A REGULATORY FRAMEWORK FOR MUTUAL FUNDS

by
Samir K Barua, Jayanth R Varma
& N Venkiteswaran

Working Paper 907
December 1990

Indian Institute of Management Ahmedabad

A REGULATORY FRAMEWORK FOR MUTUAL FUNDS

by
Samir K Barua, Jayanth R Varma
& N Venkiteswaran

ABSTRACT

The financial services industry in the Indian economy is undergoing a sea change. One major change that has taken place in the last few years is the establishment of a large number of mutual funds. It is widely recognized that the mutual funds benefit the small investors through more efficient management of their investments. At the moment, only large nationalized banks and financial institutions are permitted to set up these funds. However, there is increasing pressure to allow such funds to be set up in the private sector. The time has therefore come to bring in appropriate legislation to govern the functioning of mutual funds. In this paper, we discuss the various issues connected with operation of mutual funds and then propose a set of regulations to ensure that they fulfil the role they are expected to. In proposing these regulations, we have drawn heavily upon the Investment Company Act of 1940, the US legislation on operation of investment companies.

Introduction

The kaleidoscopic changes in the Indian financial services industry over the last five years have spawned several new institutions, new instruments and an entirely new breed of market players. The establishment of several mutual funds under the aegis of the public sector banks and investment institutions is one of the more significant of these developments.

The first open ended fund in India, the Unit Scheme 1964, was set up by the Unit Trust of India (UTI) established under a special Act of Parliament, namely, The Unit Trust of India Act, 1963. The basic objective of the Act was to encourage savings through financial intermediation. The fund proved quite popular with both individuals and corporations and its size by 1990 has grown to about seven thousand crores. Over the years, Unit

Scheme '64 has come to be regarded as primarily an income fund. The same institution also promoted the first close ended fund, known as Mastershare, in September 1986. This fund started with a corpus of Rs. 150 crores, to which about another Rs. 83 crores were added in March 1989. This fund, conceived as a growth fund, has also been very successful. The funds are highly liquid; for Unit '64, UTI provides two way quotations for sale and repurchase every month while the mastershares are listed and actively traded in all the major stock exchanges in the country. The management and trusteeship for both the funds are performed by UTI itself.

The success of these two funds, particularly the second fund, generated pressure on the government to allow nationalized banks and other private organizations to establish mutual funds. The banks were finally given the green signal, and since then the Indian market has witnessed establishment of several mutual funds by the large nationalised banks. These funds have a variety of objectives : growth, income, growth and income and providing tax shelters to the subscribers. The objective has a major influence on the investment policy of the fund. A growth fund is likely to be of portfolio predominantly of stocks, an income fund is likely to invest mainly in bonds while balanced portfolio would serve the objective of growth and income. The tax shelter funds are based on the government concessions available for investments made in certain kinds of securities which serve the economic and social needs of the country. The funds being conceived are increasingly meeting the diverse needs of individuals. Given the burgeoning growth in the funds mobilised by these funds, the time has come to understand clearly the role they play in the economy and also frame regulations to streamline their functioning.

The Role of Mutual Funds

Mutual funds compete with other forms of savings in the economy. Their major attractions from the point of view of an individual are : access to expertise in investment decisions, economies of scale in transaction costs and cost of search for information, diversification achievable through size, convenience because of absence of book-keeping on a variety of assets, liquidity of investments and ability to choose a fund which meets the precise cashflow needs. Given these advantages, these funds have proved extremely popular in the more developed capital markets. If the initial response is any indication, they have come to stay in the Indian financial environment. While

they are useful for individuals, what larger impact do mutual funds have on the economy in general?

There is little evidence to conclude (based on studies done in the Western markets) that popularity of mutual funds results in a higher rate of savings in the economy. However, because of their ability to undertake superior analysis, their entry in the market in large numbers ought to result in better information flow, more efficient pricing of securities and consequent efficient allocation of resources. It has been observed that participation of mutual funds in the capital market generally results in a rise in the market capitalization, thereby raising the price-earnings ratios. If nothing else changes, this would reduce the cost of capital for the private sector and encourage investments. This is beneficial for the economy as it opens up avenues for growth. However, high price-earnings ratios may also prove counter-productive by introducing an element of instability in the market if the prices are bid up so high that their maintenance at those levels depends too long on unrealized expectations. Should one conclude, that on the balance, establishment of mutual funds is beneficial for the economy?

This would be so only if we are able to ensure that the growth of mutual funds is along orderly lines. The experience the world over as well as our own confirms that, at least in the sphere of economic activity, government ownership does not constitute public good and norms of operational conduct need to be applied with equal force to public sector organizations as well. Our own none-too-long experience with the mutual funds points to several questionable practices, such as guaranteeing a minimum return on a fund which is meaningless if a large portion of the fund is invested in equity, providing no information on the investment strategy of the fund thereby giving no clue to the subscribers about the risks involved, collecting amounts which are much larger than the initial intent without well thought out policy on gainful deployment of funds, withholding information from subscribers on performance of the funds, and (possible) charging of unjustifiably high management fees and expenses for managing the funds. Since the management and trusteeship of these funds reside in one body, ensuring investor protection is an obvious casualty. There is an urgent need therefore to rein in the operations of these funds through appropriate regulations.

The regulatory framework must, therefore, be designed to ensure that the mutual funds are managed for the benefit of

their investors. The mutual funds must not become instruments for benefiting the promoters or the government and its favoured (public sector) institutions. Nor should they be transformed into mere tax avoidance devices. Another objective of the regulatory system should be to ensure that mutual funds do not exploit their privileged position to gain an unfair advantage over individual investors who choose to manage their portfolios themselves.

These regulatory concerns become more serious in the Indian situation where the regulatory system for securities markets, in general, is very weak and inadequate. Indeed, the emergence of mutual funds on a large scale makes the task of strengthening securities regulation more urgent and critical. The government of India has recently announced a set of guidelines for mutual funds. These, however, only spell out the general rules for good behaviour of mutual funds without laying down any specific norms they must observe for investor protection. Drawing on the legislation in countries with longer experience of mutual funds, such as the Investment Company Act of 1940 of the USA, it should be easy to evolve a comprehensive set of guidelines for operation of mutual funds in India. This paper examines the emerging practices of the mutual funds in India and suggests an appropriate framework for regulation of their operation.

Issues Needing Legislation

In this section we discuss the significant issues that arise from establishment and operation of mutual funds in an economy. We would describe the limited Indian experience on these issues and wherever relevant briefly describe the American experience. These discussions would provide the basis for the legislation we propose in the subsequent section.

a. Taxation

The mutual funds floated by the public sector banks and financial institutions are exempt from income tax under the provisions of Section 10(23D) of the I.T. Act. The Unit Trust of India has long enjoyed this exemption under Section 32 of the UTI Act. In addition, under Section 80L(1)(va) of the I.T. Act, the income distributed by these funds, qualifies alongwith dividends, interest on bank deposits and certain other government securities for a tax exemption upto an aggregate limit of Rs.13000. As a result of this, even the short term capital gains earned by the funds acquire the quality of

dividends and qualify for deduction under Section 80L in the hands of investors, merely because the gains have been routed through a mutual fund.

Private sector mutual funds, even if permitted, are not viable because the above tax concessions are not available to them. If a private mutual fund is organized as a company, it would suffer from double taxation, as both corporate as well as individual income tax would be charged subject, of course, to the provisions of Section 80M of the I.T. Act. If the mutual fund is organized as a trust, then under the provisions of Section 161(1A) of the I.T. Act, the income of the fund would be taxed at the maximum marginal personal tax rate, which is far higher than the tax rate applicable to most small investors. Therefore, private mutual funds are at a tremendous disadvantage vis-a-vis public sector mutual funds.

Individual investors too are worse off as compared to a public sector mutual fund in terms of taxes. The interest by them on debentures does not qualify for any tax concessions. Thus, the mutual funds gain an unfair advantage over an individual investor who puts his money directly in debentures. This could be a major reason for the lack of an active secondary market for debentures. The mutual funds are increasingly driving the individual investor out of the debenture market. This is highly unfortunate and undesirable.

Thus, the government has used taxation as a major tool to restrict competition from the private sector. This is undesirable because in the long run, a healthy competition would be in the interest of individual investors as well as the economy. We believe that the tax concessions should be extended to all, thereby making private mutual funds viable. Otherwise, the government would stand accused of promoting tax avoidance devices which even allow `laundering' of low risk debenture interest into tax-free income.

The taxation of mutual funds should be based on the principle that the investors should, as far as possible, be taxed as if they had invested their funds themselves and earned the income directly. One simple way of achieving this effect would be to enact a proviso to the effect that nothing in Section 161(1A) shall apply to a mutual fund. Section 161(1) would then operate to ensure that the trustee of the fund shall be assessed "in his representative capacity only, and the tax shall,..., be levied upon and recovered from him in like manner and to the same extent as it would be leviable upon and

recoverable from the [investor]".

b. Disclosures & Information Dissemination

Since mutual funds are typically organized as trusts, the offer document is not a prospectus within the meaning of the Companies Act. The offer document thus seems to be totally outside regulatory purview, and there seems to be no provisions about what information must be disclosed. In addition, the only remedy to an investor who has put his money in a mutual fund on the basis of misleading statements in the offer document would be a common law action for deceit. The benefit of Section 62 of the Companies Act would not be available. The issuer would also escape all the criminal liability under Section 63 of the Companies Act.

It is necessary to point out here that even in the case of companies, the enforcement of the legal provisions relating to prospectus leave much to be desired. The worst offenders in this respect are the highly misleading advertisements on television and in the press.

While Securities and Exchange Board of India (SEBI) is debating about the form and content of an ideal prospectus for the corporate sector, the mutual funds are raising large funds from the public with full official blessings on the basis of scanty information. A study of the offer documents of two recent schemes (Ind Jyothi Units - Annual Income and Growth Scheme - 1990 and Magnum Multiplier Scheme - 1990) shows a number of deficiencies.

The offer documents are totally silent on a number of critical issues that are of immense concern to any prospective investor.

1. The offer documents give no details on the investment policy the fund proposes to adopt, that is the proportions of total investment in various securities. Thus, the subscribers have no clue to the risk they may be assuming by investing in the fund. Without this crucial information, the guaranteed minimum return announced by one of the funds is meaningless.

2. There is no mention of management fee and management expenses that is likely to be charged to the funds.

3. Neither are there any details about frequency and the method of

computing NAV, nor is there any mention of how the sale and repurchase prices would be linked to the NAV. Incidentally, the Government guidelines allow a spread of 7% between sale and repurchase prices which, in our opinion, is absurdly high.

In our opinion, it must be mandatory to disclose full information on investment policy, management fee and other expenses of the fund, as well as the policy on computation of NAV and how it would be linked to sale and repurchase prices. It is also equally important to ensure that the mutual funds are not allowed to change the rules of the game later without the consent of the members. For example, there must be a legal mechanism to ensure that a fund does not deviate by choice from the stated investment policy later. The current practice of the Trustees (read the Promoter Bank) retaining untrammelled powers to amend the terms of a scheme and making all such amendments binding on the subscribers is retrograde and oppressive.

In the United States, open ended mutual funds are required to compute their NAVs twice every day and the difference between the repurchase and the resale price is not allowed to exceed 2% of the NAV. In India, the largest open-ended mutual fund, Unit 64 scheme of the UTI, does not publish NAVs at all and sets monthly repurchase and resale prices well below the prevailing NAV. The close ended funds in India, either do not announce their NAVs at all or do so very erratically. The most regular in this respect is UTI's Mastershares which usually publishes outdated NAV once a week; the lag between the computation and the announcement dates sometimes being more than a week .

c. Management Fee and Transaction Costs

There are no guidelines on the maximum management fee and other operating expenses that may be charged/incurred by a mutual fund. Recently, a leading mutual fund has published summarised results; the expenses incurred by various schemes vary widely as can be seen from the following:

		Scheme1	Scheme2	Scheme3	Scheme4
I.	Total Investments (Rs. crores)	96.3	196.4	121.4	30.2
II.	Expenses incurred as a % of investments (year end)	6.1%	1.1%	2.8%	8.2%

III. Expenses incurred as a % of the year's income	30.4%	5.9%	6.2%	18.2%

It is surprising that while there is extensive (and in our opinion, excessive) regulation of managerial remuneration in the case of companies (Sections 198, 269 and 314 of the Companies Act), there seems to be none regarding the management fee paid to the investment managers of mutual funds. The need for regulation in this case is far greater because the investment manager, the promoter, and the trustee are all effectively the same (one being a subsidiary of the others).

Considering that the profitability of the nationalised banks, the major promoters of mutual funds in India, is under tremendous pressure, there could be a temptation to overload the mutual funds with charge for expenses. It also needs to be explicitly provided that the executive salaries and rent and other administrative expenses be borne by the investment manager out of its fee and not charged to the mutual fund separately.

The US law restricts the management fee to a maximum of 1% of the value of funds managed. There is also a restriction on the expenses that may be charged for managing the fund. In practice, however, possibly due to intense competition, the management fee actually charged averages only about 1/2%. It has also been observed that the fee charged to individuals is even lower, about half the amount charged to mutual funds. The empirical studies done in the US market indicate that on an average, the mutual funds turn the portfolio over about once a year. The studies also indicated that performance of funds has no definite relationship with either the fee charged or the portfolio turnover.

While it would be necessary, in the long run, to conduct studies in the Indian market to come up with appropriate ceiling on management fee and other costs, to begin with some ceiling needs to be prescribed based on the laws elsewhere and judgement about the Indian market.

d. Management of Mutual Funds

The Government of India guidelines specify that the mutual funds must be managed by " professionals with proper qualifications and experience of Industry, Capital Market and other relevant fields. At least 40% of the Trustees on the Board of Trustees should be persons of eminence in suitable

fields who are not representing or associated with the promoters, that is, should be independent outside members."

In actual practice, however, the settlor, the Trustees and the Managers are limited to the Banks and their wholly owned merchant banking subsidiaries. The entire management and day-to-day operations of the funds are handled by persons who are on deputation from the promoter bank. This could result in the following undesirable consequences :

1. Absence of a long-term orientation in the deputed staff as they know that their tenure in the organization is short and that they would go back to the promoter bank to pursue their career. It might be relevant to recall that one of the banes of India's public sector in the early years was the deputationists culture brought by bureaucrats deputed from the Government with little long term commitment to the deputed organizations.

2. Undue direct and indirect influence by the parent bank officials over the deputed staff managing the mutual funds.

3. Inability to build-up expertise and specialised knowledge due to the changing profile of the staff.

It would be appropriate to bring in regulation which requires approval of appointment of the investment manager by the general body of unit holders. Such a regulation would be in line with the regulations prevailing in the western capital markets and our own Companies Act which mandates shareholder approval for managerial appointments.

e. Issues Relating to Capital Market

The fact that mutual funds in India are run by banks and financial institutions raises the spectre of massive insider trading. These institutions, in their role as bankers, term lenders or merchant bankers are privy to a large amount of confidential information about their clients. By using this inside information they could boost the performance of the mutual funds managed by them. Such insider trading is inimical to the development of a healthy capital market.

The problem of insider trading is not peculiar to mutual funds. It is a much more endemic phenomenon in India, and is in large part attributable to the total lack of legal and regulatory safeguards against insider trading. (Many kinds of

insider trading are not illegal in India, and in any case, there is no regulatory agency for investigating such activities and prosecuting the offenders).

Despite claims about the existence of a Chinese Wall around the mutual fund operations, it is extremely unlikely, that the mutual funds would not be tempted to breach the wall just a little so that `inside' information flows in. Besides, since the funds are managed by executives deputed from the banks/institutions, they have informal access to corporate information from the commercial and investment banking wings of the parent bank.

In the primary market, the Promoter banks are either directly or indirectly in a position to influence the issuers to make firm allotment of shares to the mutual funds under their umbrella. In a country where new issues are heavily oversubscribed, as they are systematically underpriced (thanks to the price fixation policy of the Controller of Capital Issues), firm allotment of large blocks of equity in favour of mutual funds gives them a tremendous unfair advantage. Since the new issues generally provide high initial returns, mutual funds can show superior performance by benefiting from such a policy.

f. <u>Inter-Scheme Dealings</u>

Since each mutual fund currently manages several schemes, there is considerable scope for transactions between different schemes. These transactions may be influenced by the need to show superior performance by a few selected schemes which are then advertised to sell newer schemes to the public. Transfers done from one scheme to another with such motives are extremely unfair to the subscribers of schemes which are currently neglected by the mutual funds. Such unethical practices must be outlawed as they deny the full returns due to the subscribers of a given scheme. Enforcing this through legislation may be difficult as the transactions may be put through a broker to give it a semblance of genuineness.

Fears on this score are based on newspaper reports [1] on such transfers from one scheme to another. Privately too, managements of mutual funds believe and state that in India no scheme is ever going to be genuinely liquidated in the market, it is only going to be taken-over by floating newer schemes. This would be extremely improper unless the subscribers to the new schemes are taken into full confidence and made aware of the

above compulsions.

In this context, the US law is quite clear as it prohibits transactions between an investment company and any affiliated person. US law also prohibits any offer to a holder of the security of an investment company to exchange his security for a security in the same or another investment company on any basis other than relative net asset values.

g. Exercise of Voting Power

Most mutual funds in India are organized as trusts. Under Section 187B read with Section 153B(4) of the Companies Act, they can not exercise any voting power in respect of shares acquired by them if the paid-up value of the shares exceeds Rs.5 lakhs. The voting power in these cases is exercisable by the Public Trustee who is a government official. We think that Section 187B of the Companies Act was a misguided attempt to curb benami holdings. It has served no worthwhile purpose and ought to be scrapped. In any case, its application to Mutual funds would be totally absurd; at the very least, mutual funds should be exempted from this section.

It may be noted that the Guidelines announced by the government specify that, "A mutual fund shall not invest more than 5% of its assets in the shares of any company. Similarly, it shall also not invest in more than 5% of the shares of any company under any one scheme". These guidelines, while useful per se, leave the issue of corporate control wide open as several funds/schemes can together acquire a significant voting power in a given company.

h. Investment Policy

The guidelines cited in the previous paragraph limiting a mutual fund's holdings in any single company ensures diversification of portfolio and limits the possible misuse of funds to benefit a particular company. We are also in agreement with three of the other guidelines announced by the government :

1. Mutual funds should not borrow or pledge their assets in the normal course; during temporary emergency these can be done and duly reported to SEBI.

2. A mutual fund should not again normally invest in another mutual fund or keep deposits with companies.

3. The mutual fund must take/give deliveries in all their transactions

Regulations on Operation of Mutual Funds

The discussions in the preceding section are the basis of the regulations we propose in this section. These regulations should form the core of what may be described as `The Investment Companies Act, 1990'.

1. An investment company means any person (including a company, trust, partnership or association) which

(a) issues or proposes to issue any security or has outstanding any security which it has issued; and
(b) is, or holds itself out as being engaged primarily or proposes to engage primarily in the business or investing, reinvesting or trading in securities.

but excludes:

(a) persons primarily engaged in the business of underwriting and distributing, securities, selling securities and acting as brokers;

(b) banks, insurance companies, and similar financial institutions;

(c) charitable trusts;

(d) any person whose outstanding securities are beneficially owned by not more than one hundred persons and which is not making and does not presently propose to make a public offering of its securities;

For the purpose of this definition, security includes shares, debentures, notes, bills, commercial paper, bonds, units, trust certificates, or, in general, any interest or instrument commonly known as a security.

2. No income tax on surtax shall be payable by an investment company in respect of its income by way of interest, dividend, capital gains or the profits and gains of business of investing, reinvesting or trading in securities.

3. Where the income of an assessee includes dividends or other income distributed by an investment company, that part of such

dividends shall qualify for the deduction under Section 80L of the Income Tax Act as is attributable to income earned by the investment company from sources (like dividends) which themselves qualify for deduction under Section 80L. For this purpose, every investment company making a distribution of income shall provide a certificate to its security holders providing the above information.

4. The provisions of the Companies Act relating to prospectus shall, so far as may be, apply to an offer document issued by an investment company. These include provisions relating to

(a) civil and criminal liability in relation to misstatements (Sections 62 and 63),

(b) penalty for fraud in inducing persons to invest money (Section 68); and

(c) matters to be stated and reports to be set out in the prospectus (Section 56 and Schedule IV) so far as these are relevant to mutual funds.

5. The investment policy of a fund shall be specified in the offer document by clearly stating the aggregate proportion that the fund plans to invest in short term instruments and long term instruments. Within the long term instruments, it shall specify the proportions that are to be invested in stocks and bonds.

These proportions are likely to change with the changes in the market value of securities. In such an eventuality, on every liquidation, it shall be mandatory for the fund to reinvest in a manner that would restore the proportions to the declared values.

6. The terms of any scheme of an investment company shall not be varied without the approval of the security holders in general meeting. The provisions of the Companies Act relating to alteration of memorandum and articles of association shall, so far as may be, apply to such a variation. The provisions of Section 106 and 107 of the Companies Act relating to variation of shareholders rights including the right of dissentient shareholders to approach the court shall also apply to an investment company.

7. The provisions of section 187B shall not apply to shares held by an investment company. In other words, the investment company shall be entitled to exercise voting power in respect of

its shareholding.

8. Every investment company shall hold an annual general meeting of all security holders to consider the annual accounts. The provisions of the Companies Act relating to annual general meeting and annual accounts shall so far as may be apply to investment companies also. In particular, the annual accounts shall include a statement on the shares and debentures held by the fund. The number, the cost and the market value of these securities as on the balance sheet date shall also be included in this statement. The profit and loss account shall be itemized at least with respect to each category of income and expense representing more than 5% of total income or expense.

9. The provisions of Section 169 of the Companies Act relating to the right of 10 per cent of the shareholders to requisition an extraordinary general meeting shall apply to the security holders of an investment company.

10. The provisions of Sections 255, 256 and 257 of the Companies Act relating to appointment of directors shall apply to the appointment of trustees of an investment company. This means that two third of the trustees shall be subject to retirement by rotation and shall be appointed in general meeting.

11. The general body of security holders of an investment company shall be entitled to place such restrictions on the powers of the board of trustees as the general body of a company is entitled to place on the board of directors under Section 291 of the Companies Act.

12. The provisions of the Companies Act relating to appointment and removal of auditors, their qualifications and disqualifications and their powers shall apply to the auditor of the investment company. In particular, the auditors shall be appointed in general meeting.

13. The provisions of section 397 and 398 of the Companies Act relating to the powers of the court to prevent oppression and mismanagement shall apply to an investment company.

14. The provisions of Section 416 of the Companies Act relating to contracts in which the company is an undisclosed principal shall apply to an investment company. These provisions require the terms of any such contract to be reduced to writing and submitted to the board.

15. The management fee is a charge for the expertise and efforts involved in designing and maintaining a portfolio. Since expertise needed depends on the type of portfolio and the effort does not necessarily increase linearly with the size of the portfolio, the management fee should be a function of both.

There shall be ceiling of one half of one percent of the funds managed for an all equity portfolio, and a ceiling of one quarter of one percent of funds managed for an all bonds portfolio. For balanced portfolios, the ceiling shall be worked out using these two limits. The ceilings themselves shall decrease with the size of the portfolio according to the following schedule :

Size of Fund (Rs. '00 crore)	Management Fee
< 200	1.0% of funds
< 400	2 cr + 0.95% of funds in excess of 200
< 600	3.90 cr + 0.90% of funds in excess of 400
< 800	5.70 cr + 0.85% of funds in excess of 600
<1000	7.40 cr + 0.80% of funds in excess of 800
>1200	9.00 cr + 0.75% of funds in excess of 1000

The management fee applicable to an all bonds portfolio shall be one half of the fee applicable to an all equity portfolio of the same size.

The above management fee shall cover executive salaries and administrative expenses including office rent and the investment company shall not incur any additional expense in this regard.

16. The ceiling on annual transaction cost would be based on the turnover of the portfolio expected in a year. An all stocks portfolio is likely to be turned over more frequently as compared to an all bonds portfolio. While specifying the limit, a transaction cost of about 0.5% has been assumed.

The average annual transactions cost over the life of an all equity fund shall not exceed 1% of the value of the fund. The average annual transactions cost for an all bonds fund shall not exceed 0.5% of the value of the fund. This would imply that on an average these portfolios are not expected to be turned over more than twice and once a year respectively.

17. It shall also be mandatory for the fund to compute and publish

the Net Asset Value every day. The fund shall also periodically (end of every quarter) announce the details on the securities held in the portfolio.

The resale and repurchase price of an open ended fund shall be specified every day such that they straddle the NAV and the difference between them is less than 2% of the NAV.

18. An investment company shall not invest more than 5% of its assets in the shares of any company. Similarly, it shall also not invest in more than 5% of the shares of any company.

19. An investment company shall not borrow or pledge its assets.

20. An investment company shall not invest in another investment company.

21. An investment company shall take/give deliveries in all their transactions.

22. An investment company shall not enter into any transaction of purchase or sale of securities with the promoters or trustees or any persons/institutions in which the promoters or trustees are interested.

23. No offer shall be made to a holder of the security of an investment company to exchange his security for a security in the same or another investment company on any basis other than relative net asset values.

24. Any investor who has been affected by the violation of any of the above guidelines shall be entitled to sue the trustees and the promoters for damages. In addition, the trustees and other officers shall also be subject to penalties which may be imposed on a prosecution by the Government.

REFERENCES

1. "India Fund sells to Unit64 Oswal Agro", Economic Times, February 6, 1990.