



Association of Mutual Funds in India

C-701 Naman Corporate Link, Plot Nos. C-31 / C-32, G Block, Bandra Kurla Complex, Bandra – East, Mumbai – 400 051

CIR/ ARN-23/ 2022-23

March 07, 2023

To,
All AMFI Registered Mutual Fund Distributors

Dear Sir/Madam,

Sub: B-30 Incentive Mechanism

SEBI has observed certain inconsistencies and deficiencies in the manner of implementation of various SEBI / AMFI directives w.r.t. implementation of B 30 Incentive mechanism as highlighted below –

- Splitting of transactions: SEBI has observed that splitting of transactions were carried out to maintain the same under ₹2 lakhs, to earn higher B-30 incentives by Mutual Fund Distributors (MFDs). Multiple transactions of the same investor were carried out on the same day in the same scheme by the same MFDs instead of a single transaction.
- Churning of investments: SEBI's algorithms have also detected a large number of instances of churning of MF investments across several Mutual Funds where Mutual Fund units from B-30 cities were held for just over one year but were redeemed and re-invested in the same schemes within 5 days of redemption. This indicates that the same was done with an intent to earn higher B-30 incentives.
- SEBI has also observed lack of system driven mechanism to check the misuse of the B-30 incentives structure and has advised that the AMCs are required to ensure that they have a system driven mechanism to detect and prevent splitting, churning of investments and other misuse modalities, so as to take action against wrongdoing, whether internal to the AMC or externally by MFDs.

In view of the above, all MFDs are strictly advised to ensure that they do not collude or undertake any malpractices such as splitting of applications, churning of mutual fund investments or any other activities to circumvent the guidelines to earn higher transaction charges and/or to earn higher B-30 incentive commissions. Any violation in this regard shall be viewed seriously, and shall be liable for strict disciplinary action against the errant MFD, which may include suspension of ARN or permanent debarment and cancellation of ARN.

It may also be noted that in view of the abovementioned concerns, SEBI has advised that it is desirable to keep the B-30 incentive structure in abeyance till the AMCs put in place effective controls and a system driven mechanism to detect and prevent splitting of transactions, churning of investments and other misuse modalities observed by SEBI, so as to take action against wrongdoing, whether internal to the AMC or external by MFDs. SEBI has advised AMFI confirm to SEBI after ascertaining the compliance of the above by the AMCs within a month. Based on the review and implementation of appropriate mechanisms by AMCs, the incentive structure will be appropriately re-instated by SEBI with necessary safeguards.

In view of the foregoing, it has been decided to keep the B-30 incentive structure in abeyance with effect from March 01, 2023, till the incentive structure is appropriately re-instated by SEBI with necessary safeguards. The AMCs may however continue the B-30 incentive in respect of eligible inflows received from B-30 locations prior to March 01, 2023.

With regards,

N. S. Venkatesh
Chief Executive