



## MERGERS IN AMC: A CASE STUDY OF MERGER OF LIC & IDBI

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### ABSTRACT

The selling of units to the overall population or a section of the overall population under at least one plan for putting resources into securities, including currency market instruments, is the primary source of revenue for a mutual fund created in the form of a trust to generate funds.<sup>1</sup> The “Securities and Exchange Board of India (SEBI)” is in charge of overseeing the regulation of mutual funds that are registered and functioning in India. In India, “Anybody who wishes to establish a mutual fund is needed to register with the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996<sup>2</sup> to do so under the Mutual Fund Regulations.”<sup>3</sup> The mutual fund’s assets must be managed by an asset management company (AMC), which must be selected by the sponsor or trustees. In addition to other things, the AMC is required to take every sensible means and perform due determination to guarantee that funds having a place with any plan are not invested in a way that is infringing upon the particulars of the Mutual Fund Regulations and the trust deed.<sup>4</sup> A merger of two mutual funds may also imply a merging of schemes since both mutual funds may have schemes that are comparable to one another and this article will provide a brief analysis of how mergers take place in AMCs and particularly in two mutual funds companies.

**Keywords:** Mergers, AMC, Mutual funds, Company.

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<sup>1</sup> Aashika Jain, 'Things To Know Before Investing In A Mutual Fund In India' (*Forbes Advisor INDIA*, 2021) <<https://www.forbes.com/advisor/in/mutual-funds/things-to-know-before-investing-in-a-mutual-fund/>> accessed 5 December 2021.

<sup>2</sup> Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.

<sup>3</sup> Nishith Desai Associates, 'Mutual Funds In India: An Overview' (*Nishithdesai.com*, 2021) <[http://www.nishithdesai.com/fileadmin/user\\_upload/pdfs/Mutual\\_Funds\\_in\\_India.pdf](http://www.nishithdesai.com/fileadmin/user_upload/pdfs/Mutual_Funds_in_India.pdf)> accessed 5 December 2021.

<sup>4</sup> Indian Registration Act, 1908.

## **MERGERS IN ASSET MANAGEMENT COMPANY (AMC)**

Following the implementation of *SEBI's scheme categorization guidelines*, mutual funds may only have one open-ended scheme in each category, and the merged company will be required to take efforts to combine schemes that are in the same category as the existing mutual fund.<sup>5</sup>

If the basic characteristics of a scheme change, investors must be provided notice of the planned change as well as the opportunity to quit the scheme at its current Net Asset Value (NAV) without incurring exit charges if they do not approve of the change. It is not necessary to get the consent of the investors to put the modification into action. The proposal is sent to SEBI after it has been approved by the AMC's board of directors and trustees. Once the application has been authorized by the SEBI, the mutual fund is obligated to notify shareholders of the approval. Accordingly, the notification provides all of the necessary information, including the reason for the merger and its implications, so that an educated choice may be made about whether or not to continue participating in the scheme.<sup>6</sup>

## **LEGAL PROVISION RELATED TO MERGER OF AMC**

Any combination or merger of Mutual Fund plans will be managed as a change of the fundamental credits of the connected plans and Mutual Funds will be expected to follow the Mutual Funds Regulations in such manner. The suggestion and modalities of the merger or consolidation will be acknowledged by the Board of the AMC and Trustee(s) after they ensure that the interest of unit holders under every one of the concerned plans have been guaranteed in the said recommendation.

- Section 230-240 of the **Companies Act, 2013** covers the arrangements identifying with M&A including plans that cover organizations, their individuals, and lenders.
- Certain horizontal agreements, such as price-fixing, bid-rigging, and market allocation, are deemed to have a significant adverse effect on competition under the Competition Act. Other constraints, such as vertical restraints, mergers, and alleged abuses of dominance, are subjected to a balancing test to see if they have a significant negative impact on competition.
- The Annual Information Return is required of mutual funds under section 285 BA of the **Income Tax Act**. According to this requirement, Trustees of Mutual Funds or any other person managing the affairs of the Mutual Funds (as may be duly authorised by the trustees in this regard) must report specified financial transactions in electronic media to the

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<sup>5</sup> Categorization and Rationalization of Mutual Fund Schemes, SEBI 2017.

<sup>6</sup> Peter Serdyukov, 'Innovation in education: what works, what doesn't, and what to do about it?'[2017].

Income Tax Department in an Annual Information Return, along with the PAN of the transacting parties (AIR).

- The **Indian Income Tax Act, 1961** provides the meaning of Amalgamation under Section 2(1B) which means merger of one or more than one company into another company to develop a new company.
- The **Indian Stamp Act, 1899** is authorized in the entire of India as for the pace of various commercial instruments. This is ordered by the central government, however, it gives the capacity to the state government to either utilize the act for what it's worth or can alter it accordingly. Indeed, even they can sanction an alternately represent stamp obligation for their state.
- The high court judgement sanctioning a scheme of amalgamation is particularly included in Clause 25 (da) of Schedule 1 to the **Bombay Stamp Act**, enacted on January 1, 2000, so that there is no dispute that this state has a differential rate of duty.
- As per Sec 20(4)(1), 2 per cent on the market value of the transferor company's property located in **Karnataka** and transferred to the transferee company; or an amount equal to 1% of the aggregate value of shares issued or allotted in exchange, or otherwise, and, in the case of a subsidiary company, shares merged (or cancelled) with parent company, plus any consideration paid for such amalgamation; whichever is higher.
- The idea of Crossline mergers is managed by **FEMA**. It implies any merger, amalgamation, or arrangement among Indian and foreign organizations. FEMA guidelines furnish that any exchange taken regarding the cross-border will happen through RBI, according to the 25th rule of **CAA Rules, 2016**. Amendment of 2017 in Companies act added Section 234 to the act which discusses cross line mergers. In 2018 RBI advised in the official gazette about welcoming stakeholders for guidelines. They will play a significant part as they will watch out for the market circumstance.
- The **SEBI (Mutual Funds) Regulations, 1996** recommends a legal shape with inbuilt governing rules as independent organizations viz. Trustees, AMC, Sponsor, and so forth. Qualification criteria have been described in the Mutual Fund Regulations for the patron of certificate of enrollment. A Mutual Fund must be comprised in the type of a Trust, made through a Trust Deed and executed by the support for the Trustees who hold the property of the Mutual Fund in trust to help the unitholders.

- Before **Insolvency And Bankruptcy Code,2016** we had **Sick Industrial Companies Act, 1985** i.e., SICA enactment. This act was sanctioned to recognize the debilitated units and restore them through mergers and acquisitions, on the off chance that conceivable, if not the request for winding up of wiped out organizations. The fundamental motivation behind why this act appeared was to deliver the venture which has been secured with the goal that assets can be utilized alternately and effectively.

In 2016 SICA was completely revoked as it covered with arrangements of the Companies act. With the authorization of IBC, Companies act sections from 253-269 were discarded and presently Section 255 and Schedule XI deals with it. It is managed by NCLT and helps in selling the resources whose worth has been deteriorated.

- According to the **Mutual Fund Regulations** support implies any person who, acting alone or in blend in with another body corporate, sets up a mutual fund and contributes 40% to the total assets of the AMC.

Para 2 of Seventh Schedule of Mutual Funds Regulations on Restrictions on Investments<sup>7</sup> between Alia states that “No mutual funds under the entirety of its plans should claim more than ten per cent of any organization's paid-up capital carrying voting rights.”

- **SEBI**, in September, changed the portfolio allotment rules for multi-cap value mutual funds plans. These new standards will become powerful from the following year. As per the new guidelines set by SEBI, a multi-cap mutual fund plan should put 75% inequities. Additionally, these plans should invest essentially 25% each in large, mid-, and little cap stocks. As of now, there is no such allotment limitation and asset supervisors can contribute across the market cap according to their own decision. At present, the minimum equity allocation should be 65%.<sup>8</sup>

## **THE RECENT MERGER OF LIC MUTUAL FUND & IDBI MUTUAL FUND**

Recently, “*LIC Mutual Fund*” and “*IDBI Mutual Fund*” announced that their mutual fund companies will be merged. India’s Securities and Exchange Board of India has given assent to the plan.<sup>9</sup>A merger of mutual funds affects the interests of investors because there will be a change in

<sup>7</sup> SEBI (Mutual Funds) Regulations, 1996( Part 2).

<sup>8</sup> Avneet Kaur, ‘Five new mutual funds rules that come into effect in 2021’, < <https://www.livemint.com/mutual-fund/mf-news/five-new-mutual-funds-rules-that-come-into-effect-in-2021-11609125660277.html> > accessed 5 December 2021.

<sup>9</sup> ‘LIC-IDBI Bank Merger: IDBI may now become LIC IDBI Bank or LIC Bank’ (*Business Today*, 2021) < <https://www.businesstoday.in/latest/corporate/story/lic-idbi-bank-merger-idbi-may-now-become-lic-idbi-bank-or-lic-bank-167293-2019-02-04> > accessed 5 December 2021.

management after the completion of the merger. In the event of a merger or acquisition, it is critical to evaluate the strengths of the amalgamated firm before proceeding.

For Example, in the case of these two mergers, it is hoped that the merging of *LIC Mutual Fund* with *IDBI Mutual Fund* would allow the companies to combine the retail reach of *LIC Mutual Fund* with the managerial skills of *IDBI Mutual Fund*. The success of a mutual fund's schemes, as well as the acquirer's strategy and investing philosophy, are all crucial considerations when a mutual fund is purchased by another.<sup>10</sup>

However, Some IDBI Asset Management Co. (AMC) workers have expressed opposition to the company's merger with LIC Mutual Fund.<sup>11</sup> Because the Life Insurance Corporation of India (LIC) has its own asset management company, the LIC Mutual Fund, under the Securities and Exchange Board of India (SEBI) rules, a single entity cannot be the sponsor of multiple asset management companies, and a sale or a merger is required in this case. The transfer of staff, on the other hand, is not contemplated under the merger plans. As per employees, "IDBI AMC is a lucrative firm that is being combined with LIC AMC, which is a loss-making asset management company. Common logic would imply that IDBI AMC should have taken over LIC AMC rather than the other way around since the parent would stay the same." There has been a lot of interest in the asset management market from players who have shown an interest in establishing their own AMC firm. As a result, for AMCs such as IDBI AMC, open market sourcing would have resulted in a greater value for the exchequer. "A Sebi circular issued in December 2020 essentially permitted fintechs to join the asset management market by loosening the requirements for financial viability and profitability. Since then, a slew of fintech companies has joined the mutual fund market."<sup>12</sup>

A scheme that has been merged with another scheme (the transferor scheme) will no longer exist when the merger is completed. Transferor plan investors will be given units in the scheme into which it is being merged, as a result of the merger (transferee scheme). When new units are issued in place of existing units, there is no tax consequence on the transaction. Only investors in the transferor scheme will be entitled to exercise their exit rights unless there is a significant change in the essential features of both the transferor plan and the transferee scheme.<sup>13</sup> Investors in the

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<sup>10</sup> G Naga Sridhar, 'Post IDBI MF deal, LIC Mutual to streamline products, operations' < <https://www.thehindubusinessline.com/markets/post-idbi-mf-deal-lic-mutual-to-streamline-products-operations/article25782658.ece> > accessed 5 December 2021.

<sup>11</sup> Sunita Abraham, 'How Merger Of Amcs Might Affect Mutual Fund Investors' (*mint*, 2019) <<https://www.livemint.com/mutual-fund/mf-news/how-merger-of-amcs-affect-mutual-fund-investors-11572248557528.html> > accessed 5 December 2021.

<sup>12</sup> 'SEBI allows fintechs to apply for mutual fund licenses', < <https://www.financialexpress.com/industry/sebi-allows-fintechs-to-apply-for-mutual-fund-licenses/2151415/> > accessed 5 December 2021.

<sup>13</sup> M/S. Subhiksha Trading Services Ltd..v. Mafatal Industries Ltd (2010) 6 CTC 348.

transferor plan should take into account the change in the mandate as well as the performance and investment aim of the transferee scheme before making a decision.

The notice period for investors is 30 days, during which they may assess their choices. If they wish to leave, they will be able to do so without incurring any departure charges. However, if the investor makes any capital gains upon exiting the investment, the tax burden will fall on his or her shoulders. If they opt to remain on and are granted units under the transferee plan, their duration of holding will not be affected to calculate capital gains on any future sale.<sup>14</sup> The original date of purchase of the units will continue to be in effect.

## **CONCLUSION**

AMCs merge to diversify their investment strategy, expand their distribution network, engage in important business sectors, and improve customer service. In India, the mutual fund sector is only starting to bloom, and with the recent relaxations in regulations, certainly, the industry will soon catch up to the worldwide level of excellence. India as a nation has huge potential, and the increase in income and savings levels is an indication of the enormous economic possibility that awaits.

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<sup>14</sup> 'Capital Gain – All You Want To Know' (*TaxGuru*, 2021) < <https://taxguru.in/income-tax/capital-gain.html> > accessed 5 December 2021.