

To All members

Dear All,

**AMFI Best Practice Guidelines Circular No. 43/ 2013-14 dated January 22, 2014**

**Re : Guidelines on Transfer of AUM from one ARN to another ARN**

AMFI, vide Best Practice Circular No. 135/BP/11/07-08 dated September 5, 2007, had issued guidelines suggesting uniform procedure for changing distributor code during the currency of investment, where change is initiated by the investor or the existing distributor.

AMFI later, vide Circulars No. 135/BP/15/10-11, 35/MEM-COR/18A/10-11 and 135/BP/31/12-13 dated May 7, 2010, May 31, 2010 and November 8, 2012 respectively, issued clarifications on payment of trail commission, where change is initiated by the investor or the existing distributor.

AMFI ARN Committee has reviewed the said circulars, in the light of changes observed over a period of time, and has recommended to issue revised guidelines as under :

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

SEBI has issued a circular No. SEBI/IMD/CIR No.13/187052/2009 dated December 11, 2009 advising Mutual Funds/ AMCs to ensure compliance with instruction of the investor informing his desire to change his Distributor and/or go direct, without compelling that investor to obtain an NOC from the existing Distributor. As such, AMCs are required to make these changes on receipt of instructions from investor. However, on change of distributor (ARN Code) and on transfer of AUM from one distributor (ARN Code) to another distributor (ARN Code), the trail commission in respect of transferred assets should not be paid to the new distributor (ARN holder), except for the cases as mentioned at point No. III below.

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

A. Change in Distributor code on request of Distributor may be effected only in the following circumstances:

1. Change in the name / legal status of the distributor such as an individual converting to a partnership firm, a partnership firm converting itself into LLP, a private limited company converting itself into a public limited company or vice versa;
  2. Merger / acquisition / consolidation / transfer of business / new code acquired within the same group in case of non-individual distributors;
  3. Transfer of AUM / consolidation initiative within the same family / relatives in case of individual distributors;
  4. Transfer of business by individual distributors; and
  5. Transfer of assets to the on-line platform of new distributor.
- B. Change in Distributor code may only be effected upon completion of the following formalities in cases at **Serial Nos. 1 to 4**:
1. Request for change in distributor code may only be initiated by a Distributor whose ARN is valid, who is KYD Compliant and who has furnished all the self certification due from him on the date of request.
  2. Transfer should be of full assets and after the transfer, Transferor Distributor should cease to exist / function and his ARN code should be surrendered to AMFI for cancellation. An undertaking to this effect shall be furnished by the Transferor Distributor to the AMCs. Transferor Distributor shall submit a letter for cancellation of ARN to AMFI along with original ARN card/ Certificate of Registration, within 15 days of completion of transfer of AUM and a copy of the said letter would also be filed with the AMCs, where he has submitted request for transfer of AUM.
  3. Request for transfer of asset sent to AMCs by Transferor Distributor shall also contain:
    - a. Reason for the transfer, supported by documentary evidence
    - b. a specimen copy of the letter of intimation sent to the investors; and
    - c. certification that letters have been sent to all the investors (a list of investors should be attached along with proof of dispatch of letters).
  4. Transferor Distributor must write a letter to the investors informing about the impending change, the reason for the same, who will be servicing the investor after the transfer and that in case investors have any objection, they must write to the AMC directly. The letter must state that the AMCs will effect the change unless they hear to the contrary from the investors within 15 days from the date of the distributor's letter.
  5. Commissions to Transferee Distributor can be paid only on the valid assets i.e. where commissions would lawfully have been payable to the Transferor Distributor. Payment of commission to Transferee Distributor on transferred assets should be released only on cancellation of transferor ARN. Transfer of assets should not be used by the Distributor as a measure to circumvent any regulatory and/or AMFI guideline / requirements.

6. In case any investors communicate their objection to the transfer to either of the Distributors (new or old), that Distributor must immediately inform the concerned AMC.
  7. In case there are no objections, AMCs will effect the change in the code after a cooling off period of 15 days from the date of receipt of distributor's request.
- C. In cases mentioned at **Serial No 5** above i.e. **transfer of assets to the on-line platform of new distributor**, the change in Distributor code may be effected upon completion of the formalities mentioned at Para B above except that:
- a. The transfer of assets may be full or partial;
  - b. The Transferor Distributor need not surrender his ARN as he will continue to service his own clients or may become a sub-broker with the Transferee Distributor.
- D. For all cases mentioned in Serial Nos. 1 to 5, the Transferee Distributor will be entitled for trail commission on prospective basis on the valid transferred assets at the same rate at which commission was paid prior to the transfer of the said asset. Other than the trail commission referred to above, no other payments of any nature whatsoever, including incentives or commissions can be made on account of the transferred assets on a prospective basis. Commission payment to the Transferee Distributor shall continue to be subject to claw back provisions as would have been applicable to the Transferor Distributor.

### **III Change in distributor code due to voluntary cessation of business of existing distributor**

There has been a growing trend of instances where the existing distributor has voluntarily ceased his business but is not transferring his business to another distributor. In such cases, investors would be left unserved and handicapped. Thus, investors would require assistance from the new distributor.

In such cases, the following procedure may be adopted as a Best Practice and change in distributor code may only be effected upon completion of the said formalities:

1. Existing distributor shall write to investors about the cessation of his distribution business and advising the investors to communicate to various mutual funds for inclusion of a new distributor's code, if any, of investor's choice in place of the existing distributor's code. AMCs should keep in its records a copy of the communication sent by the existing distributor to its investors along with the list of investors.
2. AMCs will, on receipt of letter from investors communicating a new distributor's code, at any time in future, effect the distributor code change in its records.

3. AMCs will confirm to the investor, the recording of the new distributor's code in the records.
4. Once the distributor code has been changed, the trail commission thereafter for all business done by the old distributor will be payable to the new distributor on a prospective basis at the same rate at which commission was paid prior to the transfer of the said asset. Other than the trail commission referred to above, no other payments of any nature whatsoever, including incentives or commissions can be made on account of the transferred assets on a prospective basis. Commission payment to the Transferee Distributor shall continue to be subject to claw back provisions as would have been applicable to the Transferor Distributor.
5. Commissions to Transferee Distributor can be paid only on the valid assets i.e. where commissions would lawfully have been payable to the Transferor Distributor. Transfer of assets should not be used by the Distributor as a measure to circumvent any regulatory and/or AMFI guideline / requirements.
6. Distributor who has ceased his business must surrender his ARN to AMFI for cancellation with a copy of the letter submitted to the AMC(s) (with AMC acknowledgement thereon) as soon as his details are removed from the investors' folios in the AMCs' records.

You are requested to adopt the above as Best Practice with immediate effect. This circular will supersede our earlier Circulars viz. 135/BP/11/07-08, 135/BP/15/10-11, 35/MEM-COR/18A/10-11 and 135/BP/31/12-13 dated September 5, 2007, May 7, 2010, May 31, 2010 and November 8, 2012 respectively,

In case of any exceptions to the above best practices, you are advised to refer the same to AMFI for clearance. It was observed on many occasions that some AMCs had effected transfer of AUM from one ARN to another ARN without following earlier Best Practices Guidelines issued by AMFI in this regard. AMCs are therefore advised to follow the above guidelines in letter and spirit to ensure uniform implementation of the procedure for transfer of AUM from one ARN to another ARN, across the Mutual Fund Industry.

You are also requested to place this Best Practice circular before your Board of Trustees for their information and confirm the same to us.

With regards,

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