



## FAQs on Do's & Don'ts for MFDs

Frequently Asked Questions (FAQs) detailing the Do's and Don'ts on the role of MFDs along with the appropriate usage of nomenclature by MFDs in their advertisements, websites and media channels etc.

### **Q.1 What is the role of MFD?**

- a) The primary role of mutual fund distributors (MFDs) is to recommend to the clients/prospective investors a curated list of mutual fund schemes based on the distributor's assessment of the investor's risk profile and suitability of the product being recommended and aid the investor in making a choice; and assisting the clients in executing the transactions in mutual funds.
- b) The MFD's role also includes providing 'after-sales support' to the client for non-financial service requests such as nomination / change of bank account details, updation of KYC and reviewing the client's mutual fund portfolio from time to time based on the market conditions / scheme performance and suggest changes, if any, basis investor's investment goals.

### **Q.2 Are MFDs permitted to provide any investment advice to their mutual fund clients while choosing MF schemes?**

- a) MFD are permitted to **provide only "incidental advice"** while recommending mutual fund scheme to aid the investor in making a choice.
- b) **MFDs are NOT** permitted to provide investment advice, unless they are registered with SEBI as Investment Advisers ("IA").
- c) For avoidance of doubt, it is clarified that only SEBI registered investment advisers (RIAs) are permitted to offer detailed financial planning and provide holistic investment advice.
- d) The term "Financial Planning" is defined in Regulation 2(h) of SEBI IA Regulations, 2013 and Regulation 2(l) defines "Investment Advice" which includes financial planning.
- e) Thus, MFDs are not permitted to undertake / offer Financial Planning to their MF clients nor use the term Financial Planning and Financial advice in any advertisement/ promotional / marketing material / social media etc., unless they are registered with SEBI as IAs and have a 'separately identifiable department or division' (**SIDD**).



### Q.3 What is Incidental advice?

- **Incidental advice** means providing basic advice pertaining to and limited to such curated list of mutual fund schemes/ products being recommended to the MF investor based on the investor's investment goals, to aid the investor in making a choice, based on the distributor's assessment of the investor's risk profile, and suitability of the MF scheme being recommended vis-à-vis the investor's investment goal. ***For avoidance of doubt, it is clarified that 'incidental advice' does not include providing detailed financial planning and offering holistic investment advice.***

### Q.4 Can MFDs advise their clients on Goal-based SIPs and/or lumpsum investments ?

- Yes. MFDs may provide incidental advice to assist the MF clients to make specific Goal-based investments – whether through SIPs or lumpsum investment – for specific goals (e.g., Holiday / travel to tourist destinations/ Children's education / marriage, buying a house / vehicle etc.) provided such incidental advice / recommendations is restricted to investments in MF schemes only.

### Q.5 Is it mandatory or obligatory for an MFD to do the risk profiling of the investors before recommending any scheme and keep the record of the same for future references?

- a) MFDs are obligated and required to do risk profiling of their clients, in order to make an informed assessment of the client's risk appetite, investment needs and objective and assess the suitability / appropriateness of the MF product being recommended to the client, basis the investor's investment goal.
- b) It is expedient for the MFD to maintain proper record of each customer's risk profile in a physical register or electronically (with proper back up) for ready reference, and periodically review and update the same.

### Q.6 What is "Execution Only" & "Advisory" Relationship? What is the difference between the two?

- a) The "Execution only relationship" refers to such relationship / transactions whereby the client himself / herself decides/ chooses/ executes the transactions in mutual fund scheme without any involvement or incidental advise or recommendation from the concerned MFD. (*For example*, MFDs providing online transaction platform services to their mutual fund clients who decide the scheme and invest on their own.)
- b) The "Advisory relationship" refers to such relationship / transactions whereby the MFD provides basic / incidental advice to the client to aid the client in scheme selection, based on the distributor's assessment of the client's risk profile and suitability of the scheme being recommended.



**Q.7 What are the obligations of the MFD in respect of Execution Only Relationship / Execution Only Transactions (i.e., in case of transactions that do not involve any incidental advise of the MFD)?**

- a) The regulatory provisions stipulate that if the MFD has reasons to believe that the 'Execution Only' transaction is not appropriate for the customer, the MFD shall send a written communication to the investor about the non-suitability of the scheme; and such communication shall have to be duly acknowledged and accepted by customer.
- b) A confirmation should be obtained by the MFD from the customer to the effect that the transaction is 'execution only' notwithstanding the advice of in-appropriateness from that distributor and preserved for inspection during audit / due diligence.

**Q.8 Are MFDs permitted to advertise about their MF agency / MF distribution services to attract investors in social media, print media, outdoor hoardings, radio, TV, etc.?**

- a) There is no bar on MFDs to advertise about their firm / services in digital / electronic / print media etc.
- b) However, such advertisements should be strictly compliant with SEBI Regulations and AMFI Guidelines, and Code of Conduct for MFDs.
- c) In particular, the MFDs should refrain from attracting investors through inducement of rebate or gifts / gift-vouchers etc. or offering "free advise" / "free portfolio review".
- d) MFDs should refrain from offering financial planning or using terms such as 'financial planning' or 'financial planner' in their advertisements.

**Q.9 Are mutual fund distributors allowed to launch YouTube Channel or Instagram account to solicit business?**

- a) Yes, mutual fund distributors can launch a YouTube channel, but they should strictly refrain from making scheme specific recommendations or performance claims about individual schemes. They may provide only educational content about investing in mutual funds. In other words, the primary purpose of an MFD's YouTube channel should be to educate viewers about mutual funds, investment concepts, and market dynamics, **not to promote specific MF schemes** to solicit business.
- b) MFDs should avoid discussing about past performance or making future return predictions about specific mutual fund schemes on their YouTube channel.
- c) All content on their YouTube channel must comply with the SEBI Mutual Funds Regulations and AMFI Guidelines / Code of Conduct regarding mutual fund distribution and advertisements.



- d) MFDs must clearly disclose their affiliation as a mutual fund distributor along with their ARN and any potential conflicts of interest
- e) The above pointers also apply to all other social media platforms such as LinkedIn, Facebook, Instagram, X etc.

**Q.10 Why can't the MFDs give scheme specific recommendations or comment on performance of specific mutual fund schemes on their YouTube channel or any social media? What is the use of the YouTube channel / social media platform then?**

- a) MFDs are required to assess the customer's risk profile / risk appetite before deciding on the suitability of the scheme being recommended. Giving scheme specific recommendations to (unknown) viewers for making investments in specific mutual fund schemes without knowing their risk profile or the suitability of the products, is undesirable and would be in clear violation of Code of Conduct for Mutual Fund Distributors and regulatory guidelines.
- a) Making comments on performance of specific mutual fund schemes without appropriate disclosures / disclaimers etc. as required under the SEBI Regulations would be in violation of the regulations and Code of Conduct for MFDs and is liable for strict disciplinary action.

**Q.11 Can the MFD share any report on comparison of performance of various MF schemes with their clients?**

- b) There is no bar on MFDs to share such reports with their clients. However, it is advisable to take such performance reports from Fund Fact Sheets published by the AMCs or from reputed / reliable sources.

**Q.12 Can an MFD do portfolio review for an MF investor who is not an existing client of the MFD, i.e., who has made investments through some other MFD or Directly, and suggest changes therein?**

- a) There is no bar on MFDs to provide such a service if the investor himself / herself has approached the MFD and has requested for the MFD's help / service.
- c) However, the MFD should strictly refrain from approaching/attracting investors through inducement of rebate or gifts / gift-vouchers etc. or offering "free advise" / "free portfolio review to poach the clients of other distributors.

**Q.13 Are mutual fund distributors allowed to design and publish their own sales promotional and marketing material / advertisements?**

- No. As clearly mentioned in the Code of Conduct for Mutual Fund Distributors, MFDs shall use marketing material as is provided to them by the AMCs and shall not design their own marketing materials in respect of any scheme or display the name, logo, mark of any AMC / MF including in their websites/apps/ social media platforms without the prior written approval of the AMC.



- MFD needs to take prior approval of the AMC for displaying / circulating any write ups/articles/performance comparison reports / customised performance comparison reports involving / mentioning the scheme name.

**Q.14 Can an MFD, who deals in / offers services for multiple financial products, such as stockbroking, DP services, insurance, corporate deposits etc. apart from mutual funds, have a single website / marketing brochure about his/her company/firm mentioning all investment products/services offered by them including MF?**

- a) Yes. The MFD may have a common website / issue common marketing brochure for all services being offered by the entity, provided the entity is duly complying with the relevant / applicable regulatory guidelines in this regard, and clearly mentions the registered name and AMFI / SEBI / IRDA registration number.
- In addition, the MFD is required to display a tagline, “AMFI-registered Mutual Fund Distributor” along with / below the name, in a clear and legible font of at least font size 12, in all forms of printed communications.

**Q.15 Are the MFDs required to keep any records of documents etc. in respect of their mutual fund clients?**

- Yes. MFDs are expected to maintain adequate records in relation to the Risk Profile, product suitability and consent / dissent of their mutual fund clients in case of Execution Only Transactions/Relationship, as well as correspondence with the clients, particularly in respect of any complaints from / of their MF clients. Such record can be in physical or digital form.

**Q.16 What are the MFD's Obligation w.r.t. customer's complaints?**

- a) MFDs are expected to resolve the complaints of their customers and keep proper track, and help the customers in resolving their complaints, as a good practice.
- b) As per Clause 4(j) of Code of Conduct, MFDs shall endeavor to resolve investor grievances/ complaints arising out of marketing, sale and distribution activities and shall provide complete assistance to the AMCs for redressal of grievances/ complaints.
- c) It is advisable for MFDs to maintain a register or record of their customers' complaints for tracking and ensuring satisfactory resolution and be diligent and methodical in this regard as a good practice. Such record may be maintained in a physical register or electronically (with proper back up).



**Q.17 Can an MFD launch a sales promotion campaign / contest for its sub-distributors for sales promotion.**

- There is no bar on MFDs from launching any sales promotion campaign / contest for its sub-distributors, provided there is no mis-selling or churning on the part of the sub-distributors to achieve the sales target.

**Q.18 Can the MFD reward the sub-distributors for achieving the sales target in kind**

- a) As per clause 10.1.12 (b) of SEBI Master Circular No. SEBI/HO/IMD/IMD-PoD-1/P/CIR/2023/74 dated May 19, 2023, MFs/ AMCs shall adopt full trail model of commission in all schemes, without payment of any upfront commission or upfronting of any trail commission, directly or indirectly, in cash or kind, through sponsorships, or any other route. In other words, incentives in any other form to the distributor which is not in the form of trail commission is not permitted as per above regulatory guideline.
- b) Accordingly, MFDs can pay only trail commission to their sub-distributors. Further, such payment should be only in monetary terms.

**Q.19 Can the MFD conduct training programs for their sub-distributors at tourist destination?**

- MFDs may conduct training programs for their sub-distributors within reasonable expenses within a location in India, which is conveniently/centrally located from logistical arrangements and cost perspective and not at any exotic tourist destination. This requirement may be relaxed in case a program is being run by a MFD to recognise sub-distributors for performance across multiple regulated financial products (like Deposits, insurance, PMS, AIFs, Broking etc) as part of a broader organisational process, provided the MFD's Compliance Officer has reviewed and approved such a program to ensure it does not lead to undue product bias or aggressive selling technique for any mutual fund scheme by the participant.

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