



ASSOCIATION OF MUTUAL FUNDS IN INDIA

135/ BP/ 78/ 2018-19

March 26, 2019

To,

All AMFI Members

Dear Members,

AMFI Best Practices Guidelines Circular No.78 / 2018-19

**Revision in the Guidelines on Transfer of AUM from one MF Distributor to another
(In partial modification of AMFI Best Practice Circular no. 135/ BP/ 43/ 2013-14 dated Jan 22, 2014)**

It has been decided to revise the existing AMFI best-practice guidelines for Transfer of AUM from one MF Distributor (ARN-holder) to another, in partial modification of AMFI Best Practice Circular no. 135/ BP/ 43/ 2013-14 dated January 22, 2014, as per recommendations of AMFI's Standing Committee on Certified Distributors (ARN Committee) and approval of the Board of AMFI.

Accordingly, the revised guidelines for Transfer of AUM from one MF Distributor to another MF Distributor, incorporating the abovementioned modifications are given in the Annexure A hereto for uniform implementation by all AMFI Members, while the key changes made in the earlier guidelines are shown in Annexure B for ease of reference. This circular supersedes all previous circulars/ guidelines issued on the above subject.

Members are requested adopt the revised guidelines with immediate effect, but latest by April 1, 2019. Members are also requested to confirm having noted the contents of this circular for due compliance and also to place this Circular before their Trustees for information at the next meeting of the Trustees.

With regards,

Sincerely,


N. S. Venkatesh
Chief Executive



Annexure A
to

AMFI Best Practice Guidelines Circular No. 78 /2018-19 dated March 26, 2019

Revised Guidelines for Transfer of AUM from one ARN holder to another ARN holder

I. Distributor (ARN Code) change initiated by the Investor:

As per SEBI's circular No. SEBI/IMD/CIR No.13/187052/2009 dated December 11, 2009, Mutual Funds/ AMCs need to ensure compliance with instructions of an investor who desires to change his/her distributor or switch to direct plan, without compelling that investor to obtain an NOC from the existing distributor. Such change of distributor code/ARN leads to the investor's unit-holdings being delinked from the earlier distributor/ARN and tagged / linked to the new distributor/ARN. Upon change of distributor (ARN Code) and on transfer of AUM from one distributor (ARN Code) to another distributor (ARN Code) on such requests, the trail commission in respect of transferred assets should not be paid to the new distributor (ARN holder), except for the cases as mentioned at point No. III hereinbelow.

II. Distributor (ARN Code) change initiated by the existing distributor:

A. Change in Distributor (ARN code) upon request of an existing distributor may be effected only in the following circumstances:

- i. Change in the name / legal status of the distributor (such as an individual MF distributor converting his MF distribution business to a partnership firm, a partnership firm converting itself into Limited Liability Partnership (LLP), a private limited company converting itself into a public limited company or vice versa);
- ii. Merger / acquisition / consolidation / transfer of business / new code acquired within the same group in case of non-individual distributors;
- iii. Transfer of AUM / consolidation initiative within the same family / close relatives in case of individual distributors; and
- iv. Transfer of business by individual distributors.

B. Change in Distributor / ARN code may be effected only upon completion of the following formalities in cases at Serial Nos. i to iv above:

1. Request for change in distributor/ ARN code may only be initiated by a distributor whose ARN is valid, who is 'KYD' Compliant and who has furnished all the requisite self-certifications due as on the date of request.

Explanatory Note:

Any Transferor Distributor who has surrendered his valid ARN in order to obtain a fresh ARN/EUIN, shall be considered eligible to transfer his assets to the fresh ARN, even if on the date of application for transfer of AUM, the Transferor ARN is "surrendered / not valid". Provided that the application for transfer of AUM should be made within a period of six months from the date of cancellation of ARN.



2. Transfer should be of full assets and after the transfer, the Transferor Distributor shall cease to operate / function and his ARN code shall be surrendered to AMFI for cancellation. An undertaking to this effect shall be furnished by the Transferor Distributor to the concerned AMC's. The Transferor Distributor shall thereafter submit a letter to AMFI for cancellation of ARN along with the original ARN card/ Certificate/ Letter of Registration within 15 days of completion of transfer of AUM. A copy of the aforesaid letter submitted to AMFI shall also be filed with the AMC's, where the distributor has submitted request for transfer of AUM.

Provided that the Transferor Distributor need not surrender his/her ARN, if he/she becomes a sub-distributor of the Transferee Distributor in order to service the clients. However, after transferring the assets, the Transferor Distributor shall not do any business independently under his/her ARN.

3. Request letter for transfer of assets submitted to the AMC's by the Transferor Distributor shall also contain:
 - a. The reason for the transfer, duly supported by documentary evidence;
 - b. A specimen copy of the letter of intimation regarding the change of distributor sent to the clients; and
 - c. Certification that the letters have been sent to all the existing clients (a list of the clients should be attached along with proof of dispatch of letters).
4. The Transferor Distributor must send a suitable letter to his/her MF clients informing about the impending change of the distributor/ARN code, the reason for the same, along with the details of the new distributor who will be servicing them after the transfer of assets. It must also be highlighted in the letter that if the clients have any objection for the change in the distributor/ARN code, they must write to the respective AMC directly; and that the AMC's will effect the change of distributor/ARN unless they hear to the contrary from the investors within 15 days from the date of the distributor's letter.
5. Commissions to the Transferee Distributor shall be paid only on the valid assets i.e., where commissions would have been rightfully and legitimately payable to the Transferor Distributor. Payment of commission to the Transferee Distributor on transferred assets should be released only on cancellation of transferor ARN, except for the cases where the transferor distributor becomes a sub-distributor of the transferee distributor in order to service the clients and hence, retains his/ her ARN, as explained under point no. 2 above. Transfer of assets should not be resorted to / used by the distributors as a measure to circumvent any legal/regulatory obligation and/or AMFI guideline / requirements.
6. In case any investors communicate their objection to the transfer of assets/ change of distributor / ARN to either of the distributors (new or old), that distributor must immediately inform the concerned AMC(s).
7. In case there are no objections from any clients, the AMC's will effect the change in the distributor/ARN code, after a cooling off period of 15 days from the date of receipt of distributor's request.

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C. For all cases mentioned in Serial Nos. 1 to 4, the transferee distributor shall be entitled for trail commission on a prospective basis on the valid transferred assets, basis the lower of the commission rate of the transferor and the transferee distributor. Other than the trail commission referred to above, no other payments of any nature whatsoever, including incentives or commissions shall be made on account of the transferred assets on a prospective basis. Commission payment to the Transferee Distributor shall continue to be subject to claw-back provisions as would have been applicable to the Transferor Distributor.

III. Change in Distributor / ARN code due to voluntary cessation of business of an existing MF distributor

There has been a number of instances where a distributor decides to voluntarily discontinue his/her mutual fund distribution business, but does not transfer his/her clientele to another distributor or does not inform the clients to approach some other distributor for their future service requirements. In such cases, the clients are often left un-serviced and un-assisted which is undesirable.

In such cases, the following procedure may be adopted as a Best Practice and change in distributor code may only be effected upon completion of the requisite formalities:

1. The existing distributor shall write to his/her clients, about his/ her distribution business being discontinued and advising the clients that they may opt to change their MF distributor to any another MF distributor of their own choice, for their future service requirements / MF investments. The distributor shall also advise the clients to write to the respective mutual funds about their desire / decision to change in their MF distributor and for inclusion of the new distributor's ARN code in place of the existing distributor's ARN code. The distributor shall submit a copy of the aforesaid communication sent to the clients, along with a list of the clients to the respective AMCs.
2. AMCs shall keep in their records, a copy of the communication sent by the existing distributor to his/her clients, along with a list of such clients /investors.
3. AMCs shall, on receipt of letter from the investors communicating a new distributor's code, at any time in future, effect the change of distributor (ARN) code in their records and send a suitable confirmation to the investors
4. Once the distributor / ARN code has been changed in the AMC records, the trail commission thereafter for all business done by the earlier distributor shall be payable to the new distributor prospectively, basis the lower of the commission rate of applicable to the earlier (transferor) distributor and the new (transferee) distributor. Other than the trail commission referred to above, no other payments of any nature whatsoever, including incentives or commissions shall be made on account of the transferred assets on a prospective basis. Commission payment to the new /transferee distributor shall continue to be subject to claw back provisions, as would have been applicable to the previous (transferor) distributor.

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5. Commission to the new/ transferee distributor shall be paid only on the valid assets i.e., where commissions would have been rightfully and legitimately payable to the previous / transferor distributor.
6. The Transfer of assets should not be used by the Distributor as a measure to circumvent any legal/regulatory obligation and/or AMFI guideline / requirements.
7. A MF distributor who has stopped his mutual fund distribution business must surrender his ARN to AMFI for cancellation, with a copy of the letter submitted to the AMC(s) (with AMC acknowledgement thereon) as soon as his details are removed from the investors' folios in the AMCs' records.

In case of any exceptions to the above best practices, members are advised to refer the same to AMFI for direction / guidance on a case-to-case basis.

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Annexure B

Key changes made in AMFI's Best Practice Guidelines circular dated 22-Jan-2014

| Existing Clause | Revised Clause |
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| Para II "Distributor (ARN Code) change initiated by the existing distributor" | |
| <p>A. Change in Distributor code on request of Distributor may be effected only in the following circumstances:</p> <ol style="list-style-type: none"> 1. Change in the name/ legal status of the distributor such as an individual converting to a partnership firm, a partnership firm converting itself into LLP, a private limited company converting itself into a public limited company or vice versa; 2. Merger/ acquisition/ consolidation/ transfer of business / new code acquired within the same group in case of non-individual distributors; 3. Transfer of AUM / consolidation initiative within the same family/ relatives in case of individual distributors; 4. Transfer of business by individual distributors; and 5. Transfer of assets to the on-line platform of new distributor. | <p>A. Change in Distributor code on request of Distributor may be effected only in the following circumstances:</p> <ol style="list-style-type: none"> 1. Change in the name/ legal status of the distributor such as an individual converting to a partnership firm, a partnership firm converting itself into LLP, a private limited company converting itself into a public limited company or vice versa; 2. Merger/ acquisition/ consolidation/ transfer of business/ new code acquired within the same group in case of non-individual distributors; 3. Transfer of AUM/ consolidation initiative within the same family/ relatives in case of individual distributors; and 4. Transfer of business by individual distributors. |
| <p>B. 1. Request for change in distributor code may only be initiated by a Distributor whose ARN is valid, who is KYD Compliant and who has furnished all the self-certification due from him on the date of request.</p> | <p>B 1. Request for change in distributor/ ARN code may only be initiated by a distributor whose ARN is valid, who is 'KYD' Compliant and who has furnished all the requisite self-certifications due as on the date of request.</p> <p>Explanatory Note: <i>Any Transferor Distributor who has surrendered his valid ARN in order to obtain a fresh ARN/EUIN, shall be considered eligible to transfer his assets to the fresh ARN, even if on the date of application for transfer of AUM, the Transferor ARN is "surrendered / not valid". Provided that the application for transfer of AUM should be made within a period of six months from the date of cancellation of ARN.</i></p> |
| <p>B. 2. Transfer should be of full assets and after the transfer, Transferor Distributor should cease to exist / function and his ARN code should be surrendered to AMFI for cancellation. An undertaking to this effect shall be furnished by the Transferor Distributor to the AMCs. Transferor Distributor shall submit a letter for cancellation of ARN to AMFI along with original ARN card/ Certificate of Registration, within 15 days of completion of transfer of AUM and a copy of the said letter would also be filed with the AMCs, where he has submitted request for transfer of AUM.</p> | <p>B. 2. Transfer should be of full assets and after the transfer, the Transferor Distributor shall cease to operate / function and his ARN code shall be surrendered to AMFI for cancellation. An undertaking to this effect shall be furnished by the Transferor Distributor to the concerned AMCs. The Transferor Distributor shall thereafter submit a letter to AMFI for cancellation of ARN along with the original ARN card/ Certificate/ Letter of Registration within 15 days of completion of transfer of AUM. A copy of the aforesaid letter submitted to AMFI shall also be filed with the AMCs, where the distributor has submitted request for transfer of AUM.</p> <p>Provided that the Transferor Distributor need not surrender his/her ARN, if he/she becomes a sub-distributor of the Transferee Distributor in order to service the clients. However, after transferring the assets, the Transferor Distributor shall not do any business independently under his/her ARN.</p> |



| Existing Clause | Revised Clause |
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| <p>B. 5. Commissions to Transferee Distributor can be paid only on the valid assets i.e., where commissions would lawfully have been payable to the Transferor Distributor. Payment of commission to Transferee Distributor on transferred assets should be released only on cancellation of transferor ARN. Transfer of assets should not be used by the distributors as a measure to circumvent any regulatory and/ or AMFI guideline / requirements.</p> | <p>B. 5. Commissions to the Transferee Distributor shall be paid only on the valid assets i.e., where commissions would have been rightfully and legitimately payable to the Transferor Distributor. Payment of commission to the Transferee Distributor on transferred assets should be released only on cancellation of transferor ARN, except for the cases where the transferor distributor becomes a sub-distributor of the transferee distributor in order to service the clients and hence, retains his/ her ARN, as explained under point no. 2 above. Transfer of assets should not be resorted to / used by the distributors as a measure to circumvent any legal/regulatory obligation and/or AMFI guideline / requirements.</p> |
| <p>C. In cases mentioned at Serial No 5 above i.e. transfer of assets to the on-line platform of new distributor, the change in Distributor code may be effected upon completion of the formalities mentioned at Para B above <u>except</u> that:</p> <ol style="list-style-type: none"> a. The transfer of assets may be full or partial; b. The Transferor Distributor need not surrender his ARN as he will continue to service his own clients or may become a sub-broker with the Transferee Distributor. | <p>< Deleted ></p> |
| <p>D. For all cases mentioned in Serial Nos. 1 to 5, the Transferee Distributor will be entitled for trail commission on prospective basis on the valid transferred assets at the same rate at which commission was paid prior to the transfer of the said asset.</p> | <p>C. For all cases mentioned in Serial Nos. 1 to 4, the transferee distributor shall be entitled for trail commission on a prospective basis on the valid transferred assets, basis the lower of the commission rate of the transferor and the transferee distributor. Other than the trail commission referred to above, no other payments of any nature whatsoever, including incentives or commissions shall be made on account of the transferred assets on a prospective basis. Commission payment to the Transferee Distributor shall continue to be subject to claw-back provisions as would have been applicable to the Transferor Distributor.</p> |
| <p>Para III - Change in Distributor / ARN code due to voluntary cessation of business of an existing MF distributor</p> | |
| <p>4. Once the distributor code has been changed, the trail commission thereafter for all business done by the old distributor will be payable to the new distributor on a prospective basis at the same rate at which commission was paid prior to the transfer of the said asset.</p> | <p>4. Once the distributor / ARN code has been changed in the AMC records, the trail commission thereafter for all business done by the earlier distributor shall be payable to the new distributor prospectively, basis the lower of the commission rate of applicable to the earlier (transferor) distributor and the new (transferee) distributor. Other than the trail commission referred to above, no other payments of any nature whatsoever, including incentives or commissions shall be made on account of the transferred assets on a prospective basis. Commission payment to the new /transferee distributor shall continue to be subject to claw back provisions, as would have been applicable to the previous (transferor) distributor.</p> |