

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1049
ANSWERED ON:24.11.2000
DEEPAK PAREKH COMMITTEE REPORT ON UTI
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Will the Minister of FINANCE be pleased to state:

- (a) the main recommendations of the Deepak Parekh Committee to revamp /reorganise UTI and UTI-64;
- (b) the recommendations which have been implemented so far;
- (c) the time schedule for implementing the remaining recommendations of the committee;
- (d) whether the Government propose to amend the UTI Act to bring all the schemes of UTI under the purview of SEBI; and
- (e) if so, by when?

Answer

MINISTRY OF STATE IN THE MINISTRY OF FINANCE (BALASAHEB VIHE PATIL)

(a),(b) & (c) The Deepak Parekh Committee made a total of 19 recommendations of which 10 have been implemented by the Unit Trust of India (UTI). These include creation of Special Unit Scheme 99 (SUS 99) and transfer of PSU stocks to SUS 99 subscribed by Government, launching of a new UTI scheme for investing in the equity of growth stocks, shift to NAV based pricing, greater responsibility and authority to trustees, appointment of separate and independent fund managers for various schemes etc. Six recommendations are in various stages of implementation and the remaining three are yet to be implemented. These include the recommendation to make the US-64 scheme of UTI NAV- driven; setting up of a separate asset management company; and increasing the number of trustees. While UTI is taking action to make US-64 NAV driven by February 2002, the remaining two recommendations require amendments to the UTI Act.

(d) & (e) All schemes floated by UTI after July 1994 are within the regulatory purview of the Securities and Exchange Board of India. In July 2000, as suggested by the Government, UTI set up a Committee on Corporate Positioning to review its competitive and commercial positioning in the light of financial sector reforms and developments in the mutual fund industry, which may lead to suitable amendments in the relevant legislation.

Annexure referred to in the reply to Lok Sabha Unstarred No.1049 regarding the Deepak Parekh Committee Report on UTI, for answer on 24th November 2000.

Recommendations already implemented

Â§ Initial contributors to infuse permanent funds of at least Rs. 500 crore.

Â§ Create a Special Unit Scheme 99 (SUS 99)

Â§ Transfer PSU stocks & Government subscribes to SUS 99, by issuing dated GOI securities.

Â§ Remove tax on income distributed by US 64 and schemes investing more than 50% in equity.

Â§ Launch of a new UTI scheme for investing in the equity of growth stocks in IT, Pharma and FMCG sectors.

Â§ Trustees to assume higher degree of responsibility and exercise greater authority

Â§ Chinese walls to be created by appointing separate and independent fund managers for each scheme

Â§ Inter-scheme transfers to be effected based on independent decisions and requirements of concerned fund managers and at market determined prices.

Â§ Independent fund manager for US-64 with full responsibility and accountability.

Â§ Fund manager should be helped by strong research team and research capability should be strengthened

Â§ Investment/disinvestments decisions to be based on research analysts' recommendations - analysis to have authority and responsibility.

Â§ Fund manager to have final authority and responsibility in decision making based on his perception of the market and research inputs.

Â§ Dividend distribution policy to be thoroughly revamped to ensure that the scheme is responsive to changing market conditions. Needs to follow a more conservative approach to build up sufficient reserves during periods of good performance. As a rule, dividend needs to be curtailed when there is inadequate income.

Â§ The rate of return offered to investors to be reviewed on a periodic basis.

Recommendations already considered for implementation

- Â§ Strategic sale of significant equity holdings by negotiation to the highest bidder, where ever feasible .
- Â§ Increase in remuneration of Trustees and publication of attendance record of Trustees in Annual Report.
- Â§ Focus on small investors to be strengthened and towards corporate investors reduced.
- Â§ Spread between sale and repurchase prices be gradually increased to deter short term investors.
- Â§ Portfolio composition to be changed to provide for more weightage to debt in US 64 portfolio consistent with Scheme objectives.
- Â§ Operations of US 64 be brought under SEBI purview at the earliest. This would ensure transparency to unitholders and would significantly enhance investor confidence.
- Â§ To commission an independent professional firm for detailed review of asset management processes including back office, inter scheme transfer and investor servicing.

Recommendations which are yet to be implemented

- Â§ Increase size of UTI Board to 15, with additional 5 members being co-opted by the Board. Needs amendment to UTI Act.
- Â§ Separate Asset Management Company for US-64 with an independent Board of Directors. Needs amendment to UTI Act.
- Â§ Make US-64 NAV-driven in three years - UTI is taking steps to make US-64 NAV driven within the specified period.