



Association of Mutual Funds in India

C-701 Naman Corporate Link, Plot Nos. C-31 / C-32, G Block,
Bandra Kurla Complex, Bandra – East, Mumbai – 400 051

CIR/ ARN-21/ 2021-22

March 30, 2022

To All AMFI Members

Dear Members,

Sub: Classification of Sole proprietorship for ARN purposes

1. As per SEBI Regulations, an individual is required to (i) pass 'NISM Series V- A : Mutual Fund Distributors Certification Examination' and obtain NISM Certificate; and (ii) register with AMFI and obtain AMFI Registration Number (ARN) before engaging in distribution of mutual fund products or being employed in sale and/or promotion of mutual fund products. In the above context, a non-individual entity applying for ARN needs to have at least one NISM certified sales personnel/employee having valid EUIN registered under its ARN, to be eligible for allotment of the ARN. An individual MFD is allotted EUIN along with ARN by default (i.e., without any additional fees).
2. Further, as per SEBI guidelines, EUIN of the sales personnel / employee of the MFD needs to be quoted in the application form / transaction feed along with the ARN.
3. Hitherto, individuals applying for ARN under sole proprietorship were allowed to register /map EUIN of some other person/employee to the ARN of the Sole proprietorship, irrespective of whether the proprietor himself/herself holds a valid NISM certificate and/or has an EUIN. On a review, it was found that currently there are 500+ MFDs registered with AMFI under sole proprietorship category, where the proprietor of the sole proprietorship does not have NISM certificate. It was also observed that there are around 50+ HUF ARN holders registered under the proprietorship category, although there is a separate category for HUF.
4. From a legal standpoint, a sole proprietorship is an unincorporated business owned by a sole person (owner), who pays personal income tax on profits earned from the business. A sole proprietorship can operate under the name of its owner or under an assumed trade name. In short, proprietorship is a business with a trade name which may be different from the name of the owner of the business. However, the trade name does not create a legal entity separate from the sole proprietor owner. *Courts have held that a sole proprietorship is not a legal entity as per law i.e., there is no separate legal status for sole proprietary concern.* Thus, a sole proprietorship and its owner are one and the same person and having the same PAN (and hence the income of the sole proprietorship is taxed in the hands of the proprietor).
5. The matter regarding classification of sole proprietorship for ARN purposes based on the above position was discussed by the AMFI ARN Committee recently. The Committee after detailed deliberations, has recommended that ARN applications of sole proprietorship should henceforth be processed / classified on the basis of legal status of the proprietor as per PAN. The committee's recommendations were discussed and endorsed by the AMFI Board.

6. Accordingly, it has been decided as follows:-

- a) If the proprietor of the sole proprietorship applying for ARN is an individual, the proprietorship will be treated / classified as an individual, basis the PAN. (Since the ARN fees for 'Individuals' and 'sole proprietorship' is the same, there is no change in this regard.) Consequently, the proprietor of sole proprietorship applying for ARN shall need to have NISM certification and map his/her EUIN to the ARN of the proprietorship.

The existing sole proprietorship ARN Holders, wherein the individual proprietor has a valid NISM certificate, but has not obtained or mapped his/own EUIN, shall be advised to do so urgently. However, where the individual proprietor does not possess NISM certificate, and has registered some other person/employee's EUIN under the ARN of the sole proprietorship shall be allowed time till the next ARN renewal date or September 1, 2022, *whichever is later*, to obtain NISM Certification and EUIN to regularise the matter.

- b) Where the applicant applying for ARN in the name of a proprietorship is an HUF, the proprietorship will be treated / classified as an HUF, basis the PAN. Consequently, the applicant shall be levied ARN fees applicable to 'HUF' category.

As per current AMFI guidelines, an HUF, being a non-individual person, needs to register at least one NISM certified sales personnel/employee having valid EUIN under its ARN, to be eligible to obtain the ARN & commence mutual fund distribution service. Hence, there is no change or impact for existing HUF ARN Holders who have registered as proprietorship concern, except that they shall henceforth be required to pay the ARN renewal fees applicable to 'HUF' category.

While we have advised CAMS suitably in the matter for implementation of the point number 6 above, Members are requested to take note of the above guidelines and communicate the same to their Sales team / branch personnel.

With regards,


B. M. Kini
Dy. Chief Executive