

# NISM Series V-A Study Material

## Module 2: The Architecture of a Mutual Fund

### 1. The Legal Structure of a Mutual Fund

In India, a Mutual Fund is constituted as a **Trust** under the Indian Trusts Act, 1882. To ensure that investor funds are completely protected and not misused, the architecture is divided among five key independent entities.

Entity	Role & Responsibility
<b>1. Sponsor</b>	The promoter of the mutual fund. They establish the trust, bring the initial capital, and register the mutual fund with SEBI. Think of them as the founders (e.g., HDFC Bank, SBI).
<b>2. Trustees</b>	Appointed by the Sponsor to protect the investors' interests. They hold the property of the mutual fund in trust for the benefit of the unitholders and ensure the AMC complies with all SEBI regulations.
<b>3. AMC (Asset Management Company)</b>	The operational "brain." Appointed by the Trustees, the AMC employs fund managers and analysts who make the day-to-day decisions on buying and selling securities.
<b>4. Custodian</b>	An independent entity responsible for the physical and electronic safe-keeping of the securities (stocks, bonds,

	gold) bought by the AMC. The AMC never holds the assets directly.
<b>5. RTA (Registrar &amp; Transfer Agent)</b>	The back-office administrator. They maintain investor records, process applications, handle KYC, dispatch account statements, and manage dividend payouts. (e.g., CAMS, KFintech).

## 2. The Regulatory Framework

A well-regulated market ensures investor confidence. Three main bodies intersect in the mutual fund landscape:

- **SEBI (Securities and Exchange Board of India):** The supreme regulator of the Indian securities market. All mutual funds, AMCs, and Trustees must be registered with SEBI. SEBI formulates policies to protect investor interests and promote market development.
- **RBI (Reserve Bank of India):** While RBI does not directly regulate mutual funds, it regulates the entities that might sponsor them (Banks). Furthermore, RBI regulates the *Money Market*, which is where Debt Mutual Funds invest their short-term capital.

### EXAM TRICK ALERT - AMFI:

**AMFI (Association of Mutual Funds in India) is NOT a regulatory body.** It is an industry association/trade body established by all the AMCs. Its primary role is to set ethical standards and issue the **ARN (AMFI Registration Number)** to distributors. A distributor cannot sell mutual funds without a valid ARN.

## 3. AMFI Code of Conduct for Distributors

To maintain market integrity, distributors must adhere to strict ethical guidelines:

- **No Rebating:** Passing back or splitting a portion of the commission with the investor to entice them into investing is illegal and strictly prohibited.

- **Full Disclosure:** Distributors must disclose to the client all commissions (trail commissions) they are receiving from the AMC for the recommended schemes.
- **Suitability & Risk Profiling:** A distributor must evaluate a client's financial situation, investment experience, and risk tolerance before recommending any scheme. Selling high-risk equity funds to a conservative senior citizen violates the code of conduct.
- **No Misrepresentation:** Returns cannot be guaranteed in a mutual fund. Distributors must clearly state that "Mutual fund investments are subject to market risks."