of the last three years alongwith action taken or proposed to be taken thereon
- (b) whether the Government has put in place systems and practices to promote a safe, transparent and efficient market and ensure market integrity with respect to MFs;
- (c) if so, the details thereof;
- (d) whether the Government has plans to review the same and also widen the reach of MFs especially beyond the Tier II and Tier III cities; and
- (e) if so, the details thereof and action / steps taken in this direction?

**Answer**

MINISTER OF STATE IN THE MINISTRY OF FINANCE(SHRI NAMO NARAIN MEENA)

(a) The major types of irregularities noted by Securities and Exchange Board of India (SEBI) among mutual funds include violation(s) of advertisement guidelines, not taking prior approval for the merger of the schemes, error in calculation of Net Asset Value, and use of agent /distributors without proper certification, delay in NAV updation, non recording of rationale for inter scheme transfers and non disclosure of portfolio turnover ratio. Based on inspection of mutual funds and periodical reports submitted by Asset Management Companies, SEBI issues warning and deficiency letters for violation of regulations and guidelines. The mutual funds who have been served such letters are required to strengthen their compliance mechanism and report to Board of Trustees / AMC.

The action taken by SEBI for the irregularities observed in the mutual funds during the last three years is summarized below:

Year	Warning letters issued	Deficiency letters issued
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2008-09	-	6
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2007-08	13	9
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2006-07	4	-
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(b) Yes, sir.

(c): SEBI (Mutual Funds) Regulations 1996 ensure a safe transparent and efficient market with respect to mutual funds. These regulations are amended from time to time and various circulars are also issued for effective regulation of mutual funds. Prominent initiatives taken by SEBI in the recent past include abolition of entry load, ensuring parity among all classes of unit holders for exit load, compulsory listing of close ended schemes, restricting exposure of liquid schemes to debt and money market securities with maturity upto 91 days only, ensuring prominent display of standard warning regarding risk factors in audio visual and print media etc.

(d): Yes, sir.

(e): Review of existing regulations on mutual funds is a continuous process. To widen the reach of mutual funds, units of mutual funds schemes are now permitted to be transacted through registered stock brokers of recognized stock exchanges by SEBI.