

NISM Series V-A Study Material

Module 3: The Paperwork & Operations

1. Understanding Offer Documents

Before an investor puts money into a mutual fund (especially during an NFO - New Fund Offer), they must have access to specific legal documents that detail how their money will be managed.

Document	Full Form	What it contains
SID	Scheme Information Document	Details specific to the Scheme . Includes investment objective, asset allocation pattern, scheme risks, benchmark index, and fees/expenses.
SAI	Statement of Additional Information	Details specific to the AMC (Fund House) . Includes board of directors, key personnel, sponsors, and statutory financial data of the AMC.
KIM	Key Information Memorandum	A concise summary of the SID. Includes essential data like past performance, NAV track record, minimum investment amount, and toll-free numbers.

EXAM TRICK ALERT - KIM Rule:

By SEBI regulation, every Mutual Fund Application Form **must be accompanied by the KIM**. Investors cannot be handed a form without the Key Information Memorandum attached to it.

2. Investor Transactions & Declarations

Mandatory Declarations

- **KYC (Know Your Customer):** Mandatory for all mutual fund investments regardless of the amount. Requires PAN Card (Primary ID), Address Proof, and In-Person Verification (IPV). It is a centralized one-time process across all AMCs.
- **FATCA (Foreign Account Tax Compliance Act):** An American law intended to prevent US taxpayers from hiding income offshore. Indian mutual funds require a mandatory FATCA self-declaration from investors stating their tax residency status.

Systematic Transactions (The 3 S's)

- **SIP (Systematic Investment Plan):** Investing a fixed sum of money at regular intervals (e.g., monthly) into a scheme. Promotes disciplined investing and rupee-cost averaging.
- **SWP (Systematic Withdrawal Plan):** Withdrawing a fixed sum of money at regular intervals from the mutual fund corpus. Ideal for generating a pension/regular income post-retirement.
- **STP (Systematic Transfer Plan):** Transferring a fixed amount from one mutual fund scheme to another scheme within the *same* AMC. Commonly used to park a lump-sum in a safe Liquid Fund and transfer it monthly into a volatile Equity Fund to average out risk.

3. Distribution Channels: Direct vs. Regular

Investors can choose how they want to buy a mutual fund. This choice drastically affects the fees and the NAV (Net Asset Value).

Feature	Direct Plan	Regular Plan
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Routing	Investor buys directly from the AMC (website/app).	Investor buys through a registered Distributor (ARN holder).
Commissions	No distributor commissions are paid.	AMC pays Trail Commission to the distributor.
Expense Ratio	Lower (Since there are no commissions).	Higher (Commissions are recovered via expenses).
NAV	Higher (Due to lower expenses).	Lower (Compared to the Direct plan).

Understanding Trail Commission

SEBI has strictly **banned upfront commissions** (paying a large fee to the distributor the day the client signs the form). Today, distributors only earn **Trail Commission**. This is calculated as a percentage of the daily Assets Under Management (AUM) of the client's investment. This means the distributor only makes money as long as the investor stays invested, aligning the distributor's interest with the client's long-term growth.