Study Notes for
NISM-Series-V-B: Mutual Fund Foundation Certification Examination

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EXAMINATION DETAILS

Questions	**Mcq - 50x1 mark**
Total marks	**50**
Duration	**2 hours**
Pass mark	**50% = 25 marks**
Negative marking	-

WEIGHTAGE

Chapter No.	Chapter Name	Weightage (%)
1	Investment Landscape	6%
2	Concept and Role of a mutual fund	12%
3	Legal Structure of mutual funds	8%
4	Mutual fund products for the new cadre of distributors	6%
5	Scheme Related Information	12%
6	Fund Distribution and Channel Management Practices	10%
7	Performance of Mutual Funds	12%
8	Mutual fund Taxation	6%
9	Investor Services	20%
10	Legal and Regulatory Environment	8%

NISM-Series-V-B: Mutual Fund Foundation Certification Examination

CHAPTER 1: INVESTMENT LANDSCAPE

Saving vs. Investment: Saving involves setting aside money for future use with minimal risk, while investment involves deploying money to generate returns, often with higher risk.

Asset Classes: Investments can be categorized into equity, debt, real estate, and commodities, each with distinct risk-return profiles.

Equity Investments: Equity represents ownership in a company, offering potential capital appreciation but with higher volatility.

Debt Investments: Debt instruments like bonds provide fixed returns and are generally less risky than equity.

Real Estate: Real estate is illiquid, location-dependent, and can generate rental income alongside capital appreciation.

Commodities: Commodities like gold and silver are often used as hedges against inflation but lack income generation.

Liquidity: Liquidity refers to how easily an investment can be converted to cash without significant loss in value.

Divisibility: Divisibility assesses whether an investment can be broken into smaller units for partial liquidation.

Tax Deduction: Certain investments offer tax deductions, effectively increasing the investor's return by reducing taxable income.

Risk and Safety: Understanding investment risks is crucial for assessing the safety and certainty of returns.

Financial Needs: Investors have four broad financial needs: wealth creation, income generation, liquidity, and tax savings.

Inflation Impact: Inflation erodes purchasing power, necessitating investments that outpace inflation for wealth preservation.

Equity Volatility: Equity investments historically exhibit higher volatility but offer potential for long-term growth.

Debt Certainty: Debt instruments provide more predictable returns compared to ownership assets like equity or real estate.

Real Estate Illiquidity: Real estate investments are less liquid due to high transaction costs and time required for sale.

Gold Standard: Many central banks hold gold reserves, though the gold standard has been largely abandoned.

Portfolio Diversification: Diversifying across asset classes reduces risk by balancing potential losses and gains.

Investment Goals: Investors should align investments with specific financial goals, such as retirement or education funding.

Time Horizon: The investment timeline influences the choice of asset class and risk tolerance.

Risk Tolerance: Investors' ability to withstand losses affects their investment choices and portfolio construction.

Financial Advisor Role: Advisors guide investors in aligning investments with goals but do not make final decisions.

Cost of Investment: Costs like management fees impact net returns and should be considered in investment decisions.

Tax Implications: Tax treatment varies by investment type, affecting post-tax returns significantly.

Systematic Risk: Systematic risk affects the entire market and cannot be diversified away.

Unsystematic Risk: Unsystematic risk is specific to individual investments and can be mitigated through diversification.

Liquidity Risk: Some assets, like real estate, pose liquidity risks due to difficulty in quick conversion to cash.

Credit Risk: Debt investments carry credit risk, where the issuer may default on payments.

Interest Rate Risk: Changes in interest rates inversely affect the prices of debt securities.

Market Risk: Equity investments are subject to market risk, driven by economic and geopolitical factors.

Investment Planning: Effective planning involves matching investment products to financial goals and timelines.

Inflation Adjustment: Future expenses must be adjusted for inflation to estimate accurate funding needs.

Professional Management: Mutual funds offer professional management, reducing the burden on individual investors.

Diversified Portfolio: Mutual funds provide instant diversification, lowering unsystematic risk.

Investment Discipline: Systematic investment approaches promote disciplined wealth creation over time.

Tax Benefits: Certain mutual fund schemes, like ELSS, offer tax deductions under the Income Tax Act.

Liquidity Needs: Investors must balance liquidity needs with long-term growth objectives.

Risk-Return Trade-off: Higher potential returns typically come with increased risk exposure.

Asset Allocation: Allocating assets across classes optimizes returns while managing risk.

Investment Horizon: Longer horizons allow for riskier investments like equity for higher returns.

Real Estate Characteristics: Real estate's performance is heavily influenced by location and market conditions.

Gold as Hedge: Gold is often used as a hedge against currency devaluation and economic uncertainty.

Equity Ownership: Equity investors bear the business's risks but also share in its profits.

Debt Predictability: Debt instruments offer predictable cash flows, unlike equity or real estate.

Tax Efficiency: Investments with tax benefits enhance overall returns by reducing tax liability.

Liquidity Assessment: Liquidity should be evaluated when choosing investment products.

Financial Goals Timeline: Assigning timelines to goals helps in selecting appropriate investments.

Advisor Guidance: Advisors assist in navigating complex investment options but require investor input.

Cost-Benefit Analysis: Investors should weigh the benefits of professional management against costs.

Market Conditions: Economic conditions influence the performance of various asset classes.

Portfolio Management: Managing a portfolio oneself requires expertise and time, often making mutual funds preferable.

Emotional Attachment: Emotional decisions can lead to suboptimal investment choices.

Investment Simplicity: Mutual funds simplify investing by handling account management and diversification.

Return Uncertainty: Ownership assets like equity have uncertain returns compared to debt.

Tax Deduction Impact: Tax deductions increase effective returns by lowering taxable income.

Asset Class Characteristics: Each asset class has unique features affecting suitability for investors.

Inflation Risk: Investments must account for inflation to maintain real value over time.

Risk Mitigation: Diversification and professional management help mitigate investment risks.

Investment Accessibility: Mutual funds lower the entry barrier for diversified investing.

Goal-Based Investing: Investments should align with specific, measurable financial objectives.

Long-Term Wealth Creation: Consistent investing through mutual funds supports long-term wealth goals.

CHAPTER 2: CONCEPT AND ROLE OF A MUTUAL FUND

Mutual Fund Definition: A mutual fund pools money from investors to invest in securities, managed professionally.

Investment Objectives: Mutual funds cater to diverse objectives like income generation or capital appreciation.

Scheme Variants: Funds offer schemes like equity, debt, or hybrid to suit different investor needs.

Professional Management: Fund managers make investment decisions based on research and objectives.

Diversification Benefit: Mutual funds spread investments across securities, reducing unsystematic risk.

Liquidity Advantage: Open-ended funds allow entry and exit at any time, enhancing liquidity.

Cost Efficiency: Mutual funds offer economies of scale, lowering transaction costs for investors.

Regulatory Oversight: SEBI imposes limits on expenses to protect investor returns.

NAV Calculation: Net Asset Value (NAV) reflects the per-unit value of a scheme's assets minus liabilities.

Pass-Through Vehicle: Mutual funds pass risks and returns directly to investors, not guaranteeing returns.

Open-Ended Funds: These funds allow continuous buying and selling at NAV post-NFO.

Close-Ended Funds: These have a fixed maturity and are traded on exchanges at market prices.

Interval Funds: Combine features of open- and close-ended funds, open at specific intervals.

Exchange Traded Funds (ETFs): ETFs trade on stock exchanges like stocks, tracking specific indices.

Index Funds: These passively mirror an index, reducing management costs.

Fund of Funds: These invest in other mutual fund schemes, domestic or overseas.

Systematic Plans: SIPs, SWPs, and STPs promote disciplined investing and withdrawals.

Tax Deferral: Mutual funds defer taxes on income until distributed to investors.

Investment Policy: Each scheme follows a defined policy aligning with its objectives.

Expense Ratio: Total Expense Ratio (TER) impacts NAV and investor returns.

SEBI Regulations: SEBI ensures transparency and investor protection in mutual fund operations.

Scheme Information Document (SID): SID outlines the scheme's objectives, policies, and risks.

Investor Convenience: Mutual funds simplify investing through centralized account management.

Low Entry Barrier: Mutual funds allow small investments, unlike direct equity portfolios.

Passive Management: Index funds and ETFs require minimal active management, lowering costs.

Smart Beta Funds: These modify index exposure for potentially better risk-adjusted returns.

SIP Growth: Systematic Investment Plans have seen significant growth, reflecting investor preference.

Risk Disclosure: Schemes disclose risks via a Riskometer to inform investors.

Fund Structure: Mutual funds are trusts, with investors as beneficiaries.

Portfolio Transparency: Investors receive regular updates on portfolio holdings and performance.

Investment Flexibility: Mutual funds allow tailoring investments to investor preferences.

No Guaranteed Returns: Except for assured return schemes, returns are not guaranteed.

Trustee Role: Trustees ensure compliance with regulations and protect investor interests.

AMC Role: Asset Management Companies manage day-to-day scheme operations.

Liquidity Provision: Market makers in ETFs provide liquidity by quoting bid and ask prices.

Benchmark Tracking: Index funds aim to replicate the performance of a specific index.

Fund Expenses: Expenses like management fees are deducted from the scheme's AUM.

Investor Protection: SEBI regulations safeguard investors through strict compliance.

Scheme Categorization: SEBI categorizes schemes to ensure clarity and standardization.

Multi Cap Funds: These invest across large, mid, and small cap stocks with minimum allocations.

Debt Schemes: Include overnight, liquid, and corporate bond funds with specific investment mandates.

Hybrid Schemes: Combine equity and debt for balanced risk-return profiles.

Real Estate Funds: Invest in real estate assets directly or indirectly.

ESG Investing: Environmental, Social, and Governance-focused schemes are gaining traction.

Fund Manager Role: Fund managers make investment decisions within regulatory guidelines.

Low-Cost Options: Passive funds like ETFs have lower expense ratios than active funds.

Investor Education: Mutual funds provide resources to enhance investor understanding.

Scheme Performance: Performance is disclosed regularly to aid investor decisions.

Regulatory Framework: SEBI's MF Lite framework simplifies rules for passive funds.

Investment Discipline: Systematic plans encourage regular investing and withdrawals.

Close-Ended Trading: Close-ended funds trade at market prices, not always aligned with NAV.

Fund Accessibility: Mutual funds are accessible through various distribution channels.

Risk Management: Diversification and research mitigate scheme-specific risks.

Scheme Launch: New Fund Offers (NFOs) introduce new schemes to the public.

Investor Rights: Investors have rights to transparency, timely services, and grievance redressal.

Portfolio Construction: Fund managers construct portfolios based on scheme objectives.

Expense Limits: SEBI caps expenses to ensure cost efficiency for investors.

Market Linkage: Mutual funds provide exposure to securities markets with professional oversight.

Fund Accountability: Trustees and AMCs are accountable for scheme performance and compliance.

Investor Convenience: Mutual funds simplify holding and transacting in securities.

Scheme Flexibility: Investors can choose schemes aligning with their risk appetite and goals.

CHAPTER 3: LEGAL STRUCTURE OF MUTUAL FUNDS IN INDIA

Mutual Fund Trust: Mutual funds in India are constituted as trusts, with investors as beneficiaries.

Trustees' Role: Trustees ensure regulatory compliance and protect unitholder interests.

Asset Management Company (AMC): AMCs handle day-to-day management of mutual fund schemes.

Board of Trustees: Comprises individuals or a trustee company overseeing fund operations.

Sponsor: The sponsor establishes the mutual fund and appoints trustees.

SEBI Regulations: SEBI's 1996 regulations govern mutual fund operations and compliance.

Fund Manager: Fund managers make investment decisions aligned with scheme objectives.

Custodian: Custodians safeguard the fund's securities and handle transaction settlements.

Registrar and Transfer Agent (RTA): RTAs manage investor records and transactions.

Fund Accountant: Calculates NAV daily and maintains scheme accounts.

Compliance Officer: Ensures adherence to SEBI regulations and internal policies.

Unit Holder Protection Committee (UHPC): Reviews compliance and educates investors.

Investor Charter: Outlines investor rights and complaint handling procedures.

Trustee Responsibilities: Include reviewing contracts and ensuring investor protection.

AMC Termination: Trustees or 75% of unitholders can terminate an AMC with SEBI approval.

Fund Management: The core function of AMCs, involving portfolio construction and management.

Custody Team: Interacts with custodians for transaction settlements.

Cash Management Team: Manages cash flows between AMCs and banks.

Technology Support: AMCs leverage technology for investor and distributor services.

Distributor Role: Distributors facilitate investor transactions and earn commissions.

KYC Registry: Central KYC agencies streamline investor verification across funds.

Depository Participant: Enables holding mutual fund units in dematerialized form.

AMFI Objectives: AMFI promotes ethical standards and investor interests in the industry.

Cybersecurity: AMCs must comply with CERT-In guidelines for cybersecurity.

Trustee Oversight: Ensures AMCs adhere to investment policies and regulations.

Investor Education: UHPC educates investors on mutual fund products and rights.

Service Providers: Include custodians, RTAs, and auditors supporting fund operations.

Regulatory Compliance: AMCs must comply with SEBI's stringent guidelines.

Fund Accounting: Ensures accurate NAV calculation and financial reporting.

Distributor Certification: Distributors must pass NISM-Series V-A and register with AMFI.

Trust Structure: Ensures investor funds are held separately from AMC assets.

AMC Independence: AMCs operate independently but under trustee oversight.

Investor Protection: SEBI regulations prioritize investor rights and transparency.

KYC Centralization: Centralized KYC reduces repetitive processes for investors.

Depository Role: Depositories hold dematerialized securities, including mutual fund units.

AMFI Standards: AMFI sets high ethical and professional standards for the industry.

Trustee Accountability: Trustees are accountable for breaches of trust.

Fund Operations: Involve coordinated efforts among AMCs, trustees, and service providers.

Investor Records: RTAs maintain accurate records of investor transactions.

Compliance Systems: AMCs must have systems to prevent misconduct and market abuse.

Distributor Empanelment: Distributors can empanel with multiple AMCs.

NAV Accuracy: Fund accountants ensure precise NAV calculations daily.

Cyber Resilience: AMCs must anticipate, withstand, and recover from cyber threats.

Trustee Reports: Trustees periodically report on compliance and fund performance.

Investor Rights: Include access to scheme information and grievance redressal.

KYC Verification: Investors must submit identity and address proofs for KYC compliance.

AMC Responsibilities: Include portfolio management and investor servicing.

Regulatory Updates: SEBI issues circulars to update mutual fund regulations.

Fund Transparency: AMCs must disclose portfolio holdings and performance regularly.

Trustee Due Diligence: Ensures prudent investment decisions by AMCs.

Distributor Registration: Requires AMFI registration and ARN issuance.

Investor Complaints: UHPC addresses investor grievances and ensures resolution.

Service Contracts: Trustees review contracts for fairness to unitholders.

Fund Governance: Involves oversight by trustees and compliance by AMCs.

KYC Simplification: Centralized KYC reduces paperwork for investors.

Depository Benefits: Demat accounts consolidate investments across asset classes.

AMFI Code of Conduct: Guides AMCs and distributors on ethical practices.

Trustee Appointment: Sponsors appoint trustees, subject to SEBI approval.

Fund Accountability: AMCs are accountable to trustees and investors.

Investor Awareness: AMCs and UHPC promote awareness of mutual fund products.

Regulatory Framework: SEBI ensures a robust framework for mutual fund operations.

CHAPTER 4: MUTUAL FUND PRODUCTS FOR THE NEW CADRE OF DISTRIBUTORS

Liquid Schemes: Open-ended debt schemes investing in securities with up to 91 days maturity.

Money Market Schemes: Invest in money market instruments for short-term liquidity.

Index Funds: Passively track specific indices, offering low-cost investment options.

Exchange Traded Funds (ETFs): Trade on exchanges, mirroring index performance.

Retirement Funds: Designed for long-term wealth creation for retirement planning.

Interest Rate Risk: Debt scheme prices move inversely to interest rate changes.

Passive Management: Index funds require minimal active management, reducing costs.

Diversified Portfolio: Equity funds reduce risk through diversified investments.

Government Securities Funds: Invest in government securities for low credit risk.

Corporate Bond Funds: Predominantly invest in AA+ and above-rated corporate bonds.

Credit Risk Funds: Invest in below highest-rated corporate bonds, carrying higher risk.

Hybrid Schemes: Combine equity and debt for balanced risk-return profiles.

Scheme Benchmarking: Schemes must outperform benchmarks over the last three years.

Money Market Liquidity: Money market funds offer high liquidity for short-term needs.

Index Fund Benefits: Provide broad market exposure with low expense ratios.

Retirement Fund Returns: Depend on allocation between equity and debt.

Debt Scheme Categories: Include overnight, liquid, and duration-based funds.

Equity Scheme Types: Include multi-cap, mid-cap, and small-cap funds.

Risk Mitigation: Diversification and quality investments reduce scheme risks.

SEBI Categorization: Ensures clarity in scheme types for distributors.

Liquid Fund Safety: Invest in short-term securities, minimizing credit risk.

Index Fund Tracking: Aim to replicate index performance with minimal tracking error.

Retirement Fund Goals: Focus on long-term wealth accumulation.

Debt Market Sensitivity: Debt funds are sensitive to interest rate fluctuations.

Equity Fund Risk: Higher volatility due to market and company-specific risks.

Distributor Eligibility: New cadre distributors can sell specific scheme types.

Money Market Instruments: Include treasury bills and commercial papers.

Passive Fund Costs: Lower than active funds due to minimal management.

Retirement Fund Flexibility: Allows tailored equity-debt allocations.

Scheme Selection: Distributors guide investors based on risk and goals.

Index Fund Simplicity: Simplifies investing by tracking market indices.

Liquid Fund Returns: Offer stable but lower returns compared to equity funds.

Credit Risk Management: Involves investing in securities with strong credit profiles.

Hybrid Fund Balance: Balances growth and stability through mixed investments.

Government Securities Safety: Backed by government, ensuring low default risk.

Distributor Role: Assess investor needs and recommend suitable schemes.

Index Fund Transparency: Portfolio mirrors index, ensuring transparency.

Retirement Fund Lock-In: ELSS funds have a three-year lock-in period.

Debt Fund Duration: Longer duration funds carry higher interest rate risk.

Equity Fund Diversification: Invests across sectors to reduce unsystematic risk.

Scheme Performance: Measured against benchmarks for investor evaluation.

Liquid Fund Accessibility: Ideal for short-term parking of surplus funds.

Index Fund Efficiency: Low costs make them attractive for cost-conscious investors.

Retirement Fund Taxation: ELSS offers tax benefits under Section 80C.

Debt Fund Stability: Provides more predictable returns than equity funds.

Distributor Guidance: Helps investors navigate scheme options and risks.

Money Market Safety: High credit quality ensures low default risk.

Index Fund Risks: Subject to market risks but not manager-specific risks.

Retirement Fund Planning: Aligns with long-term financial planning needs.

Hybrid Fund Flexibility: Adjusts equity-debt mix based on market conditions.

Scheme Disclosure: Schemes disclose risks and performance for transparency.

Liquid Fund Cut-Off: Specific cut-off times apply for NAV applicability.

Index Fund Benchmark: Tracks indices like NIFTY 50 or BSE Sensex.

Retirement Fund Structure: May include equity, debt, or hybrid options.

Debt Fund Risks: Include credit, interest rate, and reinvestment risks.

Equity Fund Volatility: Higher in mid- and small-cap funds than large-cap.

Distributor Training: Requires understanding of scheme types and risks.

Money Market Returns: Lower but stable, suitable for conservative investors.

Index Fund Growth: Growing popularity due to cost efficiency and simplicity.

Retirement Fund Discipline: Encourages systematic investing for long-term goals.

CHAPTER 5: SCHEME RELATED INFORMATION

Scheme Information Document (SID): Details scheme objectives, policies, and risks.

Statement of Additional Information (SAI): Provides AMC and trustee details.

Key Information Memorandum (KIM): Summarizes key scheme details for investors.

Mandatory Documents: SID, SAI, and KIM are required for investor information.

NAV Disclosure: AMCs must disclose NAV daily on their and AMFI's websites.

Scheme Dashboard: AMCs publish performance dashboards for transparency.

Riskometer: Depicts scheme risk levels for investor awareness.

Fund Factsheet: Monthly factsheet provides portfolio and performance details.

Annual Report: Discloses scheme performance and financials annually.

Portfolio Disclosure: Monthly disclosure of scheme holdings for transparency.

SID Updates: Required after material changes or exit option periods.

SAI Scope: Covers AMC, trustee, and service provider details for all schemes.

KIM Distribution: Mandatory with every application form.

NAV Calculation: Current value = Unit balance × Current NAV.

Risk Disclosure: Riskometer helps investors assess scheme risk levels.

Scheme Performance: Dashboards show returns and benchmark comparisons.

Mandatory Disclosures: Include expenses, returns, and risk levels.

Fund Factsheet Usage: Widely used by investors and distributors for updates.

SID Effectiveness: Remains valid until a material change occurs.

SAI Guidance: Provides application procedures and investor rights.

KIM Contents: Includes AMC, scheme, and transaction details.

NAV Timeliness: NAVs uploaded by 11:00 PM daily.

Annual Report Access: Available online or as a physical copy on request.

Portfolio Transparency: Ensures investors know scheme investments.

Riskometer Levels: Ranges from low to very high risk.

Factsheet Details: Includes minimum investment and expense ratios.

SID Revisions: Updated post-exit option or material changes.

SAI Updates: Reflects changes in AMC or trustee information.

KIM Accessibility: Easily distributed for investor convenience.

NAV Importance: Determines purchase and redemption prices.

Scheme Transparency: Regular disclosures enhance investor trust.

Riskometer Updates: Reflects changes in scheme risk profile.

Factsheet Frequency: Published monthly for up-to-date information.

Annual Report Deadline: Published by March 31 each year.

SID Contents: Includes investment objectives and risk factors.

SAI Legalities: Details rights and obligations of unitholders.

KIM Simplicity: Simplifies key information for quick reference.

NAV Publication: Ensures timely access to scheme valuation.

Dashboard Updates: Regular updates on scheme performance.

Riskometer Purpose: Guides investors on scheme suitability.

Factsheet Utility: Helps distributors recommend schemes.

SID Material Changes: Require public notice and updates.

SAI Comprehensiveness: Covers all AMC schemes and operations.

KIM Mandatory: Must accompany all application forms.

NAV Accuracy: Critical for fair transaction pricing.

Scheme Disclosure Norms: SEBI mandates transparency in disclosures.

Riskometer Clarity: Simplifies risk communication for investors.

Factsheet Insights: Provides expense and systematic transaction details.

Annual Report Scope: Includes unclaimed amounts and performance.

SID Accessibility: Available on AMC websites for investors.

SAI Investor Rights: Outlines unitholder rights and protections.

KIM Updates: Reflects changes in scheme terms or conditions.

NAV Frequency: Daily updates for most schemes, except FoFs.

Dashboard Transparency: Enhances investor decision-making.

Riskometer Standardization: Uniform across all mutual funds.

Factsheet Standardization: Follows SEBI-prescribed formats.

Annual Report Obligation: Mandatory for investor transparency.

SID Legal Requirement: Must be read before investing.

SAI Distribution: Available on request for detailed information.

KIM Practicality: Simplifies investor decision-making process.

CHAPTER 6: FUND DISTRIBUTION AND CHANNEL MANAGEMENT PRACTICES

Distributor Role: Assess investor needs and recommend suitable mutual fund schemes.

Individual Distributors: Operate single-handedly, often starting as sole proprietors.

Non-Individual Distributors: Include banks, NBFCs, and broking firms.

Agency Channel: Sub-agents act as extended distribution arms for firms.

Stock Exchange Platforms: Facilitate buying and selling of mutual fund units.

Online Transactions: Investors can transact via AMC or distributor websites.

MF Central: A platform for centralized mutual fund transactions.

Distributor Certification: Requires NISM-Series V-A and AMFI registration.

ARN Requirement: Distributors need an AMFI Registration Number (ARN).

Empanelment with AMCs: Distributors can empanel with multiple AMCs.

Commission Structure: Includes upfront and trail commissions based on AUM.

SEBI Commission Norms: Regulate commission disclosure and payment.

Due Diligence by AMCs: Ensures distributors meet regulatory standards.

Investment Advisors: Differ from distributors, requiring separate SEBI registration.

Commission Disclosure: SEBI mandates transparency in commission payments.

Direct Plans: Transactions without distributors incur no commission.

Trail Commission: Paid as a percentage of AUM, benefiting from market gains.

Upfront Commission: Paid at the time of investment, subject to SEBI limits.

GST Applicability: Distributors with turnover above Rs. 20 lakhs pay GST.

Nomination Facility: AMFI mandates nomination for distributors' commissions.

Distributor Code Change: Allowed only under specific conditions, like cessation.

Small Town Incentives: SEBI allows extra commission for small-town distribution.

Online Platforms: Enhance transaction convenience for investors.

Stock Exchange Trading: Mutual fund units trade like stocks on exchanges.

MF Central Benefits: Simplifies transactions across multiple AMCs.

Distributor Eligibility: Requires experience or NISM certification for registration.

ARN Issuance: AMFI issues ARN post-certification and compliance.

Empanelment Process: Involves submitting KYC and declarations to AMCs.

Commission Taxation: GST applies to distributor commissions under reverse charge.

Nominee Rights: Nominees can claim commissions post-distributor's demise.

Distributor Ethics: Must adhere to AMFI's code of conduct.

Direct Plan Switches: Upfront commissions clawed back on switches to direct plans.

Small Town Focus: Encourages mutual fund penetration in smaller cities.

Online Transaction Growth: Reflects shift to digital distribution channels.

Stock Exchange Benefits: Offers liquidity and price discovery for units.

MF Central Integration: Streamlines investor transactions and records.

Distributor Training: NISM certification ensures product knowledge.

ARN Validity: Requires renewal through CPE for experienced distributors.

Commission Transparency: Enhances investor trust in distribution.

Nomination Process: Requires death certificate and ARN holder details.

Distributor Cessation: Investors can change distributors post-cessation.

Small Town AUM: Additional commissions for AUM from B-30 cities.

Online Transaction Limits: E-wallets capped at Rs. 50,000 per investor annually.

Stock Exchange Platforms: BSE StAR MF and NSE NMF II facilitate transactions.

MF Central Features: Provides a single platform for all MF transactions.

Distributor Compliance: Must follow SEBI and AMFI guidelines.

Commission Claw-Back: Applies to switches from regular to direct plans.

Small Town Strategy: Aims to increase mutual fund reach in rural areas.

Online Transaction Security: Requires two-factor authentication for safety.

Stock Exchange Liquidity: Enhances liquidity for open-ended fund units.

MF Central Accessibility: Available via web and mobile apps.

Distributor Due Diligence: AMCs verify distributor credentials regularly.

Commission Structure Flexibility: Trail commissions align with AUM growth.

Nomination Benefits: Protects distributor's family income post-demise.

Distributor Code Ethics: Prohibits misleading practices or projections.

Small Town Penetration: SEBI incentives promote financial inclusion.

Online Platform Efficiency: Reduces paperwork and transaction time.

Stock Exchange Integration: Aligns MF units with stock market trading.

MF Central Standardization: Ensures uniform transaction processes.

CHAPTER 7: PERFORMANCE OF MUTUAL FUNDS

Return Calculation: Mutual fund returns include capital gains and dividends.

Annualized Return: Adjusts returns for comparison across different time periods.

Sharpe Ratio: Measures risk-adjusted returns using standard deviation.

Treynor Ratio: Evaluates returns per unit of market risk (Beta).

Tracking Error: Measures deviation of fund returns from benchmark.

Total Return Index (TRI): Includes dividends and capital gains for benchmarking.

Price Return Index (PRI): Only accounts for capital gains, not dividends.

Risk-Adjusted Returns: Higher risk should yield higher returns for efficiency.

Beta: Measures a fund's sensitivity to market movements.

Standard Deviation: Quantifies the volatility of fund returns.

Systematic Risk: Market-wide risk affecting all securities.

Unsystematic Risk: Security-specific risk, mitigated by diversification.

Credit Risk: Risk of issuer default in debt securities.

Interest Rate Risk: Inverse relationship between bond prices and rates.

Reinvestment Risk: Risk of reinvesting cash flows at lower rates.

Liquidity Risk: Difficulty in selling securities without price impact.

Market Risk: Affects equity funds due to market fluctuations.

Volatility Risk: Higher in mid- and small-cap funds than large-cap.

Benchmark Selection: AMCs choose benchmarks in consultation with trustees.

SEBI Standardization: Mandates TRI for all scheme benchmarks.

Fund Manager Role: Influences returns through active or passive management.

Index Fund Beta: Mirrors the market's Beta of 1.

Risk Premium: Excess return over risk-free rate for risk taken.

Portfolio Diversification: Reduces unsystematic risk through varied investments.

Credit Risk Management: Involves investing in high-credit-quality securities.

Liquidity Management: Actively managed within portfolio limits.

Performance Disclosure: SEBI mandates standardized performance reporting.

Assured Return Schemes: Require a named guarantor in the SID.

Advertisement Code: Regulates performance disclosure in ads.

Riskometer: Depicts scheme risk levels for investor awareness.

Sharpe Ratio Utility: Higher ratio indicates better risk-adjusted performance.

Treynor Ratio Utility: Higher ratio shows better returns per market risk.

Tracking Error Importance: Lower error indicates closer index tracking.

TRI Advantage: Provides a more accurate benchmark for performance.

PRI Limitation: Understates returns by excluding dividends.

Systematic Risk Management: Limited by market exposure, not diversification.

Unsystematic Risk Reduction: Achieved through diversified investments.

Credit Risk Analysis: Involves in-house credit research by AMCs.

Interest Rate Sensitivity: Longer duration funds are more sensitive.

Reinvestment Risk Mitigation: Managed through strategic reinvestment.

Liquidity Risk Control: Ensured through cash and fixed income holdings.

Market Risk Exposure: Higher in equity-oriented funds.

Volatility Assessment: Critical for evaluating scheme suitability.

Benchmark Transparency: TRI enhances transparency in performance.

Fund Manager Skill: Impacts active fund performance significantly.

Index Fund Efficiency: Low tracking error ensures benchmark alignment.

Risk-Adjusted Measures: Essential for comparing fund performance.

SEBI Circulars: Standardize return calculations and disclosures.

Portfolio Risk: Varies by asset allocation and scheme type.

Credit Profile: Strong issuer profiles reduce credit risk.

Liquidity Limits: Ensure funds can meet redemption demands.

Market Volatility: Impacts equity fund returns more than debt.

Performance Metrics: Include Sharpe, Treynor, and tracking error.

Benchmark Relevance: Must align with scheme's investment objective.

Risk Disclosure: Mandatory for investor awareness and decision-making.

Fund Manager Strategy: Active managers may shift between equities and cash.

Index Fund Simplicity: Passive management reduces operational complexity.

TRI Implementation: Mandatory for all mutual fund benchmarks.

Performance Evaluation: Involves comparing returns to risk and benchmarks.

Risk Management: Combines diversification and active monitoring.

CHAPTER 8: TAXATION

Mutual Fund Taxation: No tax on income earned by mutual fund schemes.

Capital Gains: Taxed based on holding period and scheme type.

Short-Term Capital Gains (STCG): Gains from assets held less than 12 or 24 months.

Long-Term Capital Gains (LTCG): Gains from assets held beyond 12 or 24 months.

Equity-Oriented Funds: Hold over 65% in equity, taxed differently from non-equity.

Dividend Income: Taxed in the hands of investors, not funds.

Securities Transaction Tax (STT): Applies to equity fund redemptions, not purchases.

Stamp Duty: Levied on issue and transfer of mutual fund units.

ELSS Lock-In: Equity Linked Savings Schemes have a three-year lock-in.

GST Applicability: Applies to distributor commissions, not scheme expenses.

Tax Deferral: Mutual funds defer taxes until income is distributed.

Holding Periods: 12 months for listed securities and equity funds; 24 months for others.

Dividend Taxation: Tax-exempt for certain investor categories like charities.

STT Exemption: Not applicable to debt securities or funds.

Capital Gains Classification: Determines tax rates based on holding period.

Equity Fund Taxation: STCG at 15%, LTCG above Rs. 1 lakh at 10%.

Non-Equity Fund Taxation: STCG at slab rate, LTCG at 20% with indexation.

Stamp Duty Implementation: Effective from February 2019 amendments.

ELSS Tax Benefits: Offers deductions under Section 80C.

GST Reverse Charge: Distributors pay GST under reverse charge mechanism.

Dividend Reinvestment: Attracts lock-in for ELSS reinvestments.

Tax-Exempt Investors: Benefit from no dividend distribution tax.

Capital Gains Tax: Calculated as sale value minus purchase cost.

STT Scope: Applies only to equity-oriented fund transactions.

Stamp Duty Scope: Covers all mutual fund unit transactions.

ELSS Restrictions: No dividend reinvestment option in ELSS.

Tax Transparency: Investors bear tax on distributed income.

Equity Fund Definition: Over 65% allocation to equity securities.

Non-Equity Funds: Include debt, liquid, and money market funds.

Capital Gains Timing: Taxed upon redemption or switch of units.

Dividend Tax Change: Shifted to investor's hands post-2020.

STT Rates: Specified for equity fund redemptions and switches.

Stamp Duty Collection: Levied at issuance and transfer of units.

ELSS Popularity: Driven by tax benefits and equity exposure.

GST Threshold: Applies to distributors with turnover above Rs. 20 lakhs.

Tax Deferral Benefit: Enhances returns by delaying tax liability.

Capital Gains Indexation: Available for non-equity LTCG to adjust for inflation.

Dividend Exemption: Benefits tax-exempt entities like trusts.

STT Non-Applicability: Debt funds and purchases are STT-exempt.

Stamp Duty Uniformity: Standardized across all mutual fund transactions.

ELSS Lock-In Impact: Affects liquidity but offers tax advantages.

Tax Rate Clarity: SEBI ensures clear tax disclosure in SID.

Dividend Tax Rates: Vary based on investor's tax slab.

Capital Gains Calculation: Based on NAV at purchase and redemption.

STT Collection: Deducted at redemption by the AMC.

Stamp Duty Rates: As per Indian Stamp Act amendments.

ELSS Investment Limit: Rs. 1.5 lakh under Section 80C.

GST Payment: Distributors bear GST, not passed to schemes.

Tax Documentation: Investors must provide tax-related documents.

Dividend Reinvestment Tax: Treated as fresh investment for ELSS.

Capital Gains Exemption: LTCG up to Rs. 1 lakh exempt for equity funds.

STT Applicability: Limited to equity-oriented schemes only.

Stamp Duty Purpose: Enhances revenue collection for transactions.

ELSS Tax Efficiency: Combines growth and tax savings.

GST Compliance: Mandatory for registered distributors.

Tax Deferral Advantage: Improves investor returns over time.

Capital Gains Rates: Vary by fund type and holding period.

Dividend Tax Impact: Affects post-tax returns for investors.

STT Simplicity: Streamlined for equity fund transactions.

Stamp Duty Compliance: Mandatory for all MF unit issuances.

CHAPTER 9: INVESTOR SERVICES

New Fund Offer (NFO): Initial launch of a mutual fund scheme for subscription.

NAV Applicability: Determines purchase and redemption prices for transactions.

Cut-Off Timing: SEBI prescribes timings for NAV applicability.

KYC Requirements: Mandatory for all mutual fund investors.

Systematic Transactions: Include SIP, SWP, and STP for disciplined investing.

Demat Holding: Units can be held in dematerialized form via depositories.

Nomination Facility: Allows investors to nominate beneficiaries.

Pledge/Lien of Units: Units can be pledged for loans with AMC approval.

Investor Transactions: Include purchases, redemptions, and switches.

Unclaimed Amounts: AMCs must remind investors to claim dues.

Growth Option: NAV reflects portfolio gains without payouts.

Dividend Payout: Reduces NAV by dividend amount paid out.

Dividend Reinvestment: Reinvests dividends to buy more units.

NFO Process: Involves CIO and CMO inputs for scheme design.

Cut-Off Rules: Ensure fairness in NAV application for transactions.

KYC Documents: Include PAN, address proof, and identity proof.

Systematic Investment Plan (SIP): Allows regular, fixed investments.

Systematic Withdrawal Plan (SWP): Facilitates regular redemptions.

Systematic Transfer Plan (STP): Moves funds between schemes.

Demat Benefits: Consolidates investments in one account.

Nomination Process: Requires nominee details and verification.

Pledge Process: Involves AMC and financier coordination.

Transaction Turnaround: SEBI prescribes timelines for investor services.

Unclaimed Amount Reporting: Included in annual reports.

Growth Option Taxation: Taxed on redemption as capital gains.

Dividend Payout Taxation: Taxed in investor's hands as income.

Dividend Reinvestment Taxation: Treated as fresh investment for tax.

NFO Categorization: Must fit within SEBI-defined scheme categories.

Cut-Off Timings Equity: 3:00 PM for equity and debt funds (except liquid).

KYC Centralization: Handled by KYC Registration Agencies (KRAs).

SIP Flexibility: Allows low initial investments compared to lump-sum.

SWP Purpose: Meets regular liquidity needs without full redemption.

STP Utility: Balances risk by transferring between scheme types.

Demat Account: Simplifies holding and transacting units.

Nomination Benefits: Ensures smooth transmission of units.

Pledge Utility: Enables using units as collateral for loans.

Transaction Types: Include financial and non-financial transactions.

Unclaimed Amount Efforts: AMCs must proactively contact investors.

Growth Option Benefit: Maximizes compounding of returns.

Dividend Payout Benefit: Provides regular income to investors.

Dividend Reinvestment Benefit: Increases unit holdings over time.

NFO Restrictions: AMCs can launch one scheme per category.

Cut-Off Liquid Funds: 2:00 PM for liquid fund transactions.

KYC Verification: Requires self-attested documents and originals.

SIP Initiation: Can start during NFO or ongoing phase.

SWP Risk Mitigation: Avoids redeeming all units during market lows.

STP Flexibility: Allows transfers within or across AMCs.

Demat Convenience: Centralizes investment management.

Nomination Updates: Supersedes earlier nominations automatically.

Pledge Restrictions: Subject to SEBI and AMC regulations.

Transaction Timelines: Ensure prompt processing of investor requests.

Unclaimed Amount Transparency: Disclosed in annual reports.

Growth Option Suitability: Ideal for long-term wealth creation.

Dividend Payout Suitability: Suits income-seeking investors.

Dividend Reinvestment Suitability: Balances growth and income needs.

NFO Approval: Requires SEBI and trustee approval.

Cut-Off Compliance: Ensures uniform NAV application.

KYC Simplification: Centralized process reduces investor burden.

SIP Discipline: Promotes regular investing for wealth accumulation.

SWP Structure: Allows fixed or variable withdrawal amounts.

STP Execution: Subject to exit load and minimum transfer amounts.

CHAPTER 10: LEGAL AND REGULATORY ENVIRONMENT

SEBI Role: Regulates mutual funds to protect investors and ensure transparency.

AMFI Role: Promotes ethical standards in the mutual fund industry.

Regulatory Reforms: SEBI's 1996 regulations have evolved with amendments.

Investor Rights: Include transparency, grievance redressal, and timely services.

Advertisement Code: Ensures accurate and non-misleading promotions.

Celebrity Endorsements: Limited to industry-level promotions, not specific schemes.

Grievance Redressal: SEBI's SCORES platform handles investor complaints.

AMFI Code of Ethics: Sets standards for AMCs and distributors.

Trustee Liability: Trustees are liable for breaches of trust.

Unclaimed Amounts: AMCs must remind investors to claim dues.

SEBI Regulations 1996: Form the backbone of mutual fund governance.

Investor Transparency: Ensured through mandatory disclosures.

Advertisement Guidelines: Prohibit misleading performance claims.

Celebrity Endorsement Limits: Cannot promote specific schemes or AMCs.

SCORES Platform: Centralizes investor complaint lodging and tracking.

AMFI Standards: Mandate high service and diligence standards.

Trustee Oversight: Ensures compliance with SEBI regulations.

Unclaimed Amount Efforts: Reported in annual reports for transparency.

Regulatory Updates: SEBI issues circulars to refine regulations.

Investor Protections: Include rights to sue trustees for breaches.

Advertisement Disclosures: Must include past dividends and face value.

Celebrity Endorsement Costs: Limited to industry-level investor education.

SCORES Accessibility: Web-based for easy investor access.

AMFI Code Compliance: Mandatory for AMCs and intermediaries.

Trustee Accountability: Ensures investor interests are prioritized.

Unclaimed Amount Rights: Investors can claim dues with AMC support.

SEBI Circulars: Provide ongoing regulatory guidance.

Investor Grievance Policy: Mandates timely complaint resolution.

Advertisement Accuracy: Must align with scheme performance data.

Celebrity Endorsement Rules: Prohibit branding or scheme-specific promotions.

SCORES Efficiency: Tracks complaint status for quick resolution.

AMFI Ethics Enforcement: Addresses breaches by intermediaries.

Trustee Responsibilities: Include reviewing AMC operations.

Unclaimed Amount Disclosure: Enhances investor awareness.

Regulatory Framework: Balances growth and investor protection.

Investor Rights Scope: Limited to existing investors, not prospective ones.

Advertisement Standards: Follow SEBI's Sixth Schedule provisions.

Celebrity Endorsement Compliance: Subject to SEBI oversight.

SCORES Reporting: AMCs must publish complaint status.

AMFI Disciplinary Process: Involves explanation and hearings for breaches.

Trustee Due Diligence: Ensures prudent fund management.

Unclaimed Amount Procedures: Include reminders via letters.

Regulatory Transparency: Enhances investor trust in the system.

Investor Complaint Rights: Protected under SEBI regulations.

Advertisement Restrictions: Prohibit disguising significant statements.

Celebrity Endorsement Scope: Limited to investor education initiatives.

SCORES Functionality: Enables follow-up on complaint progress.

AMFI Code Principles: Emphasize service, diligence, and judgment.

Trustee Role in Winding Up: Oversees fair exit processes.

Unclaimed Amount Reporting: Mandatory in annual disclosures.

Regulatory Evolution: Addresses liquidity crises and market needs.

Investor Suit Rights: Can sue trustees, not the trust itself.

Advertisement Performance: Past performance only for schemes over six months.

Celebrity Endorsement Oversight: Compliance officer ensures adherence.

SCORES Integration: Links investors with SEBI for resolutions.

AMFI Intermediary Standards: Apply to distributors and sales personnel.

Trustee Review: Dedicates resources to code compliance.

Unclaimed Amount Efforts: Continuous reminders to investors.

Regulatory Compliance: Ensures fair and ethical fund operations.

Investor Education: AMFI promotes awareness of investor rights.

Advertisement Clarity: Must avoid misleading investor perceptions.

IMPORTANT FORMULAS

Sharpe Ratio: (Portfolio Return - Risk-Free Rate) ÷ Standard Deviation.

Treynor Ratio: (Portfolio Return - Risk-Free Rate) ÷ Beta.

Total Return: [(End Value - Begin Value) + Dividend] × 100 ÷ Begin Value.

Current Value of Investments: Unit Balance × Current NAV.

Risk Premium: Portfolio Return - Risk-Free Rate.

Capital Gains: Sale Value - Purchase Cost.

NAV Calculation: (Scheme Assets - Liabilities) ÷ Number of Units.

Expense Ratio: Total Expenses ÷ Assets Under Management.

IMPORTANT NOTE :

1. Attend **ALL** Questions.
2. For the questions you don't know the right answer – Try to eliminate the wrong answers and take a guess on the remaining answers.
3. DO NOT MEMORISE the questions & answers. It's not the right to way to prepare for any NISM exam. Good understanding of Concepts is essential.

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All the Best ☺

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