



Association of Mutual Funds in India

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AMFI/ CIR/ ARN-26 / 2023-24

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To,

- 1) All AMFI Members &
- 2) Mutual Fund Distributors (MFDs)

Dear Members / MFDs,

Advisory regarding Contests run by AMCs and Mutual Fund Distributors for sales promotion

In January 2024, AMFI had issued an advisory on Do's & Don'ts w.r.t. contests run by AMCs and mutual fund distributors (MFDs) for garnering higher business in mutual fund schemes, which was fine tuned in March 2024.

However, it was observed that in spite of very clear AMFI guidelines to deter and avoid incentivizing the distributors/sub-distributors for garnering higher business by way of foreign trips or trips to exotic tourist destinations, such incentivisation programs were still being launched by certain MFDs, wherein the successful contestants (sub-distributors) were offered foreign trips /rewards in the garb of "training programs" at different overseas tourist destinations, misusing the relaxation provided in the AMFI advisory in respect reward & recognition programs run by MFDs to recognise their employees/sub-distributors for performance across multiple regulated financial products.

SEBI has viewed this seriously and had advised AMFI to review the existing AMFI guidelines and put in place appropriate deterrent mechanism to discourage any such misuse.

Accordingly, after reviewing the matter in consultation with AMFI's Standing Committee on MFD related matters (commonly referred to AMFI ARN Committee) and the Board of AMFI and with guidance from SEBI, it has been decided to revise the existing AMFI guidelines.

The revised guidelines regarding w.r.t. contests run by AMCs and Mutual Fund Distributors for promoting the MF schemes - which shall be effective immediately - are mentioned hereinbelow.



A. Guidelines for AMCs

1. AMC shall strictly avoid / refrain from making any commission payment which is de-facto an upfront commission or can be deemed to be in the nature of upfront commission.
2. It is reiterated that as per SEBI Regulations, the **AMCs can pay only trail commission to MFDs. Further, such trail commission should only be paid in monetary terms.** All trail commission (including slab-based commission referred in point 3) should be disclosed on AMC's website and in Half-Yearly CAS.
3. The trail commission referred above may include a slab-based commission based on the MFD achieving certain volumes, subject to the following:
 - a. Such incentive shall be paid only post accrual and shall not be upfronted.
 - b. Such incentive should be paid from the respective scheme accounts only.
4. AMCs shall strictly abide by the mandatory provisions stipulated under sub-para (v), (vi) & (vii) of Para 2.10.2.1 of Annexure 1 of SEBI Master Circular no. SEBI/HO/IMD/IMD-PoD1/P/CIR/2024/90 dated 27-June-2024 (*cf.* SEBI circular no. SEBI/HO/IMD/IMD-1 DOF2/P/CIR/ 2021/630 dated 27-Sept-2021 on Risk Management Framework for Mutual Funds) which were reiterated by SEBI vide letter no. SEBI/HO/IM D-11/DoF-3/0W/P/2022/60147/1 dated 01-Dec-2022.
5. AMC shall strictly avoid / refrain from offering any incentivisation to MFDs for achieving sales target in kind in the form of, including but not limited to, gift vouchers or actual gifts (such as electronic gadgets) or any form of entertainment, directly or through any associate/group company or the sponsor or the Trustee of the mutual fund.
6. As per extant SEBI Regulations AMCs are permitted to provide training to their empanelled distributors for knowledge enhancement and skill development. However, such training programs should not be misused for providing any reward or non-cash incentive to the distributors, as stipulated in clause 10.1.12 (h) of the aforesaid SEBI master circular. Also, the criteria / parameters for selecting distributors / sub distributors / employees of MFDs (EUN holders) for such L&D / training programs should not be based on achievement of any sales targets, loyalty programs, etc.

In case there is travel and stay requirement for organising such programs, this should be a central and logistically convenient location within India and not at any exotic tourist destinations. For avoidance of doubt, it is hereby clarified that such training/recognition programs shall not be held in any foreign country.
7. The AMC shall not sponsor or fund any such training or recognition programs conducted by a MFD / ARN Holder to reward and recognise the performance of such MFD's employees/sub-distributors.



B. Guidelines for Mutual Fund Distributors

1. The MFDs shall pay only trail commission to their sub-distributors. Further, such payment should be only in monetary terms, i.e., in cash with proper audit trail, and not in kind /way of gifts etc.
2. MFDs shall not run competitive contests or incentive programs to promote selective mutual funds schemes which could result in mis-selling.
3. MFDs may conduct training / recognition programs w.r.t. mutual funds for their employees (EUIN holders) /sub-distributors within reasonable expenses within a location within India, which is conveniently/centrally located from logistical arrangements and cost perspective and not at any exotic tourist destination.

For avoidance of doubt, it is hereby clarified that such programs shall not be held in any foreign country; and the rewards for any such recognition programs shall not be by way of trip/visit to foreign country.

4. A distributor who is found to violate the aforesaid guidelines, shall be liable for suitable disciplinary action by the AMCs / AMFI, which may include dis-empowerment, temporary debarment from (i) on-boarding new clients or (ii) accepting new business or (iii) suspension of ARN or cancellation of registration, as deemed appropriate by AMFI.

Members of AMFI & MFDs are advised to take note of the above for strict compliance. Members are also requested to place a copy of this advisory before the Board of Directors of their AMC and the Trustees for their information.

Regards,

Venkat N. Chalasani
Chief Executive

