



# Association of Mutual Funds in India

135/BP/17/10-11

October 22, 2010,

To all members,

## **AMFI Best Practice Guidelines Circular No.17/2010-11**

### **1. Background:**

- 1.1 The report of NISM Committee constituted by the SEBI has been forwarded to all members vide our E-mail dated July 28, 2010. It was stated in the said E-mail that AMFI was working on the implementation plan on various recommendations made by the Committee. Accordingly, AMFI Board has constituted a working group headed by Mr. Ramamoorthy Rajagopal of DSP BlackRock Mutual Fund for framing the guidelines for implementation of the various recommendations in accordance with the decided time schedule.
- 1.2. AMFI vide its Circular dated August 16, 2010 has directed mutual funds to put in place strong processes by November 15, 2010 to ensure that Third-Party payment instruments are not used for mutual fund subscriptions. Further, mutual funds have also been directed to provide a facility to the investors for registration of multiple bank accounts where they are one of the holders and from where they expect to make a payment for mutual fund subscription.
- 1.3. NISM Report on Operational Risk issues in Mutual Funds Investor Service Processes (NISM Report) also highlighted the risks related to simultaneous change of bank mandate and Redemption requests on multiple occasions. As a risk mitigation step, the Report has recommended that the investor must be provided the facility to register multiple bank accounts by providing necessary documents, after which investors can use any of the registered bank accounts to receive redemption / dividend proceeds into. These accounts should also be used for verification of pay-ins (i.e. receiving of subscription funds) to ensure that a third party payment is not used for mutual fund subscription.
- 1.4 In view of the above, Mutual funds and R&TAs are requested to put in place a facility for investors to register multiple bank accounts at the earliest, but not later than November 15, 2010.

### **2. Registration of Multiple Bank Accounts for pay-in and pay-out:**

#### **2.1 Registration Process for Multiple Bank Accounts:**

- 2.1.1. Bank accounts in a folio/account should be registered at the folio level only. A suggested common "Multiple Bank Accounts Registration Form" is enclosed.
- 2.1.2. Bank accounts for an investor will be registered at an AMC level. Over a period, industry may evaluate creating a industry level central database of bank accounts of an investor identified with a PAN.

2.1.3. Investor shall use Part A of the attached Multiple Bank Accounts Registration Form along with any one of the following documents to register bank mandates. If a copy is submitted, investors should bring the original to the office for verification:

a. Cancelled cheque leaf, or

b. Bank Statement / Pass Book Page with account number, account holders' name and address.

2.1.4. Bank accounts registration should be only after verifying that the first-named unit in the folio is one of the bank account holders.

2.1.5. Mutual fund should permit registration of upto five bank accounts in case of individuals and HUF and upto ten bank accounts in case of non-individuals.

2.1.6. Registration of additional bank accounts shall be accepted only if there is scope to register additional bank accounts in the folio subject to a maximum of five in the case of individuals and ten in the case of non-individuals.

## **2.2. Registration of a Default bank account:**

Investor shall use the Part B of the attached Multiple Bank Accounts Registration Form to register one of the registered bank accounts as the default bank account for credit of redemption and dividend proceeds.

The investor, may however, specify any other registered bank accounts for credit of redemption proceeds at the time of requesting for the redemption.

In case of existing investors, the existing bank mandate should be treated as default bank account till the investor gives a separate request to change the same to any of other registered bank account.

In case of new investors, the bank account mentioned on the purchase application form, used for opening the folio, may be treated as default bank account till the investor gives a separate request to change the same to any of other registered bank account.

## **2.3. Deletion of Registered Bank accounts:**

The investor shall use the Part C of the attached Multiple Bank Accounts Registration Form to delete a registered bank account. Investor shall not be allowed to delete a default bank account unless investor registers another registered account as a default account.

## **2.4. Additional risk mitigation measure:**

AMCs may consider seeking proof of the existing registered bank accounts in the folio/account, prior to registering additional bank accounts or deleting bank accounts.

## **3. Registration of Change of Bank details**

### **3.1 Change of bank account along with Redemption:**

3.1.1. Many mutual funds follow a common transaction slip for all types of transactions viz. financial and non-financial transaction. Generally, there is a poor awareness amongst investors on the risks of signing a transaction form without striking off the un-used portions, which can lead to unauthorized use.

- 3.2.2. When mutual funds process change of bank account mandate request along with redemption, they do not get adequate time to validate the changed bank account details. There is a risk of redemption/dividend proceeds being transferred to a wrong account because of an error in capturing bank account details.
- 3.3.3. While the registration process enumerated in paragraph 2 above will significantly reduce the risk of frauds and operational risks, mutual funds are advised to:
- 3.3.3.1. Provide a cooling period of not more than 10 calendar days for validation and registration of bank accounts. The process of validation should include notifying the investor through letter, email, SMS, phone etc. about the registration of a new bank account. It is recommended that where possible more than one of the above means of communication be used.
  - 3.3.3.2. Segregate the forms for containing redemption request and change of bank account request to ensure that two different requests are handled and executed separately for all existing and new customers irrespective of customer category.
  - 3.3.3.3. Further, effective November 15, 2010, mutual funds shall credit the redemption/dividend proceeds only to a registered bank account that has gone through the validation process as enumerated in point 3.3.1 above.
- 3.3.4. In case there has been a recent change in the investor information especially communication address, email id, telephone numbers, the transaction must be flagged as high risk and notification should be sent to both the old and the new contact points. Further AMC's may have internal policies to handle such high risks transactions.

#### **4. Delivery of Redemption / Dividend Cheques:**

AMCs/R&TAs must insist on a letter of authority from the investor specifically authorizing the bearer to collect the cheque on his/her behalf.

Additionally, the AMCs/R&TAs must insist upon some proof of photo identification of persons collecting the cheque on behalf of the investor.

#### **5. Bank Account Registration or modification in a Dormant account:**

While dealing with registration of a new bank account or modification in default bank account, in a dormant account i.e. an account having no financial or non-financial transaction in last two years, AMCs/R&TAs should exercise extra care, which may include contacting the customer, seeking proof of the current registered bank account etc.

#### **6. Usage of bank accounts registered for identification of Third Party Payments**

As mentioned in AMFI Best Practice Guidelines Circular No.16/2010-11 on "Risk mitigation process against Third-Party Cheques in mutual fund subscriptions", investors should be encouraged to register multiple bank accounts. This will further assist mutual funds to systemically validate the pay-in payment instrument with bank accounts registered and avoid acceptance of Third Party payments.

#### **7. Implementation timeline:**

AMCs should modify their KIMs, application forms, transaction forms to inform investors about this facility and are directed to put in place systems and processes with R&TAs to implement the above mentioned facilities and processes latest by November 15, 2010.

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.

With regards,

**V. Ramesh**  
**Dy. Chief Executive**