

**GUIDELINES FOR THE REGISTRATION OF INTERMEDIARIES****(For Implementing the code of conduct)****Introduction**

The circular no. MFD/CIR/20/23230/2002 dated November 28, 2002, issued by Securities & Exchange Board of India (SEBI) on the captioned subject has prescribed the parameters for ensuring compliance with their earlier circular No MFD/CIR/06/210/2002 dated June 26<sup>th</sup> 2002 and has stated that:

***"all Mutual Funds and intermediaries are advised to follow it strictly and should not indulge in any practice contravening it directly or indirectly i.e. paying commissions in any form or by allotting intermediary codes to investors or their associates for paying them commission on their own investments, etc."***

It has therefore advised AMFI to formulate specific guidelines and modalities within these parameters, in consultation with SEBI to assist AMCs in following the code in letter and spirit. As such these guidelines are mandatory. Mutual funds are required to ensure compliance with these guidelines both by intermediaries distributing their products and through them, sub-brokers acting on behalf of such intermediaries.

These Guidelines have been issued in terms of SEBI Circular No.MFD/CIR/20/23230/2002 dated November 28, 2002 read with SEBI Circular No. MFD/CIR/06/210/2002 dated June 26<sup>th</sup> 2002 with the primary objective of ensuring compliance by the Mutual Funds so that they do not use any unethical means to sell, market or induce any Investor to buy units of their scheme(s) and shall mobilize funds on the strength of professional fund management and good practices.

**Definitions & Guidelines for Interpreting them**

For the purpose of interpretation, the following definitions and explanations shall apply:

**ARN:** means AMFI Registration Number allotted by AMFI.

**ARMFA:** means an intermediary who is registered with AMFI and stands for AMFI Registered Mutual Fund Advisors.

**BROKERAGE:** Shall include all amounts paid to an intermediary for selling the product of the mutual fund and shall include commissions on sale of mutual funds, incentives, consulting fees, contest awards that have monetary value, gifts, lump sum payments.

**INTERMEDIARY:** shall mean all persons or entities involved in selling and distribution of mutual fund products including inter alia brokers, sub-brokers, sole proprietor firms, consultants, financial advisors, channel partners partnership firms, companies or called by any other name, but shall not include collection centers, where there is no element of advise, and it is only a counter for making forms available and collecting completed applications. While such collection centers need not obtain ARN, they would have to abide by the code of conduct, to the extent applicable and specifically with regard to the clause on rebating.

**INVESTOR:** Any person or entity holding units under any scheme(s) of a mutual fund.

**PRINCIPAL INTERMEDIARY:** any Intermediary (whether individual or non-individual), who pays such brokerage or consideration to a sub-broker as defined below, shall be called the principal intermediary for the purposes of these guidelines, and with reference to the sub-broker(s).

**REBATE:** Any amount paid by a mutual fund or an Intermediary to an Investor, on account of any investment made by the investor in a mutual fund. Such payments shall include payments made in the nature of Brokerage as defined above.

**SUB-BROKER:** shall mean all persons or entities, selling mutual fund units, but obtaining brokerage or other consideration through a Principal Intermediary All provisions of this Guidelines shall apply mutatis mutandis to such an Intermediary, except where otherwise stated.

It is clarified that the terms Holding Company and Subsidiary Company used in these Guidelines shall have meanings respectively assigned to them in Section 4 of the Companies Act, 1956.

### **1.Registration of Intermediaries with AMFI**

1.1 The SEBI circular has made registration of Intermediaries compulsory. This would mean that no person or any other entity would be entitled to sell units of mutual funds unless the Intermediary is registered with AMFI. AMFI has made provision for issuing an AMFI Registration Number (ARN) and photo-identity card for Intermediaries. All mutual funds shall stop empanelling Intermediaries who are not registered with AMFI with effect from the date of these Guidelines.

1.2 For Intermediaries already empanelled with mutual funds, being registered with AMFI shall become compulsory by March 31<sup>st</sup>, 2003. Thereafter, no brokerage can be paid out to

Intermediaries who are not registered with AMFI on fresh business canvassed by them until such time as they are registered.

1.3 All corporate Intermediaries shall ensure that employees engaged in sales and marketing of mutual funds are registered with AMFI and have obtained a photo identity card.

1.4 AMFI certification is the sole criteria for allotting an ARN to an individual Intermediary, other than those specifically exempted, who shall follow the procedure detailed in 2.1.2 below. Corporate Intermediaries can obtain an ARN by undertaking to ensure that all personnel engaged in sales and marketing pass the AMFI certification test and register with AMFI and obtain a photo-identity, with their corporate ARN, by March 31<sup>st</sup>, 2003 in the case of existing Intermediaries and their existing employees.

1.5 For corporate Intermediary entering the business of mutual fund sales after the date of these guidelines, and for persons hired by existing intermediaries, all such employees proposed to be engaged in the sales and marketing of mutual funds, shall have to be registered with AMFI. In the case of a fresh corporate entrant to the intermediation industry, this would mean that despite obtaining an ARN it would not be able to do business till the first employee recruited for sales/marketing holds AMFI certification and all subsequent employees recruited for engaging in sales/marketing are also registered with AMFI and have obtained his/her photo identity card.

## **2. PROCEDURE FOR OBTAINING REGISTRATION**

AMFI has currently authorized M/s Computer Age Management Services Pvt. Ltd. ("CAMS") to act as processing agent on its behalf. AMFI may, from time to time, authorize other organizations to undertake the task currently assigned only to CAMS.

Intermediaries are requested to apply in the prescribed form (sample enclosed) which can be obtained from the website or office of AMFI and website or any office of CAMS and can also be kept at the branch offices of members for the convenience of their distributors. In addition distributors may write to AMFI or CAMS and obtain the application form by post.

Application forms can be submitted at the office of CAMS or sent by post to CAMS. Annexure I contains a list of offices of CAMS.

## **1. Individual Applicants:**

1. An individual must complete the appropriate form and enclose a photograph of the size defined in the application form, and a self-certified copy of either the AMFI certificate or mark-sheet as proof of having passed the AMFI Certification Test.
2. The SEBI circular under reference has exempted senior citizens, i.e. individuals who have completed 60 years of age as on March 31, 2003. Such applicant shall enclose proof of age and a recommendation from a member AMC (s), certifying that he/she has worked for 2 years as an intermediary and has canvassed a minimum business of Rs.200,000 over a period of the last 2 years.
3. The prescribed fees can be paid either by a demand draft or by a local cheque in favour of the "**Association of Mutual Funds in India**" payable at the location of the CAMS office to which the form is submitted. The prescribed fees are as under:
  1. For individual Intermediaries as well as for each employee of a corporate Intermediary, the prescribed fees are Rs.500/- (which may be amended from time to time by AMFI). This fee has to be paid every time the individual renews his/her registration.

## **2. Non-individual Applicant:**

1. Non-individual applicants shall submit the form duly completed along with memorandum and articles of association in the case of companies, partnership deed in the case of partnership firms, society registration documents in the case of societies and trust deed in the case of trusts. The list of authorized signatories shall also be submitted.
2. The prescribed fees in the case of public limited companies are Rs.15,000/- and in the case of others are Rs.1000/-. The non-individual applicant must however ensure that each employee engaged in sales or marketing has applied for and obtained a photo-identity card on or before March 31, 2003.

3. After March 31, 2003, no employee of an intermediary can engage in the sales and marketing of mutual fund products unless he/she has obtained a photo-identity card.

The documents shall be scrutinized and if found in order and if the prescribed fees have been realized, a certificate of registration or photo identity card as applicable shall be issued. These will be mailed directly to the applicant.

### **3. EMPANELMENT CRITERIA (ARMFA with AMC's as Principal Intermediaries and ARMFA with Principal Intermediaries as Sub-Brokers)**

To ensure that only genuine distributors are eligible for brokerage, a set of common minimum criteria are evolved for the purpose of due diligence before empanelling (and thereafter for the payment of brokerage) an ARMFA by an AMC or by a Principal Intermediary as a sub-broker.

All intermediaries fulfilling the empanelment criteria as provided hereunder shall be entitled to receive brokerage for all business canvassed by them, except on their own investments. However it may be noted that as per SEBI's circular no. MFD/CIR No.5/153/2001, dated May 24<sup>th</sup>, 2001 no brokerage is payable on investments made by the sponsor of a mutual fund in the schemes of the mutual fund sponsored by them.

The following are the common minimum criteria:

3.1 All individual ARMFA obtaining empanelment with an AMC would be required to have at least 12 investors with the empanelling AMC, within one year of empanelment or, in the case of ARMFA already empanelled, within one year from the date of this circular. Failing this, the ARMFA would have to provide an undertaking to the AMC that it services at least 25 investors across all mutual funds. Failing both the above, the ARMFA would not be entitled to receive brokerage from the AMC on the mobilization done by it during the subsequent year, until it complies with the above.

3.2 Corporate ARMFA obtaining empanelment with an AMC would be required to have at least 100 investors from non-associates as defined herein, within one year of empanelment or, in the case of ARMFA already empanelled, within one year from the date of this circular **OR**

3.3 Would have average assets under management of at least Rs.1 crore with the empanelling AMC, which are not from associates (being subsidiary and holding companies) within the period stipulated in 3.2 above.

3.4 During a twelve-month period after empanelment, if 75% or more of the gross funds mobilized for the empanelling AMC by a corporate ARMFA, is from associates, the ARMFA would be required to provide a certificate signed by the authorized person, that it services at least 200 investors, other than associates and/or employees of associates, during the said period.

3.5 ARMFA are empanelled at different points of time. Monitoring on an on-going basis from the date of empanelment would be administratively inconvenient. Therefore following empanelment of an ARMFA, the AMC would be required to monitor compliance of the criteria in 3.1 to 3.4 during the quarter after completion of 12 months of empanelment. Thereafter monitoring of compliance with the criteria shall be done at the end of every 12 month period following the previous verification of compliance.

#### **4. SELF-CERTIFICATION FOR THE PURPOSE OF COMPLIANCE: (by ARMFA to AMCS and by Sub-brokers to Principal Intermediaries)**

The compliance with the SEBI circulars under reference and these guidelines will be through a process of self-certification. Unless otherwise stated, all these guidelines would be applicable both to ARMFA empanelled with AMCs and to sub-brokers of Principal Intermediaries:

4.1 For the purpose of empanelment, a corporate ARMFA would have to provide a letter from the Chairman/ Managing Director/ CEO/Authorized persons confirming that the organization was authorized to undertake distribution of mutual funds.

4.2 After the close of the current financial year (on March 31, 2003), AMCs would be required to obtain a one-time certificate from the corporate ARMFA and other non-individual ARMFA (structured sole proprietor firms, partnership firms, societies, trusts, co-operatives, etc.), empanelled with them, containing their ARN and certifying that as on March 31<sup>st</sup>, 2003 all employees engaged in sales or marketing have obtained AMFI certification and have obtained or applied for AMFI registration and obtaining their photo-identity card.

4.3 AMCs (or Registrars on behalf of AMCs) would obtain once a year, a certificate from empanelled Intermediaries as to their having complied with these guidelines and the code of conduct.

4.4 Similarly Principal Intermediary would be required to obtain a certificate from their sub-brokers.

#### 4.5 The wording of the said certificate would be

"This is to certify that, in the course of my/our business in the distribution of mutual fund products during the financial year ended March 31,..... I/we have adhered to the Code of Conduct contained in SEBI circular no. MFD/CIR/06/210/2002 dated June 26, 2002 and to the requirements as prescribed in SEBI's subsequent circular no. MFD/CIR/20/23230/2002 dated November 28, 2002 and the AMFI circular no: CIR/ARN-01/02-03 dated January 15, 2003 in this regard."

In case of non-compliance with the code of conduct and these guidelines by the Intermediary, the empanelling AMC would be required to suspend payout of brokerage until the requirement is met. Suspended payments may be shown as an outstanding by the mutual fund until such time as the Intermediary complies with the requirement.

#### **5. Disclaimer**

All original and/or first application forms for mutual funds shall contain a disclaimer to be signed by the investor. This undertaking/ disclaimer by investor would read as under:

"I/we have understood the details of the scheme and I/we have not received nor been induced by any rebate or gifts, directly or indirectly, in making this investment."

#### **6. Generating Awareness**

AMFI and its members would undertake to advertise and generate awareness about the code of conduct so as to make Intermediaries and investors aware of the implications of the same.

AMCs are required to inform all Intermediaries empanelled with them, in writing, forwarding the SEBI Circular under reference and the requirements of these guidelines at the earliest.