

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF ECONOMIC AFFAIRS

LOK SABHA
UNSTARRED QUESTION NO. 3449
TO BE ANSWERED ON MONDAY, 15th JULY/ ASHADHA 24, 1941 (SAKA)

IRREGULARITIES IN MUTUAL FUNDS

QUESTION

3449. SHRI GIRIDHARI YADAV
SHRIMATI RAMA DEVI

Will the Minister of Finance be pleased to state:

- (a): whether any irregularities in mutual funds have been reported to the Government during the last three years;
- (b): if so, the details thereof;
- (c): the details of the rules under which action is taken against the irregularities in the said funds;
- (d): whether any review has been conducted regarding the functioning of institutions working to check irregularities in mutual funds during the last three years; and
- (e): if so, the details of the outcome thereof along with the reaction of the Government thereto?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI ANURAG SINGH THAKUR)

(a), (b) & (c): As per the Securities and Exchange Board of India (SEBI) Act, 1992, Mutual Funds are regulated by SEBI as per SEBI (Mutual Funds) Regulation, 1996. SEBI has informed that, in its regulatory oversight which includes inspections as well as off-site supervision, it has noticed various irregularities with respect to the functioning of Mutual Funds like failure to identify and appropriate all the expenses in the individual schemes as per the regulatory requirements, instances of borrowing for purposes other than those allowed under Mutual Fund Regulations; failure to carry out valuation of investments made by its scheme(s) in accordance with the investment valuation norms specified in Eighth Schedule; instances of close ended schemes investing in assets which had maturity beyond the maturity of the scheme; non-adherence to sectoral limits for debt-oriented schemes resulting in concentration of risk, etc.

Based on the said irregularities/ non-compliances, following actions under SEBI Act, SEBI (Mutual Fund) Regulations, 1996 and Circulars issued thereunder, have been taken and reported in the SEBI Annual Reports –

- i. During 2016-17, 37 warning letters and 35 deficiency letters were issued to Mutual Funds/ Asset Management Companies (AMCs) while Adjudication proceedings were initiated against three Mutual Funds.
- ii. During 2017-18, 17 warning letters and 15 deficiency letters were issued to Mutual Funds/ AMCs and two deficiency letters were issued to the Trustees of Mutual Funds.
- iii. During 2018-19, 47 warning letters and 24 deficiency letters were issued to Mutual Funds/AMCs and two warning letters were issued to Trustees of Mutual Funds while, Adjudication proceedings were initiated against five AMCs, four Trustee Companies and one CEO of AMC.

(d) & (e): SEBI, in consultation with the Central Government, on a continuous basis examines various issues concerning mutual funds and reviews the regulatory mechanism to enhance transparency and disclosures, reduce risk for the investors, enhance regulatory supervision, etc. Further, SEBI has also taken various steps in this regard during the last three Financial years like mandating disclosure of performance related information in Mutual Fund advertisements, enhancing fund governance for mutual funds, rationalization of Total Expense Ratio, norms for addressing the issue of potential conflict in case of shareholding and governance of Mutual Funds, categorization and rationalization of Mutual Fund Schemes, cyber Security and cyber resilience framework of Mutual Funds/Asset Management Companies etc.
