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Contents

Effective Functioning of The Audit Service for Saudi Firms During The Recent Financial Crises

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ABSTRACT

This paper offers a contemporary look at the Saudi market during the financial crisis 2006-2008 which in recent years has become known as a significant adverse economic event in the world. Specifically, we investigate the impact of the audit service on the firm performance. The present study, also, empirically examines the impact of the introduction of Shariah-compliant Principles on the firm performance during the recent financial crisis. We find that firms dominated by independent directors and audited by Big Four auditors show high firm performance. The significantly relationship between Compliant-Shariah principles and stock price performance is proved only in 2007. The Saudi market should provide insight into market response to establish a Shariah Index in order to better capture its impact on firm performance.

Keywords: Governance, Audit, Shariah principles, Crisis, Stock price performance

1. INTRODUCTION

The global financial crisis has captured the attention of investors, regulators and academics in all countries, affected or not affected by such financial failures. As a result, more attention has been given to enhance corporate governance worldwide in order to prevent a various instances of expropriation, to restore the confidence in capital markets and to preserve the firm value in crisis period. Audit Service and compliance with Shariah principles could play a very vital role in improving the stakeholder's confidence and corporate governance by bringing out better internal control systems, better monitoring and oversight, and better disclosures and quality of internal and external reporting.

There is a significant literature insisting that an Audit service is a key fulcrum of any company and investigating this framework that links independence, size, meetings and others characteristics of the audit committees and external audit to improve firm performance and value. Klein (2002) and Chan and Li (2008), for example, find evidence that the presence of independent and expert members on audit committee increases firm value. Kirkpatrick and al (2009) also find that independent members on the audit committees contribute to a better share price because the independent members have a better understanding of firms' risk.

A large quantum of research confirms also that the responsibility for assessing the effectiveness of audit committee and external audit are assuming more and more importance especially during the financial crisis. Mitton (2002), and Fan and Wong (2005) show that having Big Four auditor is associated with an additional higher stock price performance over the Asian crisis period. Empirical evidence of Ezzine and al (2010) show that the key audit committees attributes improve the firms' ability to resist the Asian stock market crisis which assessed by minimization of financial returns' conditional volatility. Conducted on a sample of Australian firms, Aldamen and al (2011), also, find that audit committee characteristics are associated with higher firm performance during the recent financial crisis.

However, the existing research literature pertaining to firm's compliance with Shariah Principles is limited. Rahman and Wajdi (2006) show that Shariah-compliant firms pay higher dividend to their shareholders than non-Shariah compliant firms. They also show that Shariah-compliant firms facing less agency cost than non-Shariah compliant firms. The Shariah Principles contributes towards maintaining market confidence, and strengthening transparency and accountability. The recent financial crisis highlights that corporate governance in Saudi Arabia is in its early stages and is characterised by a lack of accountability, a weak legal framework and protection of shareholders. In fact, the limited investigations on Audit Service in Saudi market (Ibrahim 2006 and Moataz 2003) encourage us to address the question of the impact of audit committee characteristics and compliant Shariah principles on the firm performance the recent financial crisis.

This main purpose of this study is to investigate the impact of the audit service attributes and compliant-Shariah principles on the Saudi performance during the subprime crisis.

The remainder of our paper proceeds as follows. Section 2 provides an overview on the regulation of the audit profession in Saudi Arabia. Section 3 reviews prior literature of the study. Section 4 describes the research design which includes the sample, variable measures and empirical methods. Section 5 tests the hypothesis and presents the results of the data analyses. Finally, we provide concluding remarks.

2. REGULATION OF AUDIT PROFESSION IN SAUDI ARABIA

The global financial crisis is causing a considerable slowdown in Middle East countries. The Saudi Arabia is amongst those who suffered from stock market recession. The recent incidents of corporate frauds have led to increased concerns regarding corporate governance in Saudi firms. They also have brought into sharp focus the importance of the critical role to be played by the audit service in ensuring good corporate governance. Thus, basing on the studies of Ibrahim (2006) and Abdulaziz (2009), we provide at the beginning an overview on the regulation of the audit profession in Saudi Arabia.

2.1 Accounting and auditing regulations

In accordance with the Regulations for Companies, all firms in Saudi Arabia are required to comply with Saudi Arabian Generally Accepted Accounting Principles (SAGAP). The accounting profession in the Kingdom is regulated by the Ministry of Commerce. The professional accounting body, Saudi Organization for Certified Public Accountants (SOCPA) in the Ministry of Commerce is assuming a leading role in organizing and further developing the profession. In fact, the Royal Consent in 1991 for the establishment of the SOCPA was taken in order to handle the regulation of the auditing and accountancy profession.

The Saudi Organization for Certified Public Accountants has issued the following pronouncements: Certified Public Accountant Code, Saudi Arabian Auditing Standards, Saudi Arabian Accounting Concepts and Objectives and the Standard of General Presentation and Disclosure, and Saudi Arabian Accounting Standards. The SOCPA has issued accounting and auditing statements at times in an effort to establish Saudi Standards for all relevant topics and to update them in accordance with business requirements. Companies are required to follow the International Financial Reporting Standards (IFRS), if the orientation is not available on a particular topic in the Saudi Accounting Standards. The Company Law and the Department of Zakat Income Tax requirements require an annual audit for most types of firms. All listed companies under the Company Law are required to file audited financial statements with the Ministry of Commerce within six months of the end of the fiscal year.

The main objectives of SOCPA are:

- Review, development and adoption of accounting standards and audit
- Development the examination standards for certified public accountants
- Organization and supervision of continuing training
- Conduct of research in accounting, auditing and related fields
- Monitoring adherence to accounting and auditing standards
- Publication of relevant accounting and auditing material
- Participation in accounting seminars and conferences locally and internationally

2.2 Audit committee

Unlike accounting and external auditing, the development of internal auditing in Saudi Arabia has occurred in the lack of state recognition and support. The most challenging facing the audit practitioners of the nation is that to date there has been no specific government initiatives to promote and encourage the internal audit function, nor have the country's professional accounting organisms supported the development of internal auditing. However, the importance of audit committees as a major tool to increase confidence in financial statements and to protect property is recognized. Since January 1994, the Minister of Commerce has issued a resolution (Act 931), mandating all public companies to establish audit committees.

The resolution for the establishment of audit committee in Saudi Arabia comprised guidance to control the selection of their members. These guidelines are:

1) The member should be a shareholder of at least 20 shares and committee size should not be less than three director

2) The director should not be a member of the board of directors or managing a technical, managerial or consultancy works.

3) Saudi Arabia requires that a member of audit committee must have knowledge of accounting or finance.

4) The director should not have a direct or indirect interest in the transactions and contracts of the company.

It is true that Act 931 required all firms to establish an audit committee and provided a set of guidelines regarding the composition, operation and responsibilities of the audit committee, but these recommendations were not compulsory. The worldwide collapses had lead to increased concerns regarding audit profession in Saudi Arabia. That's why, in 2002, the Internal Audit Committee (IAC) reviewed the SMC best practices and recommendations aimed to improve audit committee effectiveness. The first draft is announced in March 2003. The new best practices are more clear and comprehensives. They are presented as follows:

1) All public firms are required to establish audit committees

2) Saudi Arabia requires that at least four committee members be independent directors

3) The audit committee should meet at least four times per year

4) The audit chairperson must be someone other than a member board.

5) Saudi Arabia requires that at least one member of audit committee must have expertise in accounting or finance aspects

6) The audit committee should have a formal charter

This first draft is sent to academics, external auditors, internal auditors and other interested parties for comment. However, no changes have been made on this and it is not clear if such best practices and recommendations will be adopted by the Saudi Stock Exchange Commission (SSEC) or SMC or not. Moreover, the Saudi financial market (Tadawul 2003) does not have any listing rules regarding audit committees. The audit committee framework in Saudi Arabia is a combination of statutes and codes of best practices and guidelines. Such framework lacks any listing rules by the SSEC. SMC is responsible for developing and up-dating the Corporations Law in Saudi Arabia, which should comply with the Islamic rules.

2.3 External audit

An external auditor is an audit professional who conducts an audit in compliance with laws or rules on the financial statements of a company. It permits stakeholders, including users of the financial statements, to rely on the company's financial statements for their decisions. In Saudi Arabia, the role of auditors equally becomes increasingly important especially with the recent corporate collapses. The Big Four Accountancy Firms are the four clear leaders in the industry. This group of companies works in international accountancy and handles audits for many of the largest companies in the world both publicly traded and privately. The companies that are a part of the Big Four accountancy firms are Price water house Coopers, Deloitte Touche Tohmatsu, Ernst and Young, and KPMG accountants.

The Companies Act 1965, modified in 1985 and in effect today regulates, among other things, the appointment of an external auditor, the relationship between the auditor and management, and responsibilities of the auditor. Articles 129 to 133 describe the arrangements for external audit appointment. The general meeting of the firm is responsible for selecting members of the audit committee and the audit committee is responsible for appointing the external auditor to conduct an external audit and for receiving reports from the auditor. The nomination mandate is for three years. When more than one audit firm is appointed, the appointment process does not recommence until five years after the audit firms began their audit (Saudi Ministry of Commerce, 1994).

The regulators and professional bodies in Saudi Arabia have considered the nomination and selection of external auditors and the protection of their independence to be the primary responsibilities of the audit committee. In fact, the regulations for auditor independence seem with the 1965 Company Act, 1985 Auditing Standards, SOCPA regulations and the 2004 Income Tax and Zakat Law, Professional Code of Ethical Conduct, and Standard of an auditor's objectivity, impartiality and independence.

3. BACKGROUND AND HYPOTHESES

The paper investigates the impact of the audit service and compliant-Shariah principles during times of financial crises. Specifically, the study examines a number of audit service attributes that have been explored in normal market setting to understand their relevance, if any, to Saudi firm performance during the recent financial crisis.

3.1 Audit committee effectiveness

The audit attributes examined include the presence, structure, composition, meetings of audit committee within firms to identify if any of these characteristics impact differentially on the performance of high and low performing companies during the recent financial crisis.

3.1.1 Audit committee on firm

Audit committees are an essential component in corporate governance. Wild (2002) finds that better quality of disclosed financial reporting enhances firm performance. Therefore, the public has been increasingly focused on oversight and governance issues especially in the light of the many recent financial crises and the accounting scandals. Most regulations in the world have made recommendations on the attributes needed to establish and maintain an effective audit committee on the firm in order to improve the quality of financial reporting.

Over time, the role of the audit committee has evolved and has progressively been re-defined from a voluntary monitoring mechanisms employed in high agency cost situations to improving the quality of information flows to shareholders. The audit committee is established with the aim of providing and enhancing oversight over the organization's audit and other areas involving financial management.

Prior literature states that use of audit committee can be considered an important part of the decision control system for internal monitoring by boards of directors (Fama and Jensen 1983). Turley and Zaman (2004) assert that audit committee promote and strengthen the existence of an internal audit function. Other researchers show the significant relationship between the presence of audit committee and financial reporting quality (Defond and Francis 2005). Graham's empirical evidence (2005), also, supports the regulatory focus on governance to enhance the relevance and reliability of financial information. Another current of research found that increased reporting quality also enhances the firm performance, measured as the variability of the earning reports before and after the instalment of an audit committee (Wild 2002). The returns variability increased significantly after the instalment, which indicates that the audit committee contributes to a better performing firm. Ezzine and al's empirical evidence (2010) finds that firms with audit committees are better able to withstand the Asian stock market crisis.

Hypothesis 1: A presence of audit committee on the firm has a positive effect on the financial performance during the recent financial crisis.

3.1.2 Audit committee size

Establishing and maintaining an effective audit committee is a challenge for any firm. To enhance quality, companies should consider some characteristics of their audit committee in line with most regulations. The audit size is one of attributes that should improve financial reporting quality and help avoid potential trouble in the future. Many researchers argued that increasing in number of audit committee members provides more effective monitoring and hence improves the firm performance (Raghunandan and Rama 2007, Aldamen and al 2010). Mangenka and Pike (2005) find that a higher number of directors on audit committee play a very vital role in improving the stakeholder's confidence by bringing out better quality of financial reporting. The complexity issues in reporting require considerable resources in terms of number of directors on the audit committee. Marrakchi (2000), also, show that audit committees consisting of a high number of directors are able to identify and resolve potential gaps and weaknesses in financial reporting.

The financial crisis and the recent incidents of corporate frauds have brought into sharp focus the importance of the critical role to be played by the size audit in ensuring good corporate governance. The empirical evidences of Sang-Woo and Il Chong (2005) and Mak and Kusnadi (2005) conducted on the Asian firms during the crisis of 1997 find that larger audit committees are likely to discover and resolve potential problems of governance as a whole and to reduce the vulnerability of firms to the Asian crisis. Ezzine and al (2010) find a significant and positive relationship between the number of audit committee members and the firm's ability to resist the Asian crisis; the higher of audit committee members, the lower the financial returns' conditional volatility.

Hypothesis 2: A larger audit committee has a positive effect on the firm performance during the recent financial crisis.

3.1.3 Audit committee composition

Most of the Audit committee effectiveness literature has focused on composition as a fundamental determinant that influences the effectiveness of the committee. Independence is often heralded as the single most important board and audit committee. The board independence is strongly related to the level of monitoring of management and reduction in agency costs (Fama and Jensen 1983). Similarly, the audit committee independence would contribute positively to the quality of the financial reporting process and risk management practices (Beasley 1996, Carcello and Neal 2003b).

A large quantum of research investigated on the effectiveness of independent audit committees. Beasley (1996) shows that the presence of an audit committee doesn't affect the likelihood of fraud, but more independent directors on the board should reduce the possibility of fraud. The empirical findings by Abbott and al (2004) and Abbott, Parker, and Peters (2004a) confirms that an audit committee composed of independent members decreases the possibility that the firm will associated with misleading and fraudulent reporting. Klein (2002) found that audit committee independence was negatively associated with abnormal accruals and that reductions in audit committee independence were associated with large increases in abnormal accruals.

Other studies show that audit committee independence contributes positively to the quality of the financial reporting process and subsequently a better share price (Wild 2002). This result is supported by recent evidence from Kirkpatrick and al (2009) which shows that independent members on the audit committees contribute to a better share price because independent members do have better understanding of risk appetites of firms. Chan and Li (2008) find also that the presence of independent on audit committees increases firm value. Such result was supported since the empirical study by Rosenstein and Wyatt (1990), who showed the association between the inclusion of outsiders on the audit committee and the abnormal stock return. Ezzine and al (2010) find a positive relationship between the audit committee independence and the firm's ability to resist the Asian crisis. When considering the structure of audit committee, the literature and regulators argue also that the chair of the audit committee should be independent and the most experienced person on the audit committee, and other than firm's CEO.

In addition, the audit committee composition literature regarding expertise of committee was dominated by several studies (Raghunandan and Rama 2007). In accordance with many regulations, theses studies require that the audit committees include members who should have sufficient expertise in oversight areas related to accounting, auditing, law and finance. Their empirical evidences indicate that markets react more positively to the appointment of new audit committee member who has relevant qualifications and experience in finance and accounting.

Hypothesis 3: The firm performance is high when the audit committee chair is another person than firm's CEO.

Hypothesis 4: The firm performance is positively related to percentage of independent directors in audit committee during the recent financial crisis.

Hypothesis 5: The firm performance is high when the audit committee chair is an independent director.

Hypothesis 6: The firm performance is positively related to percentage of directors with finance and accountant degree during the recent financial crisis.

3.1.4 Audit committee meetings

The number of meetings is a potential indicator of audit committee effectiveness in performing its oversight functions. However, if it does not give any information on the work done during these meetings or the effectiveness of the Committee to exercise its functions, an important signal may exist after the number of meetings. Zahra and Pearce (1989) and Marrakchi (2000) assert that intensity and quality of discussions between the members of committee and the formality of meetings are important elements that ensure the good board functioning. The empirical findings by Raghunandan and Rama (2007) show that an increase in meeting frequency provides more effective monitoring and hence better firm performance. Sharma, Naiker and Lee (2009) also find that number of meetings potentially impact on firm performance. The earlier studies generally agree on an average of three or four meetings a year to allow the audit committee to carry out its mission (Coopers and Lybrand (1995), Price Water house Coopers (2002)). However, Abbot and al (2004) show that an audit committee that meet at least twice a year decreases the possibility that the firm will associated with misleading and fraudulent reporting.

Hypothesis 7: The firm performance is positively related to number of meetings of audit committee during the recent financial crisis.

3.2 Audit quality

Since the outbreak of the recent financial crises, improve corporate governance and increase the ability of firms to guard any possible crisis require a redefinition of the role played by some economic actors first among which are, of course, auditors. The role of audit in agency and corporate governance theories is considered as a mechanism for regulating relations between the firm's partners. Jensen and Meckling (1976) show that the auditing is an important institutional arrangement that could align the interests of managers and shareholders and thus could mitigate agency costs. NG (1978) suggests that audit is one way to open flow of information between audit committee, and management. It helps to avoid mistakes and miscommunications.

The primary mission of an audit is to assess and communicate to shareholders the true situation of firm by reviewing and verifying the company's financial statements to form an opinion about the company's financial statements. They may give a qualified, unqualified, adverse opinion or even a disclaimer. Each one of these opinions can be vital for a firm. These statements tell the public if the firm is truthful and open with their financial information or if they seem to be hiding something they do not want anyone to see. The external auditors are the police and judges of the financial public affairs. The aim is a safe and sound financial set of financial statements to protect private and public investment.

However, most studies suggest that the evaluation or measurement of audit quality is problematic (De Angelo 1981, Lennox 1999). Manita (2005) states that the result of audit quality is not directly or immediately visible: the audit process is very complex and unobservable by third parties, and the audit report (the result of an audit) is so standardized in content and in its formulation that offers little opportunity for differentiation. De Angelo (1981) defined audit quality as the likelihood that financial statement errors or omissions will be detected (competence) and reported (Independence). These two concepts of an external auditor are imperative for him to be successful.

The audit quality literature identified both size and specialization of auditors as proxies for audit quality. The reputation of an audit firm is often associated with its size. The auditor quality is different depending on whether it belonged to one of the "Big Eight" (in the eighties), the "Big Six" (the nineties) and the "Big Four" today. DeAngelos (1981) argued that big audit firms provide investors with more insurance because such auditors are considered as having deep pockets, which enable them to compensate investors in case something goes wrong. The Big Six firms may be more likely to ensure transparency and eliminate mistakes in a firm's financial statements because they have a greater reputation to uphold (Michaely and Shaw, 1995), because they may be more independent than local firms, or because they face greater legal liability for making errors (Dye, 1993).

There are a significant empirical evidences dealing with the effectiveness of big audit firms. Fang and Wong's empirical evidence (2005) find that firms having a greater tendency to engage in big audit firms are those who undergo high agency costs. Mitton (2002) show that the disclosure quality is positively associated with the audit by one of the Big Six international accounting firms which in turn is associated with significantly better stock price performance during the Asian crisis period. As for the co-audit, it appears an interesting solution to the dysfunctions encountered in the audit and corporate governance of larger firms (audit firm Mazars). It delivers cutting edge solutions for enterprise management of internal and external audit processes and systems, helping you keep pace with regulatory compliance requirements. Then, the co-audit strengthens the independence of the audit groups by providing additional expertise and wider additional views. Thanks to the joint audit, the responsibilities are shared and the opinions quality, therefore, is improved.

Hypothesis 8: The firm performance is positively related to the audit by one of the Big Four international accounting firms during the recent financial crisis.

Hypothesis 9: The firm performance is positively related to the co-audit during the recent financial crisis.

3.3 Compliance with Shariah Principles

Over the last few years, a significant trend in conventional finance has been leaning towards Islamic Investments. The rapid proliferation and impressive growth of Islamic oriented are placed in order to better protect the interests of the Muslim investors. More attention has now turned towards applying Islamic principles in equity markets. In general, Principles were established after referring to the Quran, Hadith and general Shariah principles, and were formulated according to the activities of a particular company. The Shariah principles are focused on the primary activities of a company with regard to the goods and services offered. This is because these primary activities bring returns for the company that are subsequently distributed to its shareholders in the form of profits and dividends. Such activities need to be identified to see whether they are contrary to Shariah Principles. The business activities related to Pork, Alcohol, Gambling, Financials, Advertising and Media, Pornography, Tobacco and Trading of Gold and Silver as cash on deferred basis are excluded from the list of Shariah- compliant securities. Thus, the firm which complies with Shariah principles is not involved in any non-Shariah compliant activities.

The existing research literature pertaining to firm's compliance with Shariah Principles is limited. Rahman and Wajdi (2006) show that Shariah-compliant firms pay higher dividend to their shareholders than non-Shariah compliant firms. They also show that Shariah-compliant firms facing less agency cost than non-Shariah compliant firms. The Shariah Principles contributes towards maintaining market confidence, and strengthening transparency and accountability. Their emphasis is to be value oriented and promote fairness and justice for all stakeholders of the organization. Sadeghi (2008) have investigated the impact of introduction of the Shariah index on the financial performance. His empirical study finds that the compliance with Shariah principles has positive and strong impact on the financial performance of the Shariah compliant firms. Albaity and Ahmed (2008) explore the relationship between KLSI and KLCE in Malaysia during April 1999 to December 2005. They find that there is an insignificant return difference and long term bidirectional relationship between both indices. Hakim and Rashidian's empirical evidence (2002) analyzes too the performance of Islamic indices vis-à-vis conventional stock market indices using stock market data. We suppose in this study that compliance of firms with Shariah Principles improve the functioning of audit service and improve the performance of Saudi firms during the recent financial crises.

Hypothesis 10: The firm performance is positively related to the compliance of Shariah Principles during the recent financial crisis.

4. RESEARCH DESIGN

4.1 Sample and Data

The sampling frame includes 95 industrial and listed firms on Saudi Stock Exchange (Tadawul) during the period of financial crisis 2006-2008. The primary business segment of each firm must not be in financial services, that is, not in a Standard Industrial Classification (SIC) 6000-6999. The stock price and financial data were obtained from the Saudi stock market website: www.tadawul.com.sa. All corporate governance data was obtained manually from annual reports downloaded by every firm website. To measure firm performance during the recent financial crisis, I use stock returns over the crisis period, from January 2006 through December 2008. The returns are dividend inclusive and are expressed in local currencies adjusted for local price index changes.

Table 1 and Figure 1 show the movement of stock index for Saudi Arabia from 2007 through 2008. This index had already been trending downward. The median excess return is low; it varies from 0.412% in 2007 to -0.296% in 2008. The domino effect of recent financial crisis has an effect on Saudi firms. We also confirm this result by examining the trend volatility. The volatility nature of Saudi market is also observed in Table 1 and Figure 1. The global financial crisis which triggered by the sub-prime mortgage crisis in the U.S and which emerged in developed countries has been adversely affected and already spread to Saudi economy.

In general, the sample is a representative of larger and more liquid firms that trade on the major stock exchange of Saudi market. Panels A and B of Table 2 present summary statistics of firms for Saudi country. These companies representing different industries, in principle, reflect the overall trend of Saudi economy.

4.2 Variables measures

The dependent variable in our study is the firm performance (PERF). It is coded as 1 for the top performers and 0 for the bottom performers firms.

Table 3 summarised the independent variables.

To measure Shariah compliance, I use a dummy variable that is set to one if the firm complies with the Shariah principles and zero otherwise. The selection of Shariah-compliant takes place through a screening process based on two qualitative and quantitative parameters. The qualitative criteria, in evaluating the status of these companies, are to assure that they are not involved in these activities: Financial services based on riba, gambling, production or trade of prohibited goods (pork, alcohol, etc.) After removing companies with non-compliant business activities, we advance the quantitative criteria or Accounting-Based Screens. In fact, the rest of the firms are examined for compliance in financial ratios, as certain ratios may violate compliance measurements. There are:

- Debt / Market Value of Equity (12 Month average) < 33 %;
- Accounts Receivables / Market value of Equity (12 Month average) < 49 %;
- (Cash + Interest Bearing Securities) / Market value of Equity (12 Month average) <33%;
- In certain cases, revenues from noncompliant activities are permissible, if they comply with the following threshold: (Non-Permissible Income other than Interest Income) / Revenue < 5%

4.3 Descriptive explanatory variables analysis

Our descriptive analysis is conducted on three groups of independent variables for Saudi firms during 2006-2008: Audit Committee, Audit Quality and compliance with Shariah Principles. For Audit Committee, Table 4 shows that all Saudi firms establish an audit committee. The Saudi firms respect the main rules and recommendations which advocated the significant role of audit committee in the oversight of the company's risk management policies and programs. As regards the size, the average audit size is low; it does not exceed 3 members. However, our results show that the independent directors are the most involved group on audit committee during the three sub-periods of crisis (63% in 2008 against 65% in 2006). More than 60% of audit committee have also an independent chairman. Furthermore, this analysis indicates that positions of CEO and audit chairperson are separate for all Saudi firms. The Saudi market has introduced extensive reform measures that making audit committee more effective and more independent of management.

For Audit Quality, we have retained two attributes: the audit by one of the Big Four international accounting firms and the double audit. More than 50% of Saudi firms are audited by one of Big Four during the three sub-periods of crisis. This result corroborate the findings showing that Big Four firms may be more likely to ensure transparency and eliminate mistakes in a firm's financial statements because they have a greater reputation to uphold (Michaely and Shaw, 1995), because they may be more independent than local firms, or because they face greater legal liability for makingerrors (Dye, 1993). Moreover, on average, around 10% of firms are audited by a double audit (7.608% in 2008 against 12.345% in 2006).

For compliance with Shariah principles, after a screening process that based on two qualitative and quantitative parameters, we find that around 40% of firms comply with Shariah principles (38.461% in 2008 against 44.827% in 2006). These firms are involved in compliant business activities and are examined for compliance in financial ratios.

4.4 Empirical Methods

The following Logit-cross-sectional-regression model is used to test the hypothesized relation between the audit service attributes, compliance with Shariah and the dichotomous firm performance variable PERF:

$$\text{Crisis-Period Return} = a + b_1 \text{ (Audit Service' Variables)} + b_2 \text{ SHARIAH} b_3 \text{ FSIZE} + b_4 \text{ DRATIO} + b_5 \text{ IDUM} + \varepsilon$$

in which all variables are as defined previously.

5.RESULTS

5.1 Univariate Results

Our univariate analysis is essentially based on the Independent sample t-test which used to determine whether the values of explanatory variables differ between two our independent groups (Top performers and Poor performers firms). However, three attributes of audit committee are eliminated from our empirical analysis: presence of audit committee, leadership structure[1] and number of audit committee members with finance or accountant degree[2]. Panels A, B and C of Table 5 summarize the main results.

In 2006, by examining the mean variables for each group of firms in our sample, our findings fail to show that top performers firms have the highest values for audit service' attributes and compliance with Shariah principles. But, this remark is based on a simple comparison of means, which of course, simple observations can not confirm or deny anything in our assumptions, especially, that no significant differences were raised by applying the Independent sample t-test for the most variables. During 2007 (beginning of crisis), our results show significant differences between the two groups of firms with respect to independence of chairman and directors, and compliant Shariah principles. We note that the top performers firms present the highest means for CHAIND (0.833>0.600), IND (0.733>0.613) and SHARIAH (0.454>0.446) at the 5% and 10% levels. The results in 2008 lead to same findings of 2007 and also suggest significant difference at 5% level between the two groups of firms with respect to the double audit variable (0.100>0.088).

5.2 Logit Results

To interpret the logit results of our model, we follow the same procedure as in any multivariate method. These are two essential steps: Assessment of the overall model quality and Assessment of the partial relations in the model.

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[1] All firms establish audit committee and separate the positions of CEO and audit chairperson.
[2] Lack of this information in most annual reports of Saudi firms.

5.2.1 Robustness tests

Our model is estimated using the Maximum Likelihood Principle. The obtained results of Table 6 allow us to judge the overall model significance (Chi-Square Goodness of Fit Test) and its quality in terms of explanatory power (Pseudo R-squared) only for 2007 and 2008. A low Chi Square value and a high value of probability and also low Coefficients of Determination indicate the non-robustness of the model. However, we note that in 2007 and 2008, the Chi-Square test is significant at the 10% level and indicates that the models as a whole are significantly different to zero. The model quality in terms of explanatory power (Cox & Snell R Square and Nagelkerke R Square) also marked a good improvement in 2007 and 2008.

5.2.2 Test of hypotheses

We estimate a logit regression to test which audit service attributes and compliant Shariah principles impact firm performance. The interpretation of the valid coefficients is different than with a normal regression as the Logit Model is a probability regression. Therefore, the coefficient of the logit model indicates a probability log odd ratio of the likelihood of the independent variable that is related to the dependent variable, in this case firm performance. The positive coefficient for independent variable increases the probability of better performance of a firm in crisis period. However, a negative coefficient weakens the financial return.

The main results reported in Panels A, B and C of Table 7 can be interpreted as follows:

I. The audit service attributes and compliance with Shariah principles have no significant effect on the financial return except those of independence of chairman and directors. Holding all other variables constant, our model predicts the log odd for firm performance would change 7.375 for every one unit change in the IND. The positive coefficient under the 1% significance level decreases the probability of a higher performance of firm. Our hypothesis H4 that links positively the firm performance to the independence of directors is thus confirmed. Our findings confirmed also the hypothesis H5 that relates positively the financial return to independence of chairman (CHAIND). The independence of audit committee contributes positively to the quality of the financial reporting process and subsequently a better share price.

II. In 2007, the positive effect of chairman independence, independence of directors and audit by one of the big four international accounting firms on the firm performance has been proved. Our hypothesis H4 (H5 and H8) are confirmed. Indeed, with all control variables included, the coefficient on the CHAIND is 0.654. This indicates that each increase of 5% in chairman independence variable is associated with a higher financial return of 6.54% during 2007. In addition, Panel B shows that the coefficient on IND is

0.827 after all controls are included. This positive coefficient increases the probability of a good performance of firm. The positive coefficient for the BIGF at the 5% level suggests firm performance increases 2.299 for each unit change in the Big four audit variable. For firms' compliance with Shariah principles, our hypothesis H10 is confirmed. The SHARIAH variable has a positive and significant effect on the financial return at 5% level. The coefficient on the SHARIAH is 0.412. This indicates that each increase of 10% in Shariah variable score is associated with a higher financial return of 4.12% during 2007. Shariah-compliant firms would be more valued than non-Shariah compliant firms. The Shariah principles contribute towards maintaining market confidence, and strengthening transparency and accountability (Rahman and Wajdi 2006). The results reported in Panel B also show that firm size has a positive and significant effect on the firm performance during 2007 (at 10% level). The coefficient on the firm size 3.325, which suggests that the financial returnincreases 3.325 for each unit change in the firm size. The larger firms are the better performers firms.

III. After 2007, our results show only the significant effect of an independent chairman and meetings of the audit committee in maintaining firm performance in a crisis period. Our hypotheses H5and H7 are confirmed. The positive coefficient on the CHAIND under the 5% significance level increases the probability of a higher firm performance. The independence of the chairman would contribute positively to the quality of financial reporting process and firm value (Aldamen 2011). Further, the coefficient on the MEET is 0.005. This indicates that each increase of 10% in audit meetings variable is associated with a higher financial return of 0.05%. Such results are supported by Raghunandan and Rama (2007) showing that an increase in meeting frequency provides more effective monitoring and hence better performance of firms. Our results confirm also the hypothesis H8. The BIGF variable is associated with significantly better stock price performance. This finding is consistent with the view the audit by one the Big four international accounting firms benefits minority shareholders by increasing transparency and mitigating expropriation during a period of distress.

6. CONCLUSION

While most the corporate governance studies focuses directly on firm performance, only a few of them measures firm performance during a period of economic trouble. Stronger corporate governance was especially important during an unexpected period of extreme economic distress when the risk of expropriation of minority shareholders was high. The main purpose of this research is to examine whether governance makes a difference to Saudi firm performance when there is an adverse shock to expected future earnings. Especially, this study examines the relevance of a range of audit service attributes and compliant-Shariah principles during the recent financial crisis.

Our results show a strong evidence of a relationship between independence directors on audit committee and financial performance during the three sub-periods of crisis. An audit committee composed of independent members decreases the possibility that the firm will associated with misleading and fraudulent reporting. This finding affirm that Saudi firms comply with the most corporate governance principles and recommendations in world requiring companies to have an independent audit service. Furthermore, this study contributes to demonstrate in Saudi contextthat external audit is a tool for encouraging the managers to communicate accurate information to shareholders offset the lack of direct assessment of the firm performance.

Our evidence, also, supports the relevance of compliant-Shariah principles during 2007. The emphasis of Shariah principles is to be value oriented and promote fairness and justice for all stakeholders of the firm. However, this variable would be without effect on firm performance in 2006 and 2008. It is true that all Saudi firms are involved in compliant business activities, but do not show their compliance in financial ratios. Many firms violate certain quantitative parameters that will be important for compliance with Shariah principles. The Saudi market should provide insight into market response to establish a Shariah Index in order to better capture its impact on firm performance and its contribution in preventing firms going bust during an economic recession.

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TABLES AND FIGURES

Table 1. Evolution of the Tadawul All Share Index return

TASI Statistics	2007	2008
Mean	0.001426	-0.00296
Median	0.001544	-0.00059
Max	0.055	0.095131
Min	-0.058178	-0.09813
Standard deviation	0.014532	0.026368
Number of observations	247	250

Table 1 focuses on evolution of Tadawul All Share index return from 2007 through 2008. The returns of index are expressed in local currencies adjusted for local price index change. Lower median value is illustrated in 2008. Higher standard deviation value is also observed in 2008.

Crisis Statistics	2006	2007	2008
Stock return (Median)	-0.00205	0.00134	-0.00261
Standard deviation	0.01265	0.00933	0.01508

Table 2. Summary statistics

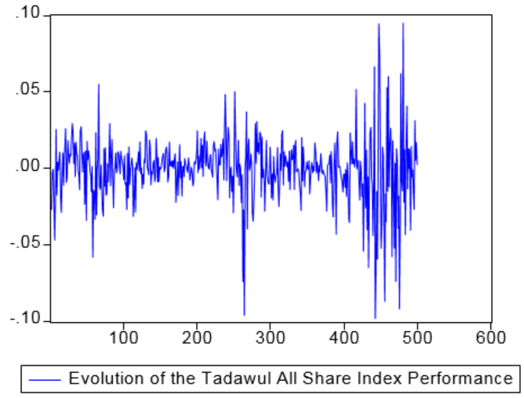

Figure 1. Tadawul Index return

This figure shows the trend in Tadawul All Share index return from 2007 through 2008. Horizontal line delineates the number of observations. The returns of index are expressed in local currencies adjusted for local price index change. A higher fluctuation is observed in 2008.

Panel A. Crisis statistics

Panel A reports crisis statistics for listed Saudi firms during the period 2006-2008. The stock returns are dividend inclusive and are expressed in local currencies adjusted for local price index change. For stock return, a lower median value is observed in 2008. For standard deviation, the lower value is also observed in 2008.

Panel B. Financial statistics

Panel B reports financial statistics for listed Saudi firms during the period 2006-2008. For market capitalization, return on asset and return on equity, lower median values indicate financial difficulties of Saudi firms especially in 2008.

Variables	Measures
PRAU: Presence of Audit Committee	1 if the firm establishes an audit committee and 0 otherwise
AUSIZE: Audit Size	Number of members on audit committee
LS: Leadership Structure	1 if the chairman is also the firm's CEO and 0 otherwise.
CHAIND: Independence of Chairman	1 if the chairman is independent and 0 otherwise
Number of Independent members on Audit Committee	% of independent directors on audit committee
FIN: Number of Audit Committee members with finance or accountant degree	% of directors with a finance or accountant degree
MEET: Number of Audit Meetings	Number of meetings of audit committee
BIGF: Big Four international accounting firms	1 if the firm is audited by one of the Big Four international accounting firms and 0 otherwise
DOUAU: Double Audit	1 if the firm is audited by a double audit and 0 otherwise
SHARIAH: Shariah Compliance	1 if the firm complies with the Shariah Principles and 0 otherwise
FSIZE: Firm Size	Logarithm of total assets
DRATIO: Debt ratio	Book value of total debt divided by the book value of total asset
Industry Effect	Industry sector code dummy (Campbell 1996)

Table 3. Variables measures

Table 3 lists all measures for Audit committee, audit quality, Shariah compliance and control variables..

Financial Statistics	2006		2007		2008	
	Mean	Median	Mean	Median	Mean	Median
Total asset (000RS)	14, 100,000	1,160,000	17,400,000	1,560,000	17,200,000	1,910,000
Total Market Volume	6,844,727	2,943,758	9,575,099	2,914,948	2,870,273	971,767.80
Total Market Turnover	201,000,000	166,000,000	141,000,000	115,000,000	82,180,459	36,409,194
Return on asset (%)	7.637	6.703	7.852	6.077	5.042	4.941
Return on equity (%)	10.687	9.852	12.385	8.77	7.424	6.6
Debt ratio (%)	54.365	36.22	62.457	39.269	76.086	43.246

Table 4. Descriptive explanatory variables analysis

Panel A. Descriptive analysis in 2006

Independent variables				
AUDIT COMMITTEE				
	Mean	Median	Max	Min
Audit Size	3.437	3	7	3
Percentage of grey directors (%)	30.525	10	100	0
Percentage of independent directors	65.386	66.6	100	0
The number of meetings	3.571	3	13	1

Presence of Audit Committee (%)	100
Leadership structure	0
Independence of Chairman	75.757
AUDIT QUALITY	
Audit by one of the Big Four international accounting firms	59.36
Double Audit	12.345
COMPLIANT SHARIAH PRINCIPLES	
Firms which comply with Shariah Principles (%)	44.827

Panel A reports evolution of independent variables for Saudi firms in 2006.

Panel B. Descriptive analysis in 2007

Independent variables				
AUDIT COMMITTEE				
	Mean	Median	Max	Min
Audit Size	3.291	3	7	2
Percentage of grey directors (%)	30.75	0	100	0
Percentage of independent directors	63.206	66.6	100	0
The number of meetings	4.148	3.5	13	0
Presence of audit committee (%)	100			
Leadership structure	0			
Chairman independence	63.157			
AUDIT QUALITY				
Audit by one of the Big Four international accounting firms	63.333			
Double Audit	11.363			
COMPLIANT SHARIAH PRINCIPLES				
Percentage of firms which comply with Shariah Principles	42.696			

Panel B reports evolution of independent variables for Saudi firms in 2007.

Panel C. Descriptive analysis in 2008

Independent variables				
AUDIT COMMITTEE				
	Mean	Median	Max	Min
Audit Size	3.209	3	5	2
Percentage of grey directors (%)	29.296	0	100	0
Percentage of independent directors	63.004	66.66	100	0
The number of meetings	4.242	4	9	0
Presence of Audit Committee (%)	100			
Leadership structure	0			
Independence of Chairman	64.285			
AUDIT QUALITY				
Audit by one of the Big Four international accounting firms	66.304			
Double Audit	7.608			
COMPLIANT SHARIAH PRINCIPLES				
Percentage of firms which comply with Shariah Principles	38.461			

Panel C reports evolution of independent variables for Saudi firms in 2008.

Table 5. Results of Independent Sample t-Test

Panel A. t-Test Results in 2006

Variables	Mean Value		F	Sig	t	Sig
	TP[3] = 1	PP[4] = 0				
AUSIZE	3.2	3.529	4.22	0.05	-1.524	0.136
CHAIND	0.333	0.846	2.8	0.11	-2.301	0.059
IND	0.277	0.755	0.03	0.86	-3.178	0.013
MEET	2.666	3.809	0.78	0.38	-1.405	0.175
BIGF	0.529	0.549	0.06	0.81	-0.137	0.892
DOUAU	0.062	0.137	2.91	0.09	-0.944	0.352
SHARIAH	0.388	0.5	2.52	0.12	-0.804	0.427

Panel A shows whether the values of explanatory variables differ between two our independent groups (Top performers and Poor performers firms) in 2006.

Panel B. t-Test Results in 2007

Variables	Mean Value					
	TP = 1	PP = 0	F	Sig	t	Sig
AUSIZE	3,111	3.35	4.29	0.04	-1.525	0.124
CHAIND	0.833	0.6	13.2	0	1.98	**0.032**
IND	0.733	0.613	3.67	0.06	1.834	**0.047**
MEET	3.875	4.142	0.46	0.5	-0.321	0.754
BIGF	0.545	0.621	0.48	0.49	-0.449	0.66
DOUAU	0.1	0.107	0.02	0.88	-0.072	0.941
SHARIAH	0.454	0.446	2.01	0.02	1.75	**0.081**

Panel B shows whether the values of explanatory variables differ between two our independent groups (Top performers and Poor performers firms) in 2007.

Panel C. t-Test Results in 2008

Variables	Mean Value					
	TP = 1	PP = 0	F	Sig	t	Sig
AUSIZE	3	3.222	2.33	0.13	-1.221	0.247
CHAIND	0.857	0.596	21.9	0	1.846	**0.05**
IND	0.729	0.653	3.52	0.07	1.702	**0.082**
MEET	4.142	4.153	2.53	0.12	-0.015	0.988
BIGF	0.7	0.647	0.53	0.47	0.324	0.752
DOUAU	0.1	0.088	4.62	0.04	-2.546	**0.013**
SHARIAH	0.444	0.382	3.3	0.07	1.935	**0.045**

Panel C shows whether the values of explanatory variables differ between two our independent groups (Top performers and Poor performers firms) in 2008.

[3] TP: Top Performers
[4] PP: Poor Performers

Table 6. Results of Model Specification

Years	Chi-Square	Sig	Cox & Snell	Nagelkerke
2006	13.55	0.241	0.097	0.129
2007	23.495	0.001	0.637	0.517
2008	20.054	0.005	0.602	0.67

Table 6 reports the overall model significance (Chi-Square Goodness of Fit Test) and its quality in terms of explanatory power (Pseudo R-squared) from 2006 through 2008.

Table 7. Logit Results

Panel A: Audit service attributes, compliant-Shariah Principles and financial performance in 2006

Variables	Estimated Coefficient	Standard Error	Wald	Sig
Constant	15.559	1.169	2.448	0.113
AUSIZE	1.405	0.412	0.001	0.236
CHAIND	7.367	0.724	4.562	**0.007**
IND	7.375	0.824	3.682	**0.007**
AUMEET	0.626	0.08	2.347	0.429
BIGF	0.243	3.399	0.048	0.622
DOUB	0.195	0.08	2.347	0.659
SHARIAH	0.049	0.852	0.28	0.825
DRATO	0.291	0.852	0.28	0.59
FSIZE	2.388	0.852	0.28	0.122

Panel A shows the regression estimates of the equation in 2006. With included firm size and leverage as control variables, our model retains the audit committee, audit quality and compliant Shariah variables.

Panel B. Audit service attributes, compliant-Shariah Principles and financial performance in 2007

Variables	Estimated Coefficient	Standard Error	Wald	Sig
Constant	14.559	1.442	9.305	0.056
AUSIZE	2.175	0.543	2.316	0.14
CHAIND	0.654	0.76	4.043	**0.012**
IND	0.827	1.012	4.317	**0.001**
AUMEET	0.096	0.079	2.393	0.757
BIGF	2.299	0.148	3.399	**0.048**
DOUB	0.73	0.079	2.393	0.393
SHARIAH	0.412	1.201	3.918	**0.041**
DRATO	1.292	1.201	3.918	0.256
FSIZE	3.325	1.201	3.918	**0.068**

Panel B shows the regression estimates of the equation in 2007. With included firm size and leverage as control variables, our model retains the audit committee, audit quality and compliant Shariah variables.

Panel C. Audit service attributes, compliant-Shariah Principles and financial performance in 2008

Variables	Estimated Coefficient	Standard Error	Wald	Sig
Constant	0.071	1.348	5.964	0.79
AUSIZE	0.325	0.531	0.541	0.569
CHAIND	1.395	0.786	3.414	**0.038**
IND	0.087	1.506	0.174	0.768
AUMEET	0.005	0.081	4.786	**0.014**
BIG	0.112	3.399	3.048	**0.048**
DOUB	0.439	0.081	1.786	0.508
SHARIAH	0.266	0.791	1.997	0.606
DRATO	0.071	0.451	1.917	0.79
FSIZE	1.557	0.391	1.867	0.212

Panel C shows the regression estimates of the equation in 2008. With included firm size and leverage as control variables, our model retains the audit committee, audit quality and compliant Shariah variables.

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A Study on Financial Performance Analysis at City Union Bank

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A B S T R A C T

Financial Performance refers to the achievement of the bank in terms of profitability. Profitability of a bank denotes the efficiency with which a bank deploys its total resources to optimize its net profits and thus serves as an index to the degree of asset utilization and managerial effectiveness. In this article an attempt is made to find out the financial position of City Union Bank, borrowings of the bank, the liquidity position and solvency of the bank through ratio analysis. This study is for academic purpose.

Keywords: financial position, liquidity, solvency, City Union Bank.

Financial Performance refers to the achievement of the bank in terms of profitability. Profitability of a bank denotes the efficiency with which a bank deploys its total resources to optimize its net profits and thus serves as an index to the degree of asset utilization and managerial effectiveness.

STATEMENT OF THE PROBLEM

Finance is the scarcest resource in India and hence it needs to be utilized optimally. The sound performance of a firm depends on the well-planning of capital structure, investment and distribution. Any firm that fails to apply the sound principles of capital structure like cost, control and the firm that fails to adopt scientific tool of investment and distribution in managing funds will not survive in the long run. Further, the firm should apply the wealth maximization as criteria in taking financial decisions like financing, investment and distribution.

Since finance in the life blood and nervous system of an enterprise, the importance of the timely appraisal of the performance of the firm cannot be overemphasized. In addition, it is clear from the review of earlier literatures that there has been no study on the Performance Appraisal of City Union Bank. Hence the Researcher felt the need to undertake the present study.

OBJECTIVES OF THE STUDY

- The basic objective of studying the ratios of the bank is to know the financial position of the bank.
- To know the borrowings of the bank as well as the liquidity position of the bank.
- To study the current assets and current liabilities so as to know whether the share holders could invest in City Union Bank or not.
- To study the profits of the business and net sales of the business and to know the stock reserve for sales of the business.
- To know the solvency of the business and the capacity to give interest to the long term loan lenders (debenture holders) and dividend to the share holders.
- To study the balance of cash and credit in the organization.

Research Methodology

The descriptive form of research method is adopted for study. The major purpose of descriptive research is description of state of affairs of the Institution as it exists at present.

The nature and characteristics of the financial statements of City Union Bank have been described in this study.

The data required for the study has been collected from secondary source .The relevant information were taken from annual reports, journals and internet. This study is based on the annual report of City Union Bank. Hence the information related to, profitability, short term and long term solvency and turnover were very much required for attaining the objectives of the present study. To have a meaningful analysis and interpretation of various data collected, the ratio analysis, and intercorrelation matrix were made for this study.

LIMITATION OF THE STUDY:

- The study is limited to a period of 5 years only.
- The study covers only one bank (i.e.) City Union Bank.
- Data of this study has been taken from published annual reports only.

REVIEW OF LITERATURE

It is necessary since it familiarizes the researches with concepts and conclusions already evolved by earlier analysts. It also enables the present researcher to find out the scope for further study and to frame appropriate objectives for the proposed evaluation. Since the proposal of the study is to measure the Study On Financial Performance Analysis At City Union Bank. The previous studies in this area of researches are briefly reviewed. It also includes the opinions expressed by various authors in leading articles, journals, books etc.

A.S. Shiralashetti1 in their paper "Performance appraisal of the Godag co-operative Cotton Textile Mill Ltd, Hulkoti- A Case Study" discusses about the trends in capital employed and net worth of the firm. It also considered the trends in sales, cost of goods sold, gross profit/loss and net profit/loss during the period. The result were found that the overall performance of the Godag Co-operative Cotton Textiles Mill Ltd has been poor from 2002- 2003 to 2008-09.

Chundawat and Bhanawat2 (2000) analyzed the working capital management practices in IDBI assisted tube and type companies for the period 1994-1998 by using some relevant ratios and concluded that the working capital management ;of IDBI assisted companies was more effective than the industry as a whole.

Deloof3 2003 discussed that most of the firms had a large amount of each invested in working capital. It can therefore be expected that the way in which working capital is managed will have a significant impact on profitability of those firm. Using correlation and regression tests he found a significant negative relationship between gross operating income and the number of days accounts receivable, inventories and accounts payable of firms. On the basis of these results he suggested that managers could create value for their shareholders by reducing the number of days' accounts receivable and inventories to a reasonable minimum.

Dheenadayalan V. and Mrs. R. Deviananbrasi4 (2007) he had suggested that the "Z" score of the sample units remain below the grey area from 1997-07 but in the year 2001-02, the "Z" score is -0.29. After 2001-02, the decreases in the score indicate that the sample unit is not financially sound and healthy. The sample units need to put in efforts to increases the score. This will help the sample unit to avoid any damage to its liquidity and solvency positions, thereby avoiding financial distress and bankruptcy.

Dr. Hamandou Boubacar5 (2011) in their paper "The financial performance of foreign Bank subsidiaries" discuss about the relationship between the performance of bank foreign subsidiaries and the degree of the implication of the present banks in the organization and the management of their activities abroad. The result were found that ownership means share of the capital held by the parent bank.

Dr. K. Srinvas6(2010) in their paper "Pre and Post Merger financial performance of merged Banks in India"- A selected study is conducted and analysis the financial performance of Bank of Baroda, Punjab National Bank, Oriental Bank of Commerce, HDFC Bank, ICICI Bank and Centurions Bank of Punjab.

Then found that the private sector merged banks performed well as compared to the public sector merged banks.

Dr. P.B. Bhatasna and J.R. Raiyani 7(2011) in their paper "A study on Financial Health of Textile Industry in India: A "Z" – Score Approach" revealed that all the sample companies like SPML Ltd and WIL Ltd were financially sound enough during the study period bearing SSML and SKNL which had slightly lower "Z" score on the basis of average scores during the study period.

Dr. Prasanta Paul8 (2011) in their paper, "financial performance evaluation – A Comparative study of some selected "NBFCS" found that selected companies differ significantly in terms of their financial performance indicators from one to another may be fer sha different services they provide.

Eijelly9, 2004 elucidated that efficient liquidity management involves planning and controlling current assets and liabilities. The relation between profitability and liquidity was examined, as measured by current ratio and cash gap (cash conversion cycle) on a sample of joint stock companies using correlation and regression analysis. The study found that the the cash conversion cycle was of more importance as a measure of liquidity than the current ratio that affects profitability. The size variable was found to have significant effect on profitability at the industry level. The result was stable and had important implications for liquidity management.

G.Foster10 in his study on financial analysis stated that "it is the process of identifying the financial strength and weakness of the firm by properly establishing relationship between the item in the balance sheet and the profit and loss account. Financial analysis can be under taken by management of the firms, or by parties outside the firm , viz., owners, creditors, investors and others.

M.Kannandasan11 (2007) he has made an attempt to have an insight into the examination of financial health of a watch company in India. To evaluate the financial conditions and performance of a company, this study used the Z-Score model, and finally, it was concluded that the financial health of the company was good and financial viability is also healthy.

M. Velavan12 (2010) in his study measures "Financial Health of E.I.D. Parry Sugar Limited using "Z" scores Model- A Case Study". In this study, the financial health of E.I.D Parry Sugars Limited as per Altman guide lines, the financial health of the sample units were tested through Z-Score and finally, it was concluded that the financial health of the company was good and financial viability is also healthy.

RESULTS & DISCUSSION

TABLE – 1 GROSS PROFIT RATIO

Year	Gross Profit	Net Sales	100	Ratio
2007-08	53.15	691.43	100	7.69
2008-09	58.18	928.08	100	6.27
2009-10	25.28	1100.11	100	2.3
2010-11	177.98	1375.81	100	12.94
2011-12	76.2	1903.9	100	4

The ideal level of gross profit margin depends on the industries, how long the business has been established and other factors. Although, a high gross profit margin indicates that the company can make a reasonable profit, as long as it keeps the overhead cost in control. A low margin indicates that the business is unable to control its production cost. Table-1 shows the Gross Profit on each year differs or fluctuating for City Union Bank. Even though there is fluctuation in gross profit ratio of the CUB ratios are positive for all the years. But in the gross profit of the ratio of the year 2011 is being very high and again slope down in next year onwards.

TABLE – 2 NET PROFIT RATIO

Year	Net Profit	Net Sales	100	Ratio
2007-08	101.73	691.43	100	14.71
2008-09	122.13	928.08	100	13.16
2009-10	152.76	1100.11	100	13.89
2010-11	215.05	1375.81	100	15.63
2011-12	280.25	1903.9	100	14.72

Table-2 shows the relationship between net profit and net sales during the years 2008 to 2009 in the CUB it was 14.71% and in the year 2010 it gone to 13.16 % and again goes further down next year onwards on sales. But the ratio of the year 2011 it was 15.63% which is the highest of the study period. This means that either there is defect in pricing the product or excess non-value added expenditures which reduces the net profit of the company.

Higher the ratio better is the profitability

TABLE – 3 OPERATING RATIO

Year	Operating Cost	Net Sales	100	Ratio
2007-08	57.44	691.43	100	8.31
2008-09	70.08	928.08	100	7.55
2009-10	98.75	1100.11	100	8.98
2010-11	73.69	1375.81	100	5.36
2011-12	162.84	1903.9	100	8.55

Table-3 shows the operating ratios of the CUB. The operating ratio for the non manufacturing concern should be low but in the above cases the ratios are low hence itindicates lower operating expenditure has been incurred by the banks. Higher the ratio the less favorable because it would leave a smaller margin to meet interest, dividend and other corporate needs.

TABLE – 4 OPERATING PROFIT RATIO

Year	Operating Profit	Net Sales	100	Ratio
2007-08	179.13	691.43	100	25.91
2008-09	226.72	928.08	100	24.43
2009-10	255.79	1100.11	100	23.25
2010-11	360.46	1375.81	100	26.2
2011-12	417.46	1903.9	100	21.93

Table-4 shows that the operating ratio of the CUB is higher and though in fluctuating trend year after the bank has been maintaining good operating profit ratio.

TABLE – 5 DIVIDEND PAYOUT RATIO

Year	Dividend Pay out	Earnings Per Share	100	Ratio
2007-08	50	3.18	100	15.72
2008-09	75	3.82	100	19.63
2009-10	75	3.83	100	19.58
2010-11	85	5.31	100	16
2011-12	100	6.87	100	14.56

Table-5 shows that the dividend payout ratio of CUB has been fluctuating every year and at the same it has been very low. A company having low payout ratio need not necessarily be a bad company. A company having income may like to finance expansion out of the income, thus low payout ratio.

TABLE – 6 TOTAL ASSETS TURNOVER RATIO

Year	Total Assets	Net Sales	Ratio
2007-08	7348.97	691.43	10.63
2008-09	9250.99	928.68	9.96
2009-10	11559.9	1100.11	10.51
2010-11	14591.5	1375.81	10.61
2011-12	18350.7	1903.9	9.64

The Ideal Ratio is 2 times. Table-6 shows that the total assets turnover ratio of CUB all the study period shows higher ratio that means it has been properly utilizing its assets to increase the turnover. High ratio indicates efficient utilization and ratio less than 2 indicates under utilization.

TABLE -7 CURRENT RATIO

Year	Current Assets	Current Liabilities	Ratio
2007-08	233.56	354.51	0.66
2008-09	281.9	383.32	0.74
2009-10	352.31	409.15	0.86
2010-11	364.98	484.46	0.75
2011-12	393.16	418.1	0.94

Table-7 shows that the current ratios of CUB are very lower than the ideal ratio of 1.33 for non trading sectors. The above table shows current ratio is less than 1.33% in all the years which means that the bank is not enjoying credit worthiness.

TABLE – 8 PRICE/BOOK VALUE RATIO

Year	Market Price Per Share	Book value Per Share	Ratio
2007-08	39	17.71	2.2
2008-09	13.1	20.65	0.63
2009-10	30.55	20.68	1.48
2010-11	43	24.85	1.73
2011-12	50.35	30.45	1.65

Table -8 shows that the book value ratio of CUB is normal as well as and there are fluctuations in ratio and in the year 2011 onwards ratios are on the increase.

TABLE – 9 PRICE EARNINGS RATIO

Year	Market Price Per Share	Earnings Per Share	Ratio
2007-08	39	3.18	12.26
2008-09	13.1	3.82	3.43
2009-10	30.55	3.83	7.98
2010-11	43	5.31	8.1
2011-12	50.35	6.87	7.33

Table -9 shows that the price earnings ratio of CUB is being normal.

TABLE-10 LIQUIDITY RATIO

Years	Liquid assets	Liquid liabilities	Ratio
2007-2008	1245.96	354.51	3.51
2008-2009	1171.74	383.32	3.06
2009-2010	1569.32	409.15	3.84
2010-2011	1651.96	484.46	3.41
2011-2012	1793.53	418.1	4.29

Table -10 shows that the liquidity ratio during the study period is more than the normal (i.e.) 1:1.It was 3.51in the year 2007-08 and reached the highest in 2011-12 to 4.29.

Hence the firm is controlling its stock position because there are linear relationship between current ratio and liquidity ratio.

TABLE 11 WORKING CAPITAL TURNOVER RATIO

Years	Net sales	Net working capital	Ratio
2007-2008	691.43	6951	0.1
2008-2009	928.08	8826.38	0.11
2009-2010	1100.11	11087.21	0.1
2010-2011	1375.81	14038.53	0.09
2011-2012	1903.9	17834.82	0.11

Table -11 shows that the relationship between net working capital and net sales. During the study periods the sales are very lower than the working capital. It was 0.10 in the year 2007- 08 and the ratio sloped downwards and reached 0.11 in the year 2011-12. As the sales increased and working capital also increased the ratio now moved up to 0.11 times in the year 2011-12.

TABLE – 12 CASH RATIO

Years	Cash + Cash Equivalents	Current Liabilities	Ratio
2007-2008	5353.99	354.51	15.1
2008-2009	6530.33	383.32	17.03
2009-2010	7933.62	409.15	19.39
2010-2011	10541.78	484.46	21.76
2011-2012	13273.57	418.1	31.75

Table -12 shows that a cash ratio of 1.00 and above means that the business will be able to pay all its current liabilities in immediate short term. Therefore, creditors usually prefer high cash ratio, but businesses usually do not plan to keep their cash and cash equivalents at level with their current liabilities because they can use a portion of idle cash to generate profits. This means that a normal value of cash ratio is somewhere below 1.00. But in the above table and charts it shows higher cash ratio which is being kept an idle.

TABLE - 13 CASH TURNOVER RATIO

Years	Cost of Sales	Cash	Ratio
2007-2008	57.44	695.88	0.82
2008-2009	70.08	595.32	0.12
2009-2010	98.75	868.53	0.11
2010-2011	73.69	1052.24	0.07
2011-2012	162.84	814.67	0.2

Table -13 shows that greater cash to sales ratio indicates the effective and better utilization of cash resources. In the table and chart shows the lower ratio which means the bank did not utilize the cash resources properly.

TABLE 14 DEBTORS TURNOVER RATIO

Years	Total Sales	Debtors	Ratio
2007-2008	691.43	4537.06	0.15
2008-2009	928.08	5645.25	0.16
2009-2010	1100.11	6833.46	0.17
2010-2011	1375.81	9255.46	0.15
2011-2012	1903.9	12137.46	0.16

Table -14 shows that high ratio implies either that a company operates on a cash basis or that its extension of credit and collection of accounts receivable is efficient. A low ratio implies the company should re-assess its credit policies in order to ensure the timely collection of imparted credit that is not earning interest for the firm.

TABLE - 15 DEBTS COLLECTION PERIOD

Years	Average Debtors	Turnover	365	Ratio
2007-2008	3933.15	691.43	365	22.28
2008-2009	5091.16	928.08	365	20.28
2009-2010	6239.36	1100.11	365	21.13
2010-2011	8044.46	1375.81	365	21.18
2011-2012	10696.46	1903.9	365	21.64

Table -15 shows the ratio of debt collection period. The average collection period for CUB is 21 days. This collection period is the time that it takes to convert balances from accounts receivables back into cash flow.

TABLE -16 CASH TO CURRENT ASSETS RATIO

Years	Cash and Cash Equivalents +Marketable Securities	Total Current Assets	Ratio
2007-2008	5353.99	233.56	22.93
2008-2009	6530.33	281.9	23.17
2009-2010	7933.62	352.31	22.52
2010-2011	10541.78	364.98	28.89
2011-2012	13273.57	393.16	33.76

Table -16 shows the cash to current assets ratio. The ratio is very high and it shows the positive sign.

TABLE – 17 SALES TO CURRENT ASSETS RATIO

Years	Net Sales	Total Current Assets	Ratio
2007-2008	691.43	233.56	2.96
2008-2009	928.08	281.9	3.29
2009-2010	1100.11	352.31	3.12
2010-2011	1375.81	364.98	3.77
2011-2012	1903.9	393.16	4.84

Table -17 shows that the bank has been properly utilizing the current assets to generate sales.

FINDINGS

- Gross Profit of City Union Banks differs each year but they are positive for all the years.
- Net Profit also differs each year in the study periods. The net profits of the bank are also positive majority of the years.
- The sales of the bank show an increasing trend.
- Operating ratios of City Union Bank for the study period are low which indicates lower operating expenditure has been incurred by the bank.
- The City Union Bank has been maintaining good operating profit ratio.

- Dividend payout ratio of City Union bank is also high and it also being stable in each year.
- The total assets turnover ratio of City Union Bank shows that it has been properly utilizing its assets to increase the turnover.
- Current ratio is less than 1.33% in all the years for the bank. This shows that the bank is not enjoying credit worthiness.
- The book value ratio is normal.
- The price earnings ratio of the bank is being normal and also in the increasing trend.
- Liquidity Ratio is higher than the normal ratio of 1:1 it means the firm controlling its stock position.
- Working capital is not properly utilized.
- Cash ratio is being high it means it is being kept an idle.
- The City Union Bank did not utilize the cash properly.
- The credit policy of the bank should be reviewed.
- The debt collection period of the bank is 21 days.
- Cash to current assets ratio is positive.
- The bank has been properly utilizing the current assets to generate sales

SUGGESTION

The Gross Profit ratio can be improved by identifying the factors decreasing the gross profit ratio and it should be thoroughly checked timely whither they are operating factors or any misleading factors. Current ratio of the bank is being lower than the standard level 1.33 hence the management should take steps to properly utilize the current assets.

Working capital of the bank was also not properly utilized.

The liquidity position of the bank is quite satisfactory. And this must be improved further for the purpose of proper utilization of the liquid assets of the company.

The cash ratio position of the bank is very high for the last five years. It is fluctuating over the years and there is no standard ration maintained. So the management should take steps to improving the cash position of the company.

CONCLUSION

On studying the financial performance of City Union Bank for a period of five years from 2007-08 to 2011-12, the study reveals that the financial performance is better. City Union Bank has been able to maintain optimal cost positioning. Despite price drops in various products, the company has been able to maintain and grow its market share to make strong margins in market, contributing to the strong financial position of the bank. The bank was able to meet its entire requirements for capital expenditures and higher level of working capital commitment with higher volume of operations and from its operating cash flows.

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Impact of Microfinance Programs of ACSI on Asset Ownership

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ABSTRACT

A key characteristic of poor people all over the world is that they lack assets that can be used to secure loans and household durables. On the other hand, provision of microfinance services help individuals or households to protect, diversify and increase their income, and build assets. Hence, participation in microfinance credit programs leads to improvement in accumulation of assets over which the client has control. The main objective of the study was to investigateimpact of microfinance programs of ACSI on asset ownership. To do so, cross-sectional surveys of 400 questionnaires were administered to two groups of respondents which comprised of 200 established and 200 new clients. The study used frequency, percentages, means, t-test and chi-square in order to associate different individual characteristics, program and outcome variables with level of participation in ACSI. In addition, the study has employed propensity score matching method to control for self- selection and program selection bias. The research findings suggest thatparticipation in ACSI microfinance program played an important role in assisting participants to contribute towards the acquisition physical assets such as television and refrigerators. Therefore, there was much difference between established and new clients with respect to their contribution towards the acquisition of physical assets for their households. However, level of participation in ACSI has no significant effect on saving deposit for both stratification and kernel matching methods on average to established clients.

Keywords: ACSI, assets, television, refrigerator, saving deposit, PSM, ATT

1. INTRODUCTION

A key characteristic of poor people all over the world is that they lack assets that can be used to secure loans and household durables (Adjei et al., 2007; Adjei et al., 2009). On the other hand, provision of microfinance services help individuals or households to protect, diversify and increase their income, and build assets thereby reducing their vulnerability to shocks (Aghion and Morduch, 2005; Adjei et al., 2009; Daniel, 2009). Hence, participation inmicrofinance credit programs leads to improvement in accumulation of assets over which the client has control (Barnes, 1996).

According to Barnes (1996), assets are the stock of wealth in a household or other unit and represent its gross wealth. Thus, accumulation or changes in household ownership of assets can be considered as an indicator of improvement in or changing living standards of households (Barnes, 1996; Adjei et al., 2007; Daniel, 2009; Ghalib et al., 2011; White and Alam, 2013). Barnes (1996) argued that assets may be categorized depending on different criteria including their ability to generate income, and to appreciate or depreciate in values. Accordingly, the categorization includes financial, physical and human assets[1] (Barnes, 1996; Ghalib et al., 2011; Mago, 2013)..

There are ample empirical evidences to support the role of assets in changing the livelihood of poor people (Adjei et al., 2007).Assets can reduce vulnerability; improve creditworthiness, improve household stability, increase personal efficacy, and finally, a larger and more diverse asset base can reduce covariate risk (Grinstein-Weiss, 2007; Daniel, 2009; Ghalib et al., 2011; White and Alam, 2013; Oluyombo, 2014).Therefore, these emphasize the need for asset strengthening and accumulation to achieve livelihood enhancement.

Generally, evaluation of the effects of microfinance programs on clients' asset building is deemed to be a useful topic to research (Adjei et al., 2007). Therefore, this section has attempted to carry out an econometric analysis of the extent to which ACSI has contributed to build up of the asset bases of clients.

The remainder of the paper is organized into four sections. Section two examines methods of estimation such as descriptive statistics and propensity score matching method whilst section two examines about description of variables which were used in the descriptive statistics and econometrics model. Section three presents the empirical results of the study whilst the final section presents conclusion of the study.

2. METHODS OF ESTIMATION

2.1 Descriptive statistics

In this section, descriptive statistics was one of the techniques used to summarize the data collected from the sample respondents. In addition, it was used to the association between different individual characteristics, program and outcome variables with level of participation in ACSI. For these reasons frequency, percentages, means, t-test and chi- square were used.

2.2 Propensity Score Matching (PSM) method

The primary target of this section was to measure the impact of microfinance programs of ACSI on asset ownership of old (established)[2] clients in the treated group[3] relative to new clients in the control group. Thus, it was reasonable to compare asset ownership of old and new clients with access to MFIs as long as MFIs programs are randomly distributed across the samples or there was no sample selection bias.

[1] The definition of assets here includes property of any form that a borrower purchased after he or she joined ACSI.
[2] In this section old and established clients were used interchangeably.
[3] Treated groups wereold clients and control groups were new clients with both accesses to microfinance.

However, in the absence of an experimental design, assignment to microfinance program is frequently non-random (Heinrich et al., 2010). Hence, this results in biased program evaluation. There are two factors that could results in biased program evaluations which are self-selection in to programs and non-random program placement (Pitt and Khandker, 1998; Khandker, 2005; Dunford, 2006; Chemin, 2008; Imai et al., 2010; Alam, 2013). Hence, these issues must be addressed when evaluating the impact of microfinance programs.

Evaluation issues

If clients are not self-selecting in microfinance programs but are randomly picked by some observable mechanisms or qualities, one could control self-selection and examine the differences in asset ownership to obtain a valid estimate of the program effect. However, according to Khandker (2005), Imai et al. (2010), Alam (2013), some qualities are likely to be unobservable. For instance, entrepreneurial skills, persistence in seeking goals, organizational ability and access to valuable social networks are not readily observed but would affect both the program participation decision and welfare (Aghion and Morduch, 2004). Thus, if the clients that join programs are better entrepreneurs or are more willing to work than those who do not join, then a comparison of outcome variable between old and new clients would wrongly attribute to the microfinance and would cause the estimates of program impact to be biased upward.

On the other hand, non-random program placements may bias the results as well. If programs are randomly placed, then one can compare clients' outcome in program areas and non-program areas to obtain the impact on outcome variables. But, when the program placement is non-random, simply comparing the welfare indicators in both types of areas would lead to a downward or upward bias of the program effects (Morduch, 1998; Pitt and Khandker, 1998; Khandker, 2005; Alam, 2013). Thus, these may lead to the erroneous conclusion that credit programs are reducing or exacerbating poverty problem.

Therefore, evaluating asset ownership impacts of ACSI requires disentangling its role from the simultaneous roles of all of the attributes above. To do so, this section used Propensity Score Matching (PSM) method of impact evaluation. In addition, so as to check robustness of PSM estimates, the study had employed Heckman two stage estimations method.

Propensity score matching method

The propensity score matching method is one of the non-parametric estimation techniques that do not depend on functional form and distributional assumptions (Dehejia and Wahba, 2002; Heinrich et al., 2010).

According Heinrich et al. (2010), in absence of random program placement, units receiving treatment and those excluded from treatment may differ not only in their treatment status but also in other characteristics that affect both participation and the outcome of interest. Therefore, to avoid the biases that this may generate, matching methods find a new clients that is similar to old clients and allowing an estimate of the intervention's impact as the difference between old clients and the matched comparison case.

After all, the basic idea of PSM method is to match old with new clients of ACSI. However, matching in terms of covariates is very difficult since it is very difficult to find new client which are exactly the same but different only in terms number of loan facilities (Dehejia and Wahba, 2002; Khandker et al., 2010).To solve these problems, PSM constructs a statistical comparison group that is based on a model of the probability of participating in the treatment using observed characteristics. Old clients are then matched on the basis of this probability, or propensity score, to new clients (Khandker et al., 2010). Then, matching methods find a new client that is similar to old client, allowing an estimate of the intervention's impact as the difference in average of outcomes between established and the matched comparison case (Heinrich et al., 2010).

Assumptions

According to Rosenbaum and Rubin (1983), Heckman et al. (1997), Dehejia and Wahba (2002) and Caliendo and Kopeinig (2005), PSM has two basic assumptions:

a. Conditional independence assumption (CIA): selection is solely based on observable characteristics.

$$Y_{h1}, Y_{h0} \perp C_{hi} \mid W_{hi} \qquad (1)$$

Where: C_{hi} denotes a dummy variable such that $C_h = 1$ if the i^{th} client is old client and $C_h = 0$, otherwise; W_{hi} shows observable characteristics of i^{th} client which affect both outcome and treatment; Y_{h1} and Y_{h0} denote potential observed asset ownership outcome for both clients respectively.

b. Sizable common support: this assumption ensures that clients with the same W_h values have a positive probability of being both old and new clients.

$$P(W_{hi}) = Pr(C_h=1 \mid W_{hi}) \qquad (2)$$

Here, the paper main goal is to identify the average treatment effect on the treated (ATT).

Then ATT (τ) is given by:

$$\tau = E(Y_{h1} - Y_{h0} \mid C_h = 1)$$

$\tau = E(Y_{h1} \mid C_h = 1) - E(Y_{h0} \mid C_h = 1)$ (3)

Hence, ATT (τ) is given as average difference between outcome of old clients $E(Y_{h1} \mid C_h = 1)$ and the outcome for old clients that would have been resulted had they not been old clients of ACSI $E(Y_{h0} \mid C_h = 1)$.

However, according to Heinrich et al. (2010), the evaluation problem is that we only observe Yh1 or Yh0 but never both. $E(Y_{h1} \mid C_h = 1)$ could be constructed from the data. Missing is the information required to identify $E(Y_{h0} \mid C_h = 1)$, referred to as the counterfactual outcome (what would have been asset ownership outcome for clients had they not been old clients). If program placement is non-random, we can substitute the unobservable $E(Y_{h0} \mid C_h = 1)$ for the observable $E(Y_{h1} \mid C_h = 1)$ when estimating ATT.

Hence, we end up with:

$$\text{Bias} = E(Y_{h0} \mid C_h = 1) - E(Y_{h0} \mid C_h = 0) \quad (4)$$

But, according to Heckman et al. (1997), the method of matching solved the evaluation problem by assuming CIA: conditional on W_{hi}, Y_{h1} and Y_{h0} are independent of C_{hi}.

$$Y_{h1}, Y_{h0} \perp C_{hi} \mid W_{hi} \quad (5)$$

This is referred to as CIA. The CIA required that all sets of W_{hi} affecting both the outcome and treatment be included in the matching. When CIA held, we could therefore use the outcome of new clients as an approximation of the counterfactual outcome.

$$E(Y_{ho} \mid C_h = 1) = E(Y_{ho} \mid C_h = 0) \quad (6)$$

The basic idea of matching is to pair treated and control group clients on the basis of their observable characteristics (Dehejia and Wahba, 2002). But, matching on covariates is difficult to implement when the set of covariates is large. To overcome the curse of dimensionality, Nannicini (no date) showed that if matching on W_h is valid, so is matching on the propensity score P (W_h).

Propensity score (response probability) is defined as the conditional probability that i^{th} client being established one given covariates.

$$P(W_{hi}) = Pr(C_h=1 \mid W_{hi}) \quad (7)$$

Hence, ATT can be estimated as follows:

$$P(W_{hi}) = Pr(C_h=1 | W_{hi}) \quad (7)$$

Hence, ATT can be estimated as follows:

$$\tau = E(Y_{h1} - Y_{h0} | C_h = 1, P(W))$$

$$= E(Y_{h1} | C_h = 1, P(W)) - E(Y_{h0} | C_h = 1, P(W))$$

$$= E(Y_{h1} | C_h = 1, P(W)) - E(Y_{h0} | C_h = 0, P(W)) \quad (8)$$

When applying PSM, the question was which estimating model and variables to use. According to Ghalib et al. (2011), logit or probit can be used to estimate the propensity score. In this section, the probit model was used in calculating propensity score. But, selecting covariates requires choosing a set of variables that will plausibly satisfy the CIA. Thus, the study has incorporated different variables which simultaneously affect both level of microfinance participation and asset ownership.

Matching methods

However, the estimation of the propensity score is not enough to estimate ATT; there is a need to search for matching algorisms or methods to match old with new clients. Different matching mechanisms can be used to assign old to new clients of ACSI based on the propensity score. Here, the study used stratification and kernel matching methods. Stratification procedure partitions the common support into different strata (or intervals) and calculates the program's impact; whereas, kernel matching techniques is a non- parametric matching estimator and uses a weighted average of all new clients to construct the counterfactual match (Caliendo and Kopeinig, 2005; Khandker et al., 2010).

3. DESCRIPTION OF VARIABLES

The survey, cross-sectional in nature, was carried out from April to July, 2016. In all, 400 questionnaires were administered to two groups of respondents. Thus, two sample groupswere selected and this comprised of 200 established clients, who had borrowed and utilised at least three loan facilities for periods of over two years, and 200 new clients, who had either not benefited from any loan facility from ACSI before or had benefited from one loan facility which is being serviced.

Nevertheless, this section has incorporated different variables which simultaneously affect both clients' level of participation in ACSI and asset ownership outcomes of interest. Generally speaking, the variables used in the model were classified into outcome variables, treatment variable and independent variables.

Outcome variables

Physical assets: The study has identified two main items of physical assets, television and refrigerator, that were valuable and appreciated by clients of ACSI at time of pilot test. Hence, respondents were asked about purchases they made on such physical assets.To avoid aggregation bias in the analysis, the study used market prices of these assets owned by clients. On the other hand, these outcome variables were measured in Ethiopian Birr (ETB).

Saving deposits: Amount of saving deposits by clients is classified as financial assets of the individuals (Barnes, 1996). Saving deposit was the total amount of money deposited by both client types in their account at ACSI during time of data collection. Further, this outcome variable was measured in ETB.

Treatment variable

Level of participation in ACSI: The treatment variable employed in the model was reduced to dichotomous one taking the value of 1 if the client was old (established client) and 0 otherwise.

Independent variables

Independent variables which were used in the analysis of the model were categorized under a list of individual characteristics and program variables.

Individual characteristics

Sex of the respondent: There is a belief that female clients of MFIs have less opportunity to own valuable asset due to the reason that having little or no say in major household decisions(Daniel, 2009; Anang et al., 2015). This variable was measured as a dummy variable taking the value 1 if the respondent is male and 0 otherwise.

Age of the respondent: Young people have more strength to engage in different kinds of work than the elderly which may give them more income to increase asset holdings(Oluyombo, 2014).This variable was measured on a continuous scale in terms of the respondent's number of years of age at time of data collection.

Marital status of the respondent: Borrowers with high levels of education and who are married tend to be more economical and, therefore, acquire items (Adjei et al., 2007; Adjei et al., 2009). Marital status here was measured as a dummy variable taking the value of 1 if the respondent is married and 0 otherwise.

Education level of the respondent: Higher levels of education are associated with increased asset ownership (Grinstein-Weiss et al., 2007). This variable was a categorical variable indicating the value 1 if the respondent attended secondary high school education and above, and 0 otherwise.

Family size of the respondent: Is assumed to affect both level of participation in ACSI and asset ownership of clients. Grinstein-Weiss et al. (2007) argued that less family size respondents are found to be wealthier than families with large number of members.

Distance from nearby ACSI branch offices: This variable was an important one which affects level of participation in microfinance and in turn asset ownership. In addition, this variable was measured in terms of minutes that it takes from clients' business premise with lender office.

Programme variables

The effects of participation could be well measured if both the loan amount granted to a participant and the lengths of time were considered (Adjei et al., 2007; Adjei et al., 2009).

Months with ACSI: The longer membership duration or the number of months with MFIs, the more assets the client is likely to purchase (Garikipati, 2008; Oniyana and Turnell, 2013). Thus, this variable was measured in terms of number of months since the first loan.

Amount of Loan: Amount of loan also played an important role in assisting participants of the programme to contribute towards the acquisition of assets (Adjei et al., 2007; Adjei et al., 2009). Hence, the higher the total loan received the higher probability of borrowers to own assets. On the other hand, this variable was measured in ETB.

4. RESULT AND DISCUSSION

4.1 Descriptive statistics analysis

The share of female respondents was 58.5 % of the new clients and 51.5 % of established clients of ACSI. As has been shown below, there was no statistically significant association between sex of the respondents and level of participation in ACSI. With regard to marital status, 52.5 % of new clients were married compared to 53.5 % for established clients; meaning that majority of sample respondents were married.

On the other hand, with respect to education background, the educational achievements of new clients of ACSI were primary school, and secondary high school and above with the percentages of 31.5 and 68.5 whereas the educational backgrounds of old clients were primary school 27.5%, and secondary high school and above with the percentage 72.5 respectively.

Table 1: Frequency, percentages and chi-square results for dummy variables

Variables		New clients		Established clients		χ2
			N = 200		N = 200	
		N	%	N	%	
Sex	Female	117	58.5	103	51.5	1.98
	Male	83	41.5	97	48.5	
Marital status	Not married	95	47.5	93	46.5	0.04
	Married	105	52.5	107	53.5	
Education	Primary	63	31.5	55	27.5	0.769
	Secondary and					
	above	137	68.5	145	72.5	

Source: Own computation, 2017.

The mean age of established clients was higher than the mean age of new members of ACSI. In this regard, the mean age for the established and new clients was 34.6 and 34.12 years respectively. Regarding family size, sample respondents had average family size of 3.07 with standard deviation of 2.023. Of these, the average family size of the new clients was 3.12, while the mean size for old clients was 3.02.

In terms of distance of business premise of borrowers with the nearby ACSI branch offices, it took established clients 32.82 minutes on average to reach the nearby branch office which was found to be statistically higher than the average distance of new clients which was26.15 minutes.On the other hand, length of time as clients of ACSI for both clients type ranges from zero to 144 months with mean membership length of 40.8 months. Accordingly, the mean lengths of months as a client for new and established clients was 29.05 and 52.5 months respectively, which was statistically significant at 1%. On the other side, the mean loan size for established clients was ETB 20897 which was higher than the mean loan amount received by new clients with about ETB 18884. But, this difference was not statistically significant among both groups.

Nevertheless, the average expenditure of respondents on television was ETB 2882.5. Of this amount, the average expenditure of new and old clients was ETB 2212.9 and ETB 3552.2 respectively. Therefore, based on these, the average expenditure of established clients for acquisition of television was statistically greater than the average expenditure of new clients with 1% level of significance. On the other hand, the mean expenditure of old clients on refrigerator was higher than the mean expenditure of new clients on refrigerator. The mean expenditure of old clients was ETB 2865.3 and the same expenditure for new clients was ETB 1204.7 respectively. In addition, this difference was statistically significant with 1%.

On top of these, the survey results showed that the average amount of saving deposited by established clients was ETB 4802.0 with maximum saving deposit of ETB 42000. To the contrary, the average saving deposit of new clients was ETB 4199.1 with maximum saving deposit ETB 40000 respectively. In addition, the study has identified that about 78% of respondents had deposited money in their account with ACSI.

Table 2: Mean, Std. Dev., and t-values for continuous independent and outcome variables

Variables	Participation	N	Mean	St. Dev.	Mean difference	t-value
Age	New	200	34.12	8.568		
	Old	200	34.6	8.745	-0.48	-0.555
	Total	400	34.36	8.645		
Family size	New	200	3.12	1.968		
	Old	200	3.02	2.081	0.095	0.469
	Total	400	3.07	2.023		
Distance	New	200	26.15	39.046		
	Old	200	32.82	54.646	-6.67	-1.405***
	Total	400	29.49	47.549		
Months with ACSI	New	200	29.05	25.021		
	Old	200	52.5	28.096	-1.95	-8.815*
	Total	400	40.76	29.047		
Loan amount	New	200	18883.5	17236.14		
	Old	200	20897	28954.24	-2013.5	-0.845
	Total	400	19890.3	23818.26		
Expenditure on TV	New	200	2212.9	2687.61		
	Old	200	3552.2	3164.42	-1339.3	-4.562*
	Total	400	2882.5	3007.71		
Expenditure on refrigerator	New	200	1204.7	3188.65		
	Old	200	2865.3	4551.74	-1660.7	-4.222*
	Total	400	2032.9	4010.24		
Saving deposit	New	200	4199.1	6471.27		
	Old	200	4802	5984.21	-602.9	-0.967
	Total	400	4500.6	6232		

* = significant at 1%; *** = significant at 10%

Source: Own computation, 2017.

4.2 Econometrics results analysis

This section presented estimation of propensity score of the whole model, Average Treatment effect on Treated (ATT), region of common support as well as assessment of matching quality for the three outcome variables. In addition, Heckman two-stage selection model results were discussed so as to check robustness of PSM estimations.

4.2.1 PSM result analysis

Estimation of propensity score

The main goal of this section was to identify average treatment effect (ATT) of level of participation in

ACSI on asset ownership of clients. To identify ATT, the model matched established clients with new clients using estimated propensity score of probit regression. Hence, in the probit regression from which the model brought propensity score and in the entire matching process, the study included only those variables which influence both treatment and outcome variables.

The model was well specified as LR statistics was 75.97 whose p value was 0.000 which would lead to conclude that at least one of the regression coefficients in the model was not equal to zero and hence, the model as a whole fits significantly better than an empty model. In addition, the pseudo R-squared of the probit regression which was approximately 14% suggests satisfactory predictive power.

Estimation of ATT

Accumulation or changes in household ownership of assets can be considered as an indicator of improvement in or changing living standards of households (Barnes, 1996; Adjei et al., 2007; Daniel, 2009; Ghalib et al., 2011; White and Alam, 2013).One of the merits of asset based indicators is the ease with which they can be measured compared to other indicators of livelihood (Adjei et al., 2007; Adjei et al., 2009; Ghalib et al., 2011). Furthermore, an increase in the number of assets purchased for the household is regarded as potentially strong indicator of the effect of microfinance programme on clients (Barnes, 1996).

On the other hand, all analyses of stratification and kernel matching methods estimations of ATT for all outcome variables were based on the implementation of common support condition. In addition, the standard errors for ATT estimations were calculated using bootstrapping with 100 replications.

a. Estimation of ATT for expenditure on television

The outcome variable here was expenditure made by clients on purchase of television. The analysis of ATT in table 3 shows the existence of a significant positive impact of level of participation in ACSI on purchase of television by clients. Hence, level of participation in ACSI has increased the expenditure on television by about ETB 852 for stratification and ETB 868 for kernel matching methods on average to established clients compared to new clients; which are both significant at 1%. Therefore, the results revealed that participation in ACSI's microfinance programme was strongly associated with increased expenditure by established clients for the acquisition of assets. This finding of the study was consistent with findings of Adjei et al. (2007), Onyina and Turnell (2013) and Oluyombo (2014).

When interpreting ATT results, it is important to evaluate the robustness of the estimations by changing the matching algorithms. In this regard, robustness check helps to increase the reliability of the results by showing that the estimations do not depend crucially on the particular methodology chosen (Heinrich et al., 2010). Since stratification and kernel matching methods estimations were quiet consistent, it was possible to conclude the robustness of PSM estimates.

Table 3: Estimates of the ATT (Television)

Matching methods	Number of treated	Number of controls	ATT (ETB)	Std. Err	t-value
Stratification	200	196	851.839	365.137	2.333*
Kernel matching	200	196	868.281	367.351	2.364*

* = significant at 1%

Source: Own computation, 2017.

b. Estimation of ATT of expenditure on refrigerator

The ownership of refrigerator is associated with a better standard of living (Adjei et al., 2007). Table 4 shows the average treatment effects of acquisition of refrigerator while participating in microfinance programs of ACSI. In this instance, significant acquisition of refrigerator to established clients was observed. As has been shown below in the table, level of participation in ACSI has increased the expenditure on refrigerator by about ETB 1296 for stratification and ETB 1237 for kernel matching methods on average to established clients compared to new clients; which are both significant at 1%.Incidentally, the result on the sign and size of refrigerator acquisition effect for old clients was very similar to those derived by kernel matching method. Hence, this would support results of stratification matching method. Furthermore, this finding was consistent with the finding of Onyina and Turnell (2013) and Oluyombo (2014).

In general, participation in ACSI microfinance program played an important role in assisting participants to contribute towards the acquisition of refrigerators in improving their living standards. Therefore, there was much difference between established and new clients of ACSI with respect to their contribution towards the acquisition of refrigerators for their households.

Table 4: Estimates of the ATT (Refrigerator)

Matching methods	Number of treated	Number of control	ATT (in ETB)	Std. Err	t-value
Stratification	200	196	1295.59	507.861	2.551*
Kernel matching	200	196	1237.35	518.068	2.388*

** = significant at 5%

Source: Own computation, 2017.

c. Estimation of ATT of saving deposit

ACSI accepts savings collected from loan clients as well as the public. At the same time, all members who had benefited from loan facilities of the programme must have 3-5% of such loan amounts in the form of savings deposits prior to the disbursement of their loans. In addition, after taking the credit, it is mandatory to save 1% of the loan per month (Sebstad, 2003; ACSI, 2004; USAID, 2006).

As has been shown in table 5, level of participation in ACSI has no significant effect on saving deposit for both stratification and kernel matching methods on average to established clients. In other words, there was no much difference between established and new clients of ACSI with respect to their contribution towards saving deposits. Therefore, being a member of ACSI for a longer period was not a significant contributory factor towards the acquisition of saving deposit.

Table 5: Estimates of the ATT (Saving deposit)

Matching methods	Number of Treated	Number of control	ATT (ETB)	Std. Err	t-value
Stratification	200	196	-1124.7	1168.74	-0.962
Kernel matching	200	196	-848.92	1092.21	-0.777

Source: Own computation, 2017.

Region of common support

It is important to check the overlap or common support region for the treated and control groups of the model. Several ways are suggested in the literature, where the most straightforward one is a visual analysis of the density distribution of the propensity score in both groups (Caliendo and Kopeinig, 2005). Figures 1, 2 and 3 show the distribution of propensity scores and the region of common support (see the appendix part). The bottom half of the figures indicate the propensity scores distribution for the control group (new clients), while the upper-half refers to the treated groups. As has been indicated in those figures, the common support condition was satisfied as there was overlap in the distribution of the propensity scores of both treated and control clients.

Assessment of matching quality

Here the matching procedure was checked so as to balance the distribution of the observed variables in both treated and control clients. Therefore, the basic idea of all approaches is to compare the situation before and after matching and check if there remain any differences after conditioning on the propensity score. If there are differences, matching on the score was not successful and remedial measures have to be done (Caliendo and Kopeinig, 2005).

In this regard, t-test was used to check if there were significant differences in covariate means for both groups. Before matching differences are expected, but after matching the covariates should be balanced in both groups and hence no significant differences should be found (Heinrich et al., 2010). Accordingly, after matching most of the covariates are balanced in both treated and control clients of ACSI. Therefore, no significant differences were found between the two groups which indicate successful balances in the distribution of observed variables for both groups of the three outcome variables.

5.. CONCLUSION

Provision of microfinance services help individuals or households to protect, diversify and increase their income, and build assets thereby reducing their vulnerability to shocks (Aghion and Morduch, 2005; Adjei et al., 2009; Daniel, 2009). In addition, there are ample empirical evidences to support the role of assets in changing the livelihood of poor people (Adjei et al., 2007).Assets can reduce vulnerability; improve creditworthiness, improve household stability, increase personal efficacy, and finally, a larger and more diverse asset base can reduce covariate risk (Grinstein-Weiss, 2007; Daniel, 2009; Ghalib et al., 2011; White and Alam, 2013; Oluyombo, 2014).Therefore, there is a need for strengthening and accumulation of assets.

The survey, cross-sectional in nature, was carried out from April to July, 2016. In all, 400 questionnaires were administered to two groups of respondents. Thus, two sample groups were selected and this comprised of 200 established clients, who had borrowed and utilised at least three loan facilities for periods of over two years, and 200 new clients, who had either not benefited from any loan facility from ACSI before or had benefited from one loan facility which is being serviced.

To achieve the main objective of the study, the study used modern impact assessment method Propensity Score Matching (PSM) to control for self-selection and program selection bias. As indicated in the main body, the study estimated ATT for all asset types using stratification and kernel matching methods so as to check robustness of ATT estimation with respect to unobserved confounder.

When analyzing the impact of microfinance program of ACSI, ATT estimates suggest that the existence of a significant positive impact of level of participation in ACSI on purchase of television by clients by about ETB 852 for stratification and ETB 868 for kernel matching methods on average to established clients which was significant at 1%. This finding of the study was consistent with findings of Adjei et al. (2007), Onyina and Turnell (2013) and Oluyombo (2014).In addition participation in ACSI has increased the expenditure on refrigerator by about ETB 1296 for stratification and ETB 1237 for kernel matching methods on average to established clients compared to new clients; which are both significant at 1%.Furthermore, this finding was consistent with the finding of Onyina and Turnell (2013) and Oluyombo (2014). However, there was no much difference between established and new clients of ACSI with respect to their contribution towards saving deposits.

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APPENDIX:

Figure 1: Common support region for television

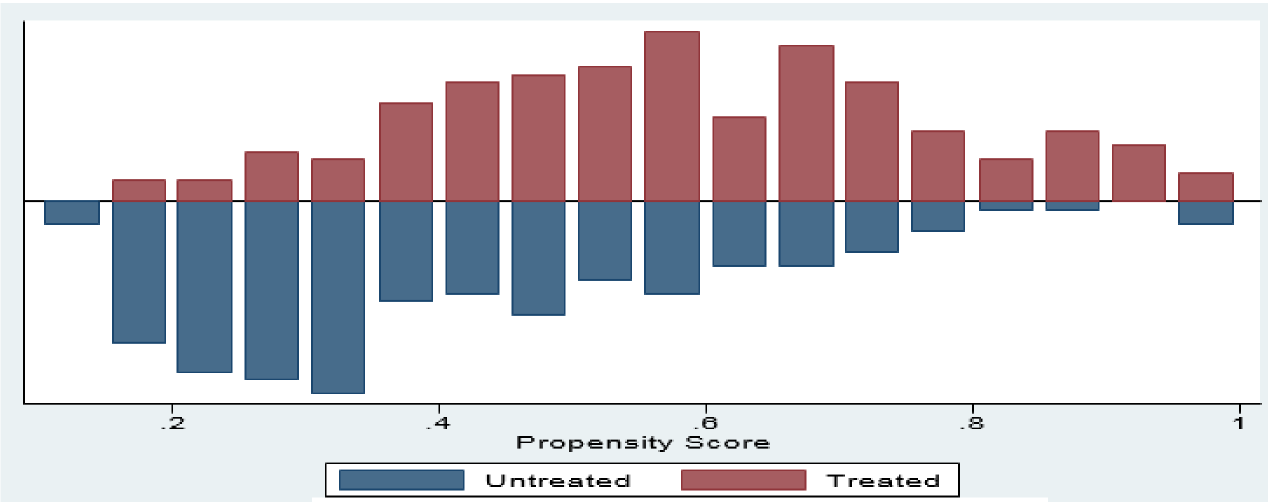

Figure 2: Common support region for refrigerator

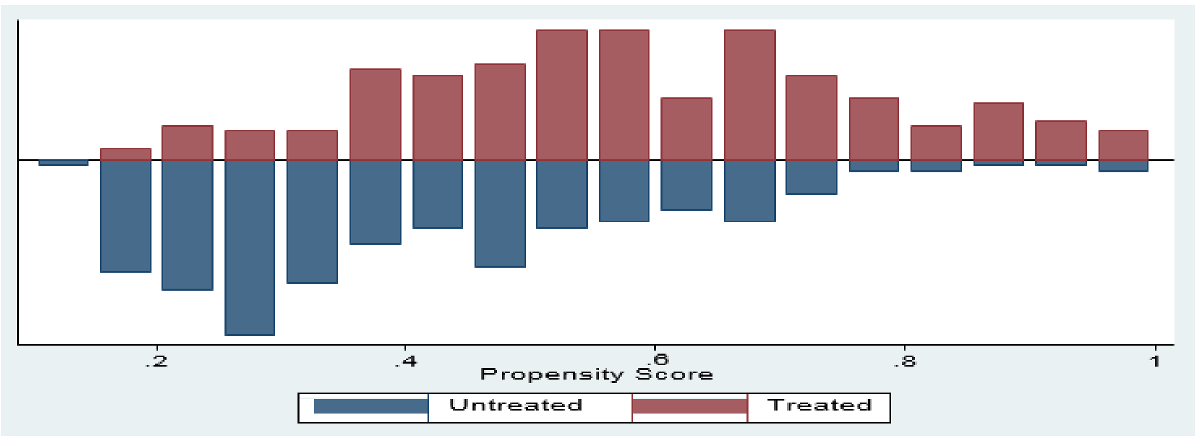

Figure 3: Common support region for saving deposits

SEBI Rules and Regulations of Mutual Fund in India: A Study

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A B S T R A C T

Mutual funds are financial intermediaries which collect the savings of investors and invest them in a large and well diversified portfolio of securities. Mutual funds provide an easy way for small investors to make long-term, diversified, professionally managed investments at a reasonable cost. The study focuses on the different rules and regulations laid down in India to regulate the mutual fund and also examine the various processes of mutual funds.

Keywords: Mutual Fund, Investment, Diversification, Investor, Securities, SEBI, Portfolio.

INTRODUCTION

A mutual fund is a common pool of money into which investors place their contributions that are to be invested in accordance with a stated objective. The ownership of the fund is thus joint or "mutual", the fund belongs to all investors. A single investor's ownership of the fund is in the same proportions as the amount of the contributions made by him or her bears to the total amount of the fund. Mutual funds are trust, which accept savings from investors and invest the same in diversified financial instruments in terms of objectives set out in the trusts deed with the view to reduce the risk and maximize the income and capital appreciation for distribution for the members. A mutual fund is a corporation and the fund manager's interest is to professionally manage the funds provided by the investors and provide a return on them after deducting reasonable management fees. The objective sought to be achieved by mutual fund is to provide an opportunity for lower income groups to acquire without much difficult financial assets. They cater mainly to the needs of the individuals' investor whose mean are small and to manage investor's portfolio in a manner that provides a regular income, growth, safety, liquidity and diversification opportunities.

DEFINITION

"Mutual funds are collective savings and investment vehicles where savings of small (or sometimes big) investors are pooled together to invest for their mutual benefits and returns distributed proportionately"."A Mutual fund is an investment that pools your money with the money of an unlimited number of other investor. In return, you and the other investors each own shares of the fund. The fund's assets are invested according to an investment objective into the fund's portfolio of investments. Aggressive growth funds seek long-term capital growth by investing primarily in stocks of fast-growing smaller companies or market segments. Aggressive growth funds are also called capital appreciation funds".

REVIEW OF LITERATURE

Sabarinathan (2010) provides a critical assessment of the adequacy and structure of the statutory levers that SEBI operates. The assessment indicates that SEBI is a suitably empowered and autonomous organization that has the necessary legal authority to be an effective regulator.

Varma (2009), in a study, Satyam Fraud: The Regulatory Response stated that a major fraud was an opportunity to push through important reforms which would otherwise be resisted by powerful vested interests. It stated that this opportunity was missed in India. Point out that the initial regulatory response to the Satyam fraud was swift and appropriate, but this momentum was lost very quickly. Those who hoped for comprehensive and decisive reforms had been disappointed. This means the Corporate Governance principles only rely mainly on the SEBI clause 49 for enforcement

La Porta et al (2003), it examines the adequacy of these institutions based on a detailed analysis of the provisions of these statutes and arrives at some tentative inferences about the adequacy of the available institutional prerequisites. Such an understanding is essential to assess the effectiveness of the regulatory regime. Recent attempts to assess the extent and quality of protection to equity investors and creditors have involved an analysis of the details of the legal provisions.

MCA (2009), According to the MCA, it "enables a statutory platform for essential Corporate Governance requirements essential for functioning of the companies with transparency and accountability, recognizing and protecting the interests of various stakeholders." An optimal corporate law had been identified earlier as an important prerequisite. The law governing companies in India is the Indian Companies Act, 1956 (the Companies Act, hereafter). The Companies Act is a comprehensive piece of statute covering nearly all aspects of the working of a body corporate in India. Modelled along and derived substantially from itsBritish antecedents, The Companies Act and the rules made there under are an important element of the regulation of a company in India and are applicable to all body corporate in India.

In 1992, the Indian Parliament passed the Securities and Exchange Board of India Act,
1992, to establish the Securities and Exchange Board of India (SEBI) in its new incarnation as an empowered regulator of the Indian Securities Market.

OBJECTIVES OF STUDY

a) To study the conceptual framework of SEBI in mutual fund.

b) To appraise different rules and regulations laid down in India to regulate the mutual fund.

c) To examine the various process of SEBI in regulating Mutual Fund Markets.

I. CONCEPTUAL FRAMEWORK OF SEBI IN MUTUAL FUND

A mutual fund shall be constituted in the form of a trust and the instrument of trust shall be in the form of a deed, duly registered under the provisions of the Indian Registration Act, 1908 (16 of 1908) executed by the sponsor in favor of the trustees named in such an instrument. Here the following some important definition and word that use in mutual fund.

- **Money Market Instruments -** Includes commercial papers, commercial bills, treasury bills, Government securities having an unexpired maturity up to one year, call or notice money, certificate of deposit, usance bills, and any other like instruments as specified by the Reserve Bank of India from time to time.
- **Money Market Mutual Fund (MMMF) -** Means a scheme of a mutual fund which has been set up with the objective of investing exclusively in money market instruments. Mutual fund means a fund established in the form of a trust to raise monies through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market instruments (or gold or gold related instruments).
- **Offer Document -** Means any document by which a mutual fund invites public for subscription of units of a scheme.
- **Open-Ended Scheme -** Means a scheme of a mutual fund which offers units for sale without specifying any duration for redemption;
- **Schedule -** Means any of the schedules annexed to these regulations;
- **Sponsor -** Means any person who, acting alone or in combination with another body corporate, establishes a mutual fund.
- **Trustee -** Means the Board of Trustees or the Trustee Company who hold the property of the Mutual Fund in trust for the benefit of the unit holders.
- **Unit -** Means the interest of the unit holders in a scheme, which consists of each unit representing one undivided share in the assets of a scheme.
- **Unit Holder -** Means a person holding unit in a scheme of a mutual fund.
- **Application for Registration -** An application for registration of a mutual fund shall be made to the Board in Form A by the sponsor.

Appointment of an Asset Management Company

The sponsor or, if so authorized by the trust deed, the trustee shall, appoint an asset management company, which has been approved by the Board. The appointment of an asset management company can be terminated by majority of the trustees or by seventy five per cent of the unit-holders of the scheme. Any change in the appointment of the asset management company shall be subject to prior approval of the Board and the unit holders.

Appointment of Custodian

The mutual fund shall appoint a custodian to carry out the custodial services for the schemes of the fund and sent intimation of the same to the Board within fifteen days of the appointment of the custodian. It Provided that in case of a gold or gold exchange traded fund scheme, the assets of the scheme being gold or gold related instruments may be kept in custody of a bank which is registered as a custodian with the Board. No custodian in which the sponsor or its associates hold 50% or more of the voting rights of the share capital of the custodian or where 50% or more of the directors of the custodian represent the interest of the sponsor or its associates shall act as custodian for a mutual fund constituted by the same sponsor or any of its associate or subsidiary company.

Winding Up

A close-ended scheme shall be wound up on the expiry of duration fixed in the scheme on the redemption of the units unless it is rolled-over for a further period under sub-regulation (4) of regulation 33. A scheme of a mutual fund may be wound up, after repaying the amount due to the unit holders.

- On the happening of any event which, in the opinion of the trustees, requires the scheme to be wound up; or
- If seventy five per cent of the unit holders of a scheme pass a resolution that the scheme be wound up; or
- If the Board so directs in the interest of the unit-holders.

To Maintain Proper Books of Accounts and Records

- Every asset management company for each scheme shall keep and maintain proper books of accounts, records and documents, for each scheme so as to explain its transactions and to disclose at any point of time the financial position of each scheme and in particular give a true and fair view of the state of affairs of the fund and intimate to the Board the place where such books of accounts, records and documents are maintained.
- Every asset management company shall maintain and preserve for a period of eight years its books of accounts, records and documents.

- The asset management company shall follow the accounting policies and standards as specified in Ninth Schedule so as to provide appropriate details of the scheme wise disposition of the assets of the fund at the relevant accounting date and the performance during that period together with information regarding distribution or accumulation of income accruing to the unit holder in a fair and true manner.

II. VARIOUS RULES AND REGUALTIONS COVERED BY SEBI IN MUTUAL FUND

In exercise of the powers conferred by section 30 of the Securities and Exchange Board of India Act, 1992, the Board, with the previous approval of Central Government, makes regulations relating to regulation of mutual fund.

- **Formation -** Certain structural changes have also been made in the mutual fund industry, as part of which mutual funds are required to set up asset management companies with fifty percent independent directors, separate board of trustee companies, consisting of a minimum fifty percent of independent trustees and to appoint independent custodians.
- **Documents -** The offer documents of schemes launched by mutual funds and the scheme particulars are required to be vetted by SEBI. A standard format for mutual fund prospectuses is being formulated.
- **Code of advertisement -** Mutual funds have been required to adhere to a code of advertisement.
- **Assurance on returns -** SEBI has introduced a change in the Securities Control and Regulations Act governing the mutual funds. Now the mutual funds were prevented from giving any assurance on the land of returns they would be providing. However, under pressure from the mutual funds, SEBI revised the guidelines allowing assurances on return subject to certain conditions.
- **Minimum corpus -** The current SEBI guidelines on mutual funds prescribe a minimum start-up corpus of Rs.50 crore for an open-ended scheme, and Rs.20 crore corpus for closed-ended scheme, failing which application money has to be refunded. The idea behind forwarding such a proposal to SEBI is that in the past, the minimum corpus requirements have forced AMCs to solicit funds from corporate bodies, thus reducing mutual funds into quasi-portfolio management outfits. In fact, the Association of Mutual Funds in India (AMFI) has repeatedly appealed to the regulatory authorities for scrapping the minimum corpus requirements.
- **Institutionalization -** The efforts of SEBI have, in the last few years, been to institutionalize the market by introducing proportionate allotment and increasing the minimum deposit amount to Rs.5000 etc. These efforts are to channel the investment of individual investors into the mutual funds.

- **Investment of funds mobilized -** In November 1992, SEBI increased the time limit from six months to nine months within which the mutual funds have to invest resources raised from the latest tax saving schemes. The guideline was issued to protect the mutual funds from the disadvantage of investing funds in the bullish market at very high prices and suffering from poor NAV thereafter.
- **Valuation of investment -** The transparent and well understood declaration or Net Asset Values (NAVs) of mutual fund schemes is an important issue in providing investors with information as to the performance of the fund. SEBI has warned some mutual funds earlier of unhealthy market
- **Inspection -** SEBI inspect mutual funds every year. A full SEBI inspection of all the 27 mutual funds was proposed to be done by the March 1996 to streamline their operations and protect the investor's interests. Mutual funds are monitored and inspected by SEBI to ensure compliance with the regulations.
- **Underwriting -** In July 1994, SEBI permitted mutual funds to take up underwriting of primary issues as a part of their investment activity. This step may assist the mutual funds in diversifying their business.
- **Conduct -** In September 1994, it was clarified by SEBI that mutual funds shall not offer buy back schemes or assured returns to corporate investors. The Regulations governing Mutual Funds and Portfolio Managers ensure transparency in their functioning.
- **Voting rights -** In September 1993, mutual funds were allowed to exercise their voting rights. Department of Company Affairs has reportedly granted mutual funds the right to vote as full-fledged shareholders in companies where they have equity investments.

III. DIFFERENT PROCESS OF SEBI

- Every application form for units of a scheme is to be accompanies by a memorandum containing key information about the scheme.
- The offer document needs to contain adequate information to enable the investors to make informed investments decisions.
- All advertisements for a scheme have to be submitted to SEBI within seven days from the issue date.
- The advertisements for a scheme have to disclose its investment objective.
- The offer documents and advertisements should not contain any misleading information or any incorrect statement or opinion.
- The initial offering period for any mutual fund schemes should not exceed 45 days, the only exception being the equity linked saving schemes.
- No advertisements can contain information whose accuracy is dependent on assumption.
- An advertisement cannot carry a comparison between two schemes unless the schemes are comparable and all the relevant information about the schemes is given.

- All advertisements need to carry the name of the sponsor, the trustees, the AMC of the fund.
- All advertisements need to disclose the risk factors.
- All advertisements shall clarify that investment in mutual funds is subject to market risk and the achievement of the fund's objectives cannot be assured.
- When a scheme is open for subscription, no advertisement can be issued stating that the scheme has been subscribed or over subscription.

CONCLUSION

Mutual funds now represent perhaps most appropriate investment opportunity for most investors. As financial markets become more sophisticated and complex, every investor needs to financial intermediary who provides the required knowledge and professional expertise on successful investing. As the investor always try to maximize the returns and minimize the risk. Mutual fund satisfies these requirements by providing attractive returns with affordable risks. The fund industry has already overtaken the banking industry, more funds being under mutual fund management than deposited with banks. With the emergence of tough competition in this sector mutual funds are launching a variety of schemes which caters to the requirements of the particulars class of investors. SEBI has taken a far-reaching step towards ensuring due diligence and transparency in all investment decisions. SEBI has done a commendable job in terms of stringent regulation. However, the penalties must be more severe and appropriate, so that they deter the market participants from indulging in malpractices. It must ensure that new norms for corporate disclosures have more depth and are implemented over a shorter time period.

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