



ASSOCIATION OF MUTUAL FUNDS IN INDIA

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A. P. KURIAN
CHAIRMAN

135/BP/11/07-08

September 5, 2007

To all members,

AMFI Best Practice Guidelines Circular No.11/2007-08

Guidelines for changing agent-distributors during the currency of investment

AMFI vide letter no: 35/MEM-COR/49/02-03 dated November 15, 2002 has issued guidelines for changing agent-distributors during the currency of investment where by the Investor was required to obtain a No Objection Certificate (NOC) from the existing ARN Holder. It may be recalled that the objective of the recommended Best Practice was to prevent the then rampant practice followed by a few high net worth investors to switch ARN codes almost solely based on pass-backs received / promised. A requirement of an NOC from the existing ARN Holder has worked well as a deterrent to this practice.

In 2003 SEBI prescribed a Code of Conduct for distributors where by pass back to Investors has been explicitly prohibited. Though this Regulatory mechanism is now available to deal with such a practice, the AMFI best practice circular continues to remain in force even today. It has also been reported to AMFI that genuine investors as well as AMCs are also experiencing certain practical difficulties in implementation of the said circular. The question has also been raised about the investor's right to change their agent distributor - just as they would do for other financial products.

SEBI had also requested AMFI to review the current requirement of obtaining an NOC from the existing distributors for switching over to another distributor to mitigate inconvenience caused if any to investor.

I. Distributor (ARN Holder) change initiated by the investor:

An AMFI working group reexamined the subject and various alternatives suggested in respect of change of Distributors (ARN Code) initiated by the Investor which were circulated to all the members. Based on the broad

agreement of the majority of the members, **it is recommended to withdraw the NOC requirement as advised vide AMFI circular No. 35/MEM-COR/49/02-03 dated November 15, 2002 and to have a uniform practice as given here below:**

On receipt of letter from the investor advising AMC's about his desire to change his distributor, AMC's will act on the instruction. Once the Distributor (ARN Code) has been changed, the trail commission thereafter for all business done by the old distributor (under old ARN Code) may be payable to New Distributor (under New ARN Code) on a prospective basis subject to terms and conditions, if any entered in to by AMC's with such Distributor. AMC's will also intimate the investor, the new distributor and the old distributor about effecting the change in ARN Code for the investor.

II. ARN Code (Distributor) change initiated by the existing distributor:

It was also felt necessary to formulate a uniform procedure on a growing trend of instances where the existing distributor is initiating distributor code change. This could be for a number of reasons - including a change in the name / legal status of the intermediary, new ARN codes secured within the same group, merger/acquisition/consolidation initiatives among distributor that require a change in distributor code, etc which as per the present practice requires the consent of investors. Besides encountering practical difficulties in getting consent from the investors, it involves considerable amount of paper work.

Accordingly on reviewing the matter and as agreed by the majority of members, **it is recommended to have a uniform practice as given here below: Existing distributor writes to his investors about the impending change and let them know that the AMC's will effect the change unless they hear to the contrary from the investors, within 15 days of the date of the distributor's letter. AMC's will receive letter from existing distributor along with a copy of his intimation to the investors, and after a cooling off period of 15 days from the date of the distributor's letter, will effect the change in code.**

You are requested to adopt the above as Best Practice with immediate effect.

With kind regards,

Yours sincerely,


(A.P. Kurian)