



Association of Mutual Funds in India

135/BP/36/2012-13

March 22, 2013

To All members

Dear Sir / Madam,

Sub : AMFI Best Practices Guidelines on identification of Simple and performing Diversified Equity Mutual Fund Schemes to be sold by New Cadre of Distributors in terms of SEBI circular dated September 13, 2012

Kindly refer to our communications vide e-mail no. 35P/MEM-COR/42/12-13 dated February 1, 2013 and 35P/MEM-COR/ 43/12-13 dated February 1, 2013 on registration of New cadre of Distributors. As stated in SEBI Circular dated September 13, 2012, the new cadre of distributors are allowed to sell units of simple and performing mutual fund schemes, which shall comprise of diversified equity schemes, fixed maturity plans (FMPs) and index schemes having returns equal to or better than their scheme benchmark returns during each of the last three years.

In this regard, AMFI Committee on Operations and Compliance, has formulated best practices guidelines to be followed by all AMCs with respect to identification of diversified equity schemes and disclosure of schemes that are eligible to be sold by the new cadre of distributors. The same are as under :

1. Diversified equity scheme category shall be Large Cap oriented and well diversified schemes and shall not include the following type of equity schemes :
 - a. Thematic / Sector funds
 - b. Small Cap, Mid Cap or Micro Cap funds
 - c. Concentrated funds i.e. number of stocks < 30 as per offer document.
2. List of schemes shall be compiled annually based on the performance of the scheme during each of the last three financial years (April to March). The list shall be reviewed and modified every year in April. AMCs are requested to disclose the list of eligible schemes on their website.
3. The new cadre of distributors are eligible to sell only simple and performing mutual fund schemes as mentioned above, the AMCs are advised to put in place a proper validation process to ensure that new cadre of distributors sell only the schemes they are allowed to sell. This validation shall be performed even at sub broker level, if the transaction has been procured by a new cadre of distributor who is acting as a sub broker of the ARN holder. The same shall be implemented along with the implementation of validation of EUIN-ARN mapping.
4. Transactions through a new cadre of distributors in schemes other than eligible schemes shall be rejected with intimation to the investor. AMCs shall review and monitor such rejections in respect of transactions done by new cadre of distributors (including sub brokers) and if they observe that there is frequent rejection of transactions with respect to any new cadre distributor/sub broker, the same should be reported to AMFI promptly.
5. AMCs shall educate new cadre of distributors on good selling practices with special emphasis on selling only eligible schemes as disclosed by respective AMCs and advise them that selling of schemes other than eligible shall be viewed very seriously and

appropriate penal action including termination of distribution arrangement by the AMC and cancellation of the ARN by AMFI, would be initiated.

All AMCs are requested to note 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.

With Regards,

C G Parekh
Sr. Vice President