

**NISM-Series-II-B: Registrars to an Issue and Share Transfer Agents – Mutual Fund Certification Examination**

**Test Objectives**

**Unit 1: Introduction to Securities**

- 1.1 Describe the broad categorization of securities as equity and debt.
- 1.2 Identify, from a list of different types of securities, those that represent ownership in a corporation and those that represent creditors.
- 1.3 Describe benefits to equity investors . dividend, growth, ownership.
- 1.4 Identify and describe the essential features of equity securities . uncertain payouts, perpetuity, and secondary market.
- 1.5 Identify and describe essential features of debt securities . interest payment, maturity, credit rating
- 1.6 Describe benefits to investors in debt . interest, redemption, right to assets
- 1.7 Describe hybrid structures - preferred and convertible instruments

**Unit 2: Characteristics of Equities**

- 2.1 Understand the rights of common shareholders.
- 2.2 Distinguish par value and share premium for equity shares.
- 2.3 Understand the concept of Dividend
  - Identify dividend as the payout to equity investors and that it is not a pre-defined or fixed rate
  - Identify dividend as payable on the face value and not current value of an equity share
  - Solve a simple problem on rate of dividend and amount of dividend
- 2.4 Describe the terms authorized capital, issued capital, outstanding shares, paid-up shares and share buy-back and match them to the appropriate definitions.
- 2.5 Distinguish the characteristics of preferred shares from those of common shares.
  - Identify that preferred shares are normally privately placed with investors as opposed to a public offering.
  - Identify the preferences of preferred share holders regarding dividends and assets in contrast to those of common shareholders and bondholders.

- 2.6 Identify the purpose of a rights offering as a preemptive right of shareholders to preserve their proportionate ownership in a corporation at the time additional shares are issued.

### **Unit 3: Characteristics of Other Securities**

- 3.1 Identify the purpose of a warrant offering as a means to make an offering of new securities, usually debt securities, more attractive to investors. Contrast with a rights offering.
- 3.2 Identify the purpose of a convertible bond offering, to convert debt to equity over time, and manage cash flows.
- 3.3 Identify the purpose of Depository Receipts (DRs) and Fully Convertible Currency Bonds (FCCBs) to facilitate cross border trading and settlement, minimize transaction costs, and broaden the potential investor base, especially among institutional investors.
- 3.4 Understand Depository Receipts  
Define a DR as a negotiable instrument in the form of a certificate denominated in US dollars issued against certain underlying securities. Identify that certificates are issued by a depository bank that has a claim on securities deposited by the issuing corporation with a domestic custodian bank.  
Identify the right of DR holders to receive dividends and other payments when authorized by the underlying corporation, but NOT the right to vote on corporate matters.

### **Unit 4: Characteristics of Debt Instruments**

- 4.1 From a list of different types of securities, identify those that represent the debt of a corporation.  
Distinguish the characteristics of corporate debt securities from those of common and preferred shares.  
Define the payment terms of corporate debt securities to include the face value, coupon and term to maturity.
- 4.2 Distinguish the face value of a corporate debt security from the market value.
- 4.3 Define current yield  
Distinguish the coupon of a corporate debt security from its current yield.  
Distinguish the yield to maturity of a corporate debt security from its current yield.
- 4.4 Types of debt securities

Identify the distinguishing characteristic of bonds, debentures, deep discount bonds and convertible debt securities.

Identify and distinguish the relative advantages and disadvantages to issuers and investors of the convertibility feature of corporate debt securities.

- 4.5 Identify, define and distinguish among the methods of corporate debt retirement to include the call feature, the put feature, and redemption.

Identify the advantage(s) of the call feature to the issuer of corporate debt securities.

Identify the advantage(s) of the put feature to the issuer of corporate debt securities.

- 4.6 Fixed and Floating rate instruments

Identify and define the features of a floating rate bond.

Differentiate a fixed coupon and a floating rate bond.

Describe floating rate benchmarks and reset frequency

- 4.7 Credit Rating

Identify the role of credit rating agencies with respect to the ability of issuers of corporate debt securities to make regular interest payments and to repay the face value at maturity.

Identify credit rating symbols.

Describe the nature of unrated bonds.

Identify SEBI's role in setting standards for credit rating agencies.

- 4.8 Money market instruments

Identify the essential characteristics of money market instruments to include short-term maturity, and low risk.

Identify the distinguishing characteristics of the three types of money market instruments- treasury bills, commercial paper and certificates of deposit.

- 4.9 Identify the risk implications for government debt issues versus corporate debt securities.

- 4.10 Company Fixed Deposits

Identify the basic features of company fixed deposits to include a fixed interest rate, a defined term to renewal or refunding and the unsecured nature of the obligation.

Identify the distinction between company fixed deposits making periodic interest payments versus those providing for cumulative payments of interest and principal at maturity.

Identify the effect of longer terms to renewal or refunding on company deposit interest rates.

Identify investor ownership of a company fixed deposit evidenced by a non-transferable fixed deposit receipt issued by the company registrar.

## **Unit 5: Basics of Mutual Funds**

### 5.1 Understand Mutual Funds

Define a mutual fund product as a portfolio of securities.

Define fund objective. Identify objective of a fund and associate it with the portfolio.

Define units of a fund, face value and ongoing value.

### 5.2 Understand the benefits of mutual funds to investors. List these benefits.

### 5.3 Describe and distinguish open and closed end funds, in terms of unit capital, ongoing transactions and investors liquidity.

### 5.4 Describe how units of fund change with investor transactions.

### 5.5 Define Assets under Management (AUM) of a portfolio and fund management fees.

Describe how value of a unit changes with changes in the AUM.

Identify value of securities as the cause for changes in AUM.

Describe how AUM can move up or down every day.

### 5.6 Define and describe NAV of a fund.

### 5.7 Unit Capital

Describe how unit capital can move up or down every day.

Describe issuance of fractional units.

Solve a simple problem on amount invested or redeemed and units.

Solve a simple problem on NAV, AUM and units, for one unknown.

### 5.8 Types of Mutual Fund products

Describe mutual fund products and their classification into equity, debt, hybrids and money market.

Associate mutual fund products with the securities they invest in.

### 5.9 Dividends and Capital Gains

List the payouts to investors in mutual funds as dividends and capital gains.

Indicate how investment options enable choosing between dividends and capital gains.

## **Unit 6: SEBI – Role and regulation**

### 6.1 Understand the securities market regulatory environment

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- 6.2 Identify the SEBI mission and contrast it to the purposes for which other financial regulatory authorities were established.
- 6.3 Name SEBI as the government agency with authority to register and regulate stock exchanges and contrast with the roles of other financial regulatory authorities.
- 6.4 Identify SEBI's powers to:
- Conduct investigations of all market participants
  - Adjudicate offenses and penalize violators
  - Register and regulate market intermediaries
  - Standards of disclosure for issuers
  - Regulation of securities exchanges
- 6.5 Name SEBI rules and regulations specifically aimed at investor protection
- Prohibition of insider trading on non-public information
  - Prohibition of fraudulent and unfair trade practices
- 6.6 Identify the statutory basis for the Investor Education and Protection Fund (IEPF) from a list of potential acts.
- Identify the funding sources for the IEPF to include unclaimed dividends, interest, allotment application fees, matured deposits and debentures, and government grants and investment income of the period.
  - Identify the purpose of the IEPF.
- 6.7 Know SEBI Regulations Relevant for Registrars and Transfer Agents
- Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993
  - Securities and Exchange Board of India (Intermediaries) Regulations, 2008
  - Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996

### **Unit 7: Structure and Constituents of Mutual Funds**

- 7.1 Describe the structure of a mutual fund, in terms of the definition and role of sponsor, trustees and AMC
- Describe SEBI guidelines for setting up of Mutual funds and their structure
  - Describe the appointment and functions of trustees
  - List the functions and departments of the AMC
  - Describe the relationship between investors, trustees and AMC
  - Describe the mutual fund as a trust
- 7.2 Describe the regulatory aspects in structuring a mutual fund, including listing of the approvals and registrations required.

7.3 Describe the constituents of a mutual fund. Name each constituent and match their names with their functions. Describe the regulatory requirements for each constituent.

- Sponsor
- Trustee
- AMC
- Custodian
- RTA Agent
- Banks
- Auditors
- Distributor

7.4 Describe the role and functions of the R&T agent in detail, with respect to investor records, unit capital, banking and fund transfer and NFO.

### **Unit 8: Mutual fund products and features**

8.1 Describe the features of mutual fund products in detail. Associate a fund product with its investment objective.

- Equity funds and their variants, including Exchange Traded Funds (ETFs) and Equity Linked Saving Schemes (ELSS)
- Debt funds and their variants, including Fixed Maturity Plans (FMPs)
- Hybrid funds, including balanced, asset allocation and Monthly Income Plans (MIPs)
- Money market funds, including liquid and liquid plus funds.
- Fund of funds and pension funds.

8.2 Understand the taxability of a mutual fund

Describe the difference in taxability of income and capital gains for mutual fund investors.

Define Dividend Distribution Tax (DDT)

Describe Securities Transaction Tax (STT) and how it applies to mutual funds.

8.3 Understand payment mechanisms

List the payment instruments used by investors in mutual funds . EFT, RTGS, HV cheque, ~~at~~ par+cheques and Demand Drafts.

Understand that mutual funds do not accept outstation cheques.

Describe the role of a collecting bank and the concept of cleared funds

### **Unit 9: Applicable NAV and cut-off time regulations**

9.1 Describe the computation of NAV in a mutual fund

Solve a simple problem on computing NAV

Describe the sequence in computing and applying NAV to transactions in a mutual fund

9.2 Describe the concept of applicable NAV and its linkage to working hours and cut off time.

- 9.3 Describe the cut off time
  - Cut off time for liquid and non-liquid schemes
  - Concept of business day
  - SEBI Regulations on cut off time
- 9.4 Describe time stamping process and regulations governing time stamping
  - Risk control processes for time stamping
  - Operational control process for time stamping.
  - Identify the applicable NAV given the description of a transaction and time stamp.
- 9.5 Describe the applicable NAV for liquid funds as a special process, depending on realisation of funds and Calendar day NAV.

### **Unit 10: Purchase, redemption and systematic transactions**

- 10.1 Differentiate a fresh purchase and an additional purchase transaction.
- 10.2 Define purchase processing, including allocation of units, updating of unit capital, notifying the AMC, Statement of Account (SoA) to investors and reversals.
- 10.3 Define entry load
  - Describe how load would affect purchase transaction, differential load and no-load transactions.
- 10.4 Describe a redemption transaction.
  - Describe STT on redemption.
  - Define exit load.
  - Describe how exit loads affect redemption.
  - Describe redemption process for open and closed end funds.
- 10.5 Describe the SoA.
- 10.6 Describe the NFO process. Internal approvals, Offer document, SEBI approval and Offer.
- 10.7 List the brief contents of the Offer Document and the Key Information Memorandum (KIM) and know the relevant SEBI guidelines
- 10.8 Describe New Fund Offer (NFO) Price
- 10.9 Describe the NFO process. Describe the process for:
  - Collection
  - Reconciliation
  - Creation of records
  - Allotment
  - Inception date and on-going transactions
- 10.10 Describe types of switches and systematic transactions, and explain the process for each of them
  - Applicable NAV for switches; Inter-scheme and Intra Scheme switches;
  - Applicability of loads for switches
  - Systematic Investment Plan (SIP) process including SIP with NFO
  - Payment options for SIP, direct debit mandate, ECS and Standing Instructions (SI).

Systematic Withdrawal Plans (SWPs) and Systematic Transfer Plans (STPs) . fixed and appreciation options

**Unit 11: Investor and distributor processes and payouts**

- 11.1 List the types of mutual fund investors and their basic features.
- 11.2 Describe the dividend declaration and payout process in a mutual fund and the role of RTA.
- 11.3 Describe SEBI regulations pertaining to dividend announcement and payout
- 11.4 List the functions of an Investor Service Centre (ISC)
- 11.5 List the new folio creation documentation required for individual investors and special cases of individual investors such as minors, Power of Attorney (PoA) and HUF.
- 11.6 Describe the PAN and Know Your Customer (KYC) verification process
- 11.7 Describe the registration process for resident and non resident investors for:
  - Nomination
  - Power of Attorney (PoA)
- 11.8 Describe the process and documentation required for registering changes in investor details
- 11.9 Describe the process of transmission of units under various possibilities
- 11.10 List the documentation required for institutional investors
- 11.11 Describe the process of registering changes in names, authorised signatories of institutional investors