



Association of Mutual Funds in India

135/BP/28/2012-13

May 15, 2012

To all members,

Dear Sir/ Madam,

AMFI Best Practice Guidelines Circular No.28/2012-13

GUIDE LINES ON UNIFORM PRACTICE FOR DEALING WITH REDEMPTION/SWITCH-OUT PRIOR TO REALISATION OF FUNDS

The AMFI Committee on Operations and Compliance reviewed the practices followed by the AMCs for dealing with redemption/switch of units prior to realization of funds and has observed as under:

Redemption and Switch based on realization of funds

- a. Currently, there are varied practices followed by AMCs in dealing with acceptance and processing of switch-out or redemption of units for which funds are yet to be realized from the investor (in case of purchase) or from the source scheme (in case the units being redeemed are switched-in from another scheme). The following table depicts the various practices:

Sr. No.	Nature of Transaction	Practice 1	Practice 2	Practice 3
i	Switch-out of units prior to realization of funds for the units being switched-out (cheque realization in case of purchase and switch funding in case of switch-in).	Reject	Switch-out and lock the units in the switch-in scheme till funds are realized from the switch-out scheme (similar to receipt of cheques for purchases and are pending realization). Issue: Switch-out fund pays out to switch-in fund prior to realizing funds. Results in loss to existing unit holders in switch-out scheme which pays out to	Process switch-out as "missed transaction" Issues: Manual process. Results in gain/loss to existing unit holders in both the schemes.

			other scheme (where units are switched in).	
ii	Redemption of units which were switched-in from another scheme and for which switch funding is yet to be received.	Reject	<p>Process the redemption and pay the redemption proceeds; or hold the redemption proceeds till the funds are realized.</p> <p>Issues: Manual process.</p> <p>Fund having redemption pays out to investor prior to realizing funds. This result in funding gap in case redemption funding is done prior to receiving from the switch-out scheme. Results in loss to existing unit holders in switch-in scheme which pays out to exiting investor.</p>	<p>Process the redemption as “missed transaction” after realizing funds from the switch-out scheme.</p> <p>Issues: Manual process.</p> <p>Results in gain/loss to existing unit holders in both the schemes.</p>

- b. SEBI guidelines on cut-off timings reiterated that a ‘switch-in’ transaction to be treated like a purchase transaction and a ‘switch-out’ transaction be treated like a repurchase transactions. The guidelines further state that in case of ‘switch’ transactions from one scheme to another, the allocation shall be in line with redemption payouts [Refer Paragraph 8.3.7 of the Master circular on Mutual Funds SEBI/IMD/MC No.2/836/2011 dated January 07, 2011].
- c. Keeping in view (a) the issues associated with Practices folloed as per 2 and 3 and (b) the SEBI guidelines stated above, Committee has recommended following practices to be followed uniformly by all the AMCst:
- i. AMCs should reject redemption / switch-out of units for which funds are not realized via purchase or switch-in in the scheme at the time of processing the redemption or switch-out.
 - ii. In other words, redemption or switch out of units should be processed only if the funds for such units are realized in the scheme by way of payment instrument/transfer or switch-in funding process.
 - iii. All switch funding should be in line with redemption funding timelines adopted by the scheme. i.e. if a scheme follows T+3 payout for redemption, the switch out funding should also be made on T+3 and not earlier or later than T+3, where T is the day of transaction
 - iv. AMCs may process redemption / switch out requests partially, if funds for part of the units being redeemed/switched-out are realized, as per the extant industry practice.

You are requested to implement these guidelines effective June 1, 2012.

All AMCs are requested to confirm having noted the contents of this circular for due compliance. They are also advised to put up this Circular in the immediate next meeting of their Trustees for information.

Yours Sincerely,

V RAMESH

Deputy Chief Executive