



Association of Mutual Funds in India

135/BP/30/ 2012-13

November 1, 2012

To All Members

Dear Sir/ Madam,

AMFI Best Practice Guidelines Circular No. 30/2012-13

Guidelines on charging of additional Total Expense Ratio (TER) on account of new inflows from beyond Top 15 cities (T-15)

1. Background

Clause A of SEBI circular No. CIR/ IMD/ DF/ 21/ 2012 dated September 13, 2012 permits mutual funds to charge an additional TER up to 30 bps on daily net assets of the scheme on account of new inflows beyond the T-15 cities (sales beyond T-15 cities is hereinafter referred as "B-15 sales"). It was further proposed that the above additional TER charged to the scheme shall be clawed back and credited to the scheme, in cases where the investments from beyond top 15 cities are redeemed within 1 year.

2. The AMFI Committee on Operations and Compliance has formulated the Best Practice Guidelines on the method of computation and accrual of the above additional TER.
3. The following paragraphs are intended to provide guidance to mutual funds on the method of computation and accrual of the above additional TER.
4. Additional TER shall be charged as follows:

a.	If year-to-date (YTD) B-15 Sales is <u>equal to or more than</u> 15% of the YTD Average AuM (YTD AAuM#) or 30% of YTD Gross Sales, whichever is higher.	Daily assets * 30 bps / 365 days
b.	If year-to-date (YTD) B-15 Sales is <u>lower</u> than 15% of the YTD Average AuM (YTD AAuM#) or 30% of YTD Gross Sales, whichever is higher.	Daily assets * 30 bps * (YTD B-15 sales / higher of 15% of YTD AAUM# or 30% of YTD Gross Sales) / 365 days.

#YTD AuM to be prorated for number of days elapsed from April 1 (October 1 for FY 2012-13) every financial year. YTD Gross Sales and YTD B-15 Sales shall be computed for a financial year starting April 1 (October 1, 2012 for FY 2012-13).

5. Asset management companies (AMC) shall charge the additional TER on the daily assets on an estimate basis. The estimate of additional TER shall be reviewed against the actual at least on a weekly basis. The estimate shall be revised every week based on the actual TER of the previous week or the sales forecast in the coming weeks. AMCs shall ensure that the estimate does not exceed 30 bps on any given day.

6. Any over or under accrual vis-à-vis the actual YTD TER charge as on the week end shall be charged or reversed, as the case may be, by making an adjustment to the following week's additional TER estimate in such a manner that the additional TER on daily net assets does not exceed 30 bps on any given day. Any negative charge to the scheme, on account of the reversal of excess additional TER charged in the past being in excess of the future additional TER charge, shall be recovered from the AMC by adjusting against the TER payable under regulation 52 (6) or any other expenses reimbursable to the AMC.
7. Claw back of the additional TER charged on account of B-15 inflows which are redeemed within a period of one year shall be computed by reworking the additional TER computation in the same manner as the actual additional TER is computed after making adjustments in the Gross sales, B-15 Sales and average AUM for the respective value of the inflow redeemed within one year
8. The processes and methods relating to the estimation of the TER, adjustment of over/under accrual vis-à-vis actual YTD charge and the claw back of the additional TER charged on account of B-15 inflows which are redeemed within one year shall be reviewed by the Trustees,

AMC are requested to put appropriate systems and processes in place to ensure that additional TER is charged as per the above guidelines.

Regards,

V Ramesh

Dy Chief Executive