



Association of Mutual Funds in India

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135/BP/ 113 /2023-24

March 15, 2024

To,
All AMFI Members

AMFI Best Practices Guidelines Circular No. 113 /2023-24
Action to be taken by AMCs in cases where the Distributor
is found to be Joint holder in multiple folios of unrelated 1st holder

A. Background

During the offsite surveillance of mutual funds, SEBI had found the names of several mutual fund distributors (MFDs) appearing as either the 2nd or the 3rd holder, although prima-facie the MFDs seemed to be unrelated to the first holders.

This is matter of concern, especially if the name of the MFD has been added without the knowledge or consent of the client, as such cases pose a risk of potential fraud in case of demise of the 1st holder, as it gives such unrelated distributors the right of ownership of the MF Units in the folios of such 1st holders, to the exclusion / detriment of the rightful legal heirs.

Hence, SEBI had advised AMFI to formulate Best Practices Guidelines, to be followed by all AMCs/RTAs uniformly to address this concern and ensure non-recurrence of the same in future.

Accordingly, the matter was examined by AMFI in consultation with AMFI Operations & Compliance Committee and AMFI ARN Committee, and based on their recommendations, the following best practice guidelines have been finalised (which have been reviewed and noted by SEBI) to be followed by all AMCs/RTAs uniformly.

B. Best Practice Guidelines - New Investments:

The AMCs shall ensure that their RTA's systems and processes have built-in checks to detect such cases upfront, by checking/matching the PAN of MFD/EUIN holder/ sub-distributor as per AMFI ARN/EUIN database with the PAN of the 2nd or 3rd holder and verification of other holders' details to ascertain whether the MFD is a joint holder in the folio.

In respect of such applications/transactions where the PAN of MFD or the Sub-Distributor or EUIN holder is found to have been added as the joint holder (2nd or 3rd holder) in the folio and prima facie the person appears to be not related to the first holder based on middle name and surname, then action as per para-C 1(b) to C 1(d) below should be taken.



It is clarified that till such time it is conclusively determined whether the MFD whose name is appearing as joint holder is related to the 1st holder, a temporary “STOP” shall be marked in respect of the units allotted in such folio and the trail commission payable to such MFD shall also be withheld till such time that the action as per para C (1)(b) to C(1) (d) below is taken.

C. Best Practice Guidelines - Existing Investments:

1) Identification of folios

- a) AMCs/RTAs are advised to scrutinise the existing records to identify the folios where the name of the ARN holder / EUIN holder or the sub-distributor is appearing in the MF folio as 2nd or 3rd holder and check whether such ARN/EUIN holder/the sub-distributor as the case may be, is related to the 1st holder.
- b) In such folios where the MFD is found to be not related to the 1st holder, the AMC should take up the matter with the concerned MFD urgently and seek a written explanation as to why his/her name has been added as the 2nd /3rd holder in such folios.
- c) The concerned MFD shall also be advised to obtain a written confirmation from the 1st holder (as per specimen annexed hereto) *excluding in cases where the 1st holder is a relative*, whether the name of the MFD has been added in the folio/s with his/her knowledge and consent and submit the same to the respective RTAs. The RTAs shall keep track of such cases and verify / validate the signature of the 1st holder on the declaration carefully.
- d) If the 1st holder confirms in writing that he/she had not consented to adding the MFD's name in the folio as a joint holder, and wants the MFD's name to be deleted from the folio, the AMC/ RTA shall act on such requests promptly and delete the MFD's name from the folio under intimation to the 1st holder as well as the MFD.
- e) Till such time that the written confirmation/declaration of the 1st holder, as mentioned in points c) and d) above is obtained, transactions such as redemption/ change in bank mandate/ transmission in such folios should be subject to enhanced due diligence in order to determine the genuineness of such transactions.
- f) Further, commission on *such* folios should be withheld till such time that these folios are remediated as mentioned in points c) and d) above.
- g) Remediation should be by way of written confirmation only, with the signature in such confirmation being verified with the signature registered in the folio. No oral / email confirmation should be accepted since these alerts are being validated to avoid any fraudulent cases where the distributor may have added his/her name as a joint holder unauthorisedly and there could be a possibility that the email and the mobile number in such folios does not belong to the 1st holder.

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- h) Wherever it is found that the MFD or EUIN holder/sub-distributor had added his/her name in the folio as the 2nd /3rd holder unauthorizedly without the 1st holder's knowledge and consent, the AMC shall take appropriate remedial action to safeguard the interest of the 1st holder, and also take appropriate action against the errant MFD, including dis-empanelment under intimation to AMFI.

2) Action to be taken in respect to such folios:

- i. The RTA shall put a temporary "STOP/lock" in such folios (not "freeze" the units), so that any transaction in these folios is subjected to enhanced scrutiny and due diligence. AMCs/RTAs to send a suitable intimation to the concerned unitholders for information in all such cases.
- ii. AMCs/ RTAs should re-verify the registered bank account in respect of the folios by scrutinising the cancelled cheque (where applicable) afresh to ascertain whether the MFD is a joint holder in the bank account and also re-validate the bank account via penny drop / IMPS transaction afresh, using *PAN-based validation*, so as to confirm that the registered bank account belongs to the 1st holder only and whether the MFD is a joint holder in the bank account.

If the MFD is found to be the joint holder in the registered bank account as well, it implies / will be deemed that the name of the MFD has been added in the folio/s WITH the knowledge and consent of the first holder, and no action need to be taken in respect such folios.

- iii. In case any death claim / application for transmission of Units is received in respect of such folios, the AMCs/ RTAs should exercise enhanced diligence and due caution, to make sure that the claim is settled in favour of genuine beneficiary and to make sure that the MFD does not misuse his/her position as joint holder to get the transmission of units unduly transmitted in his/her name.
- iv. AMCs / RTAs are also advised check whether any transactions, especially transmission requests have been received in such cases, and whether the same has been processed correctly to make sure that the MFD has not misused his/her position to get the transmission of units unduly processed in his/her name. If any such case is detected, the AMC should immediately freeze the units in the folio and take further necessary action, including legal action against the MFD, as deemed appropriate.

3) The action to be taken in respect of the errant MFD shall be as follows:

- i) Trail commission of the MFD shall be withheld.
- ii) AMC may decide to dis-empanel the MFD.
- iii) Report the matter to AMFI with complete details, including recommendation for suspension/termination of the MFD's AMFI registration with reasons/justification.

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D. MFD found to be registered as Nominee in multiple folios of unrelated Unitholders

AMCs/RTAs are also advised to exercise due caution and take remedial measures on the above lines to ensure that MFDs name is not added in the folios the Nominee in case of unrelated investors/ without the knowledge of the investor/s.

E. Definition of 'Relative'

For the purposes of determining whether the MFD is related to the 1st holder, the definition of a 'Relative' shall be as per section 2(77) of the Companies Act, 2013, namely, *Spouse; Father and Mother; Son and his wife; Daughter and her husband; Brother, Sister, stepfather, stepmother, stepson, stepbrother and stepsister.*

F. MFD found to provide common email id./ mobile no. in folios of multiple investors

In addition to what is stated at para(A) above, SEBI has observed that certain distributors have provided common email id. in their clients' folios (which is different than the one registered with AMFI/ AMCs as distributor's email id.) which is common across multiple investors.

In view of this, as directed by SEBI, AMCs are advised that *in addition to conditions mentioned in clause V(a) of AMFI Best Practice Guidelines circular no. 135/BP/ 97 /2021-22 dated March 28, 2022 (reproduced below for ready reference)*, AMCs/ RTAs shall check email id./mobile number common across multiple investors irrespective of whether the email / mobile number pertains to the contact details of intermediaries (MFD, RIA, RTA, AMC) or their employees or not, and take necessary action.

V(a) Additional Verification 1:

RTA shall run a verification process to detect seeding of contact details of intermediaries (MFD, RIA, RTA, AMC) or their employees in folios which do not belong to such persons/entities. RTA shall look up the Central Distributor master and Employee Unique Identity Number (EUIN) master maintained by CAMS (as a service provider to AMFI for management of ARN and EUIN), RIA master maintained by RTA, employee master of RTA and employee master shared by AMC.

Members are requested to take note of the contents of this circular for uniform implementation and also place a copy of the same for information before their AMC Board and the Trustees at their next board meetings.

With best regards,


Balkrishna Kini
Dy. Chief Executive

Declaration / confirmation of the 1st holder / other joint holders that the name of the mutual fund distributor has been added in their mutual fund folio(s) with their knowledge and consent

To:

_____ Mutual Fund

I/We, the undersigned are the registered unit holder/s of below mentioned Schemes/ folios of your mutual fund.

Name of the Scheme	Folio no.	Name of the 1 st holder	Name of the other joint holder*

* Other than the distributor himself / herself.

I/we hereby declare and confirm that the name of << name of the MFD >> has been added as a joint holder (2nd holder / 3rd holder) in the said folios -

(i) WITH my / our knowledge and consent.*

(ii) WITHOUT my / our knowledge and consent. I/we therefore hereby request you to delete his/her name from the aforesaid folios forthwith and confirm to me/us. *

**Delete whichever is NOT applicable*

With regards,

Name & Signature

	Full Name	PAN	Signature
1 st Unit holder			
Joint Unit holder (other than the distributor)			

Place: _____ Date: _____