

# FAQ's

## For Mutual Fund Investors

### DISCLAIMER

- This is not a legal document.
- These FAQs are prepared with a view to guide mutual fund Investors on investments in mutual funds. For full particulars of laws governing the Mutual Funds (MF), please refer to the Acts/Regulations/Guidelines/Circulars etc. appearing under the Legal tab of SEBI website i.e. [www.sebi.gov.in](http://www.sebi.gov.in). The contents of these FAQs are updated as on August 31, 2024.

1) **What is cut off timing and its role in determining the applicable NAV for transactions in Mutual Fund scheme (s)?**

The purchase and redemption are done at the applicable NAV. In order to ensure fairness to investors, SEBI has prescribed cut-off timings which are uniformly applicable for all mutual funds. These are provided below:

Type of Scheme	Transaction type	Cut off time	Applicable NAV
Liquid fund and Overnight fund	Purchases and Switch in	1.30 pm	<ul style="list-style-type: none"> <li>where the application is received up to cut off time 1.30 p.m. on a day and funds are available for utilization before the cut-off time without availing any credit facility, whether, intra-day or otherwise – the closing NAV of the day immediately preceding the day of receipt of application;</li> <li>where the application is received after 1.30 p.m. on a day and funds are available for utilization on the same day without availing any credit facility, whether, intra-day or otherwise – the closing NAV of the day immediately preceding the next business day</li> <li>If funds are not available for utilization, irrespective of the time of receipt of application, the closing NAV of the day immediately preceding the day on which the funds are available for utilization.</li> </ul>
	Redemptions and Switch Out	3.00 pm	<ul style="list-style-type: none"> <li>Where the application is received up to 3.00 pm – the closing NAV of day immediately preceding the next business day;</li> <li>Where the application is received after 3.00 pm – the closing NAV of the next business day.</li> </ul>
Equity oriented funds and debt funds (except liquid and overnight funds)	1. Purchases and Switch in 2. Redemptions and switch out	3.00 pm	<ul style="list-style-type: none"> <li>If application is received and funds (for purchase) are available for utilization before cut off time, the closing NAV of the day on which the application is received.</li> <li>If the application is received after cut off time, the closing NAV of the next business day will be applicable.</li> <li>If funds (for purchase) are not available for utilization, irrespective of the receipt time of application, closing NAV of the day on which the funds are available for utilization will be applicable.</li> </ul>

*Examples:* Assume that in a particular week, Monday, Wednesday and Thursday are business days and Tuesday is a non-business day.

An investor submits an application on Monday to buy units of an equity mutual fund scheme for INR 3,00,000. If an application is made on Monday and the fund gets realized on Wednesday by 2 pm, it will be Wednesday's NAV. If funds are realized or available for utilisation on Wednesday by 5 pm, then it will be Thursday's NAV.

An investor makes an application to purchase units of a liquid fund. If an application is made on Monday and the fund gets realized by 1 p.m. on Monday, it will be Sunday's NAV. If it gets realized by 3 pm on Monday, it will be Tuesday's NAV. If it gets realized by 10 am on Wednesday, it will be Tuesday's NAV.

**2) What is entry load and exit load in mutual funds?**

An entry load can be defined as the amount or fee paid by an investor upon entering a scheme. However, SEBI has abolished the practice of imposing entry loads on mutual funds. Hence, currently the entry load is no longer permitted.

Exit load is a fee or charge imposed on investors by a mutual fund when investors redeem/sell their units before a specified period. The purpose of exit load is to discourage short-term trading and to protect long-term investors from the potential adverse effects of short-term trading activities.

The information about the load structure can be found in mutual fund's offer document or scheme information document (SID). Exit load is calculated as a percentage of NAV.

Suppose a mutual fund scheme charged exit load of 1% for redemption within 90 days from the date of purchase. Assume that you redeem 1000 units of a scheme before 90 days of purchase and NAV per unit is INR 50. The exit load will be =  $1\% \times 1000 \text{ (numbers of units)} \times \text{INR } 50 \text{ (NAV per unit)} = \text{INR } 500$ . This amount will be deducted from redemption proceeds and you will get redemption proceeds of INR 49500.

**3) Can a mutual fund impose fresh load or increase the exit load beyond the level mentioned in the offer documents?**

Mutual funds cannot increase the exit load beyond the level mentioned in the offer document. Any change in the load will be applicable only to prospective investments and not to the original investments. In case of imposition of fresh loads or increase in existing loads, the mutual funds are required to amend their offer documents.

**4) What is expense ratio?**

Expense ratio represents the annual fund operating expenses of a scheme, expressed as a percentage of the fund's daily net assets. Operating expenses of a scheme are administration, management, advertising related expenses, etc.

An expense ratio of 1% per annum means that each year 1% of the fund's total assets will be used to cover expenses. Information on expense ratio that may be applicable to a scheme is mentioned in the offer document. Currently, in India, the expense ratio is fungible, i.e., there is no limit on any particular type of allowed expense as long as the total expense ratio is within the prescribed limit. You may refer to regulation 52 of the SEBI (Mutual Funds) Regulations, 1996, for limits on expense ratio.

**5) When will the investor get statement of account after investing in a mutual fund and what is a consolidated account statement (CAS)?**

Mutual funds are required to dispatch statements of accounts within five working days from the date of closure of the initial subscription of the scheme or from the date of receipt of the request from the investors/unitholders. Mutual fund shall issue units in dematerialized form within two working days of the receipt of request from unit holder.

Also, mutual funds are required to send confirmation specifying the number of units allotted to the investor by way of email and/or SMS's to the investor's registered email address and/or mobile number as soon as possible but not later than five working days from the date of closure of the initial subscription list and/or from the date of receipt of the request from the investors/unitholders.

Mutual funds are required to issue consolidated account statement (CAS) for each calendar month, on or before fifteenth day of the succeeding month, to the investors in whose folios transaction(s) has/have taken place during that month.

A CAS every half yearly (September/ March) is issued, detailing holding at the end of the six month, across all schemes of all mutual funds, to all such investors in whose folios and demat account no transaction has taken place during that period.

**6) Do investors need to pay any commission to the distributor for selling mutual fund schemes?**

As stated above, no entry load can be charged for any mutual fund scheme. An investor can choose to pay upfront commission directly to the distributor, based on his assessment of various factors including the service rendered by the distributor. However, for investments made through a distributor, commission is paid by mutual fund to the distributor such that the total expense ratio for an investor is within the limits on expense ratio specified under regulation 52 of the SEBI (Mutual Funds) Regulations, 1996. Hence, the cost borne by investors remains within the limit prescribed under SEBI Regulations.

Further, a transaction charge of INR 150 and INR 100 per subscription of INR 10,000 and above by a new and an existing investor, respectively, can be levied by distributor. This transaction charge can be levied only if a distributor has opted in to levy transaction charge for that type of mutual fund scheme. Further, the transaction charge, if any, is to be deducted by the mutual fund from the subscription amount and paid to the distributor and the balance is to be invested.

**7) Is it possible to invest in mutual fund schemes using cash?**

Yes, cash investments up to INR 50,000 per investor, per mutual fund, per financial year can be made in mutual funds. However, the limit of INR 50,000 would be an umbrella limit for investments by an investor through both e-wallet and/or cash per mutual fund, per financial year. Although investment can be made in cash but repayment in form of redemptions, IDCW/dividend payments can only be made through the banking channel. The pay-out bank details have to be provided in the application form.

**8) How will an investor come to know about the changes, if any, which may occur in the mutual fund?**

There may be changes from time to time in a mutual fund. The mutual funds are required to inform any material changes to their investors/unit holders. Apart from it, many mutual funds send newsletters to their investors. At present, Scheme Information Document (SID) is required to be revised and updated within one month from the end of the half-year, based on the relevant data and information as at the end of September and March respectively. In the meantime, the investors are informed about the material changes by way of addendum to the offer document.

**9) How to know the performance of a mutual fund scheme?**

The performance of a scheme is reflected in its NAV which is disclosed on daily basis. The NAVs of mutual funds are required to be published on the web sites of mutual funds. All mutual funds are also required to put their NAVs on the web site of Association of Mutual Funds in India (AMFI) [www.amfiindia.com](http://www.amfiindia.com) and thus the investors can access NAVs of all mutual funds at one place. Also, each mutual fund is required to have a dashboard on its website providing performance and key disclosures pertaining to each scheme managed by the mutual fund.

The mutual funds are also required to publish their performance in the form of half-yearly results which also include their returns over a period of time i.e. last six months, 1 year, 3 years, 5 years and since inception of schemes. Investors can also look into other details like percentage of expenses of total assets as these have an effect on the return and other useful information in the same half-yearly format.

The mutual funds are also required to send annual report or abridged annual report to the unitholders at the end of the year.

Investors can compare the performance of their schemes with those of other mutual funds under the same category. They can also compare the performance of equity oriented schemes with the benchmarks like BSE Sensitive Index, Nifty, etc.

**10) How to know where the mutual fund scheme has invested the money mobilized from investors?**

The mutual funds are required to disclose full portfolios of all of their schemes on a monthly basis on their website and on the website of AMFI within 10 days from the close of each month/ half-year respectively in a user-friendly and downloadable spreadsheet format. For debt schemes, such disclosure is done on fortnightly basis within 5 days of every fortnight.

In case of unit holders whose e-mail addresses are registered, the Mutual Funds are required to send via email both the monthly and half-yearly statement of scheme portfolio within 10 days from the close of each month/ half-year respectively. Mutual Funds are also required to publish an advertisement every half-year disclosing the hosting of the half-yearly statement of its schemes portfolio on their respective website and on the website of AMFI and the modes such as SMS, telephone, email or written request (letter) through which a unit holder can submit a request for a physical or electronic copy of the statement of scheme portfolio. Such advertisement to be published in the all India edition of at least two daily newspapers, one each in English and Hindi.

Mutual Funds are required to provide a physical copy of the statement of its scheme portfolio, without charging any cost, on specific request received from a unit holder.

The scheme portfolio shows investment made in each security i.e. equity, debentures, money market instruments, government securities, etc. and their quantity, market value and % to NAV. These portfolio statements are also required to disclose illiquid securities in the portfolio, investment made in rated and unrated debt securities, non-performing assets (NPAs), etc.

**11) Where can an investor look for information on mutual funds?**

Almost all the mutual funds have their own web sites, where details of NAVs, SIDs, KIMs and portfolio of the schemes etc. are readily available. Investors can also access the NAVs of all mutual funds at the web site of Association of mutual funds in India (AMFI) [www.amfiindia.com](http://www.amfiindia.com).

Investors can log on to the web site of SEBI [www.sebi.gov.in](http://www.sebi.gov.in) and go to “Mutual Funds” section for information on SEBI regulations and guidelines, data on mutual funds, draft offer documents filed by mutual funds, etc. Also, in the annual reports of SEBI available on the web site, information on mutual funds is given.

There are a number of other web sites which give a lot of information of various schemes of mutual funds including returns over a period of time. Many newspapers also publish useful information on mutual funds on daily and weekly basis.

Investors may also approach their financial advisors to guide them in this regard.

**12) Can an investor appoint a nominee for his investment in units of a mutual fund?**

Yes. Regulation 29A of SEBI (Mutual Fund) Regulations, 1996, notifies that the mutual fund shall provide nomination facility to the unit holders to nominate a person in whose favour the units shall be transmitted in the event of death of the unit holder. An investor, investing in mutual fund units has to provide nomination or opt out of nomination through physical or online mode. The requirement of nomination is optional for jointly held folios. A person may nominate up to three persons and clearly indicate the percentage of allocation/share in favour of each of the nominee against their names, and such allocation/share shall be in whole numbers without any decimals. Further an individual may appoint different nominees for different schemes. Non individuals including society, trust, body corporate, partnership firm, Karta of Hindu Undivided Family, holder of Power of Attorney cannot nominate.

**13) If mutual fund scheme is wound up, what happens to money invested?**

In case of winding up of a scheme, the proceeds of sale realised by disposing of the assets of the scheme after adjustment of liabilities as are due and payable under the scheme and after making appropriate provision for meeting the expenses connected with such winding up, the balance shall be paid to the investors/unitholders in proportion to their respective interest in the assets of the scheme. Unitholders are entitled to receive a report on winding up from the mutual funds which gives all necessary details.