



ASSOCIATION OF MUTUAL FUNDS IN INDIA

135/ BP/ 79/ 2019-20

Sept. 24, 2019

To,
All AMFI Members

Dear Members,

AMFI Best Practices Guidelines Circular No.79 / 2019-20

Sub: Standard Process for Computing Interest on delayed payment of Redemption / Dividend / Refund Amounts to customers

Background

As per Regulation 35 of SEBI (Mutual Funds) Regulations, 1996 ("SEBI MF Regulations") any subscription amount refundable shall be refunded within a period of five working days from the date of closure of NFO, failing which the asset management company (AMC) shall be liable to pay interest to the applicant at a rate of 15% per annum from the expiry of five working days from the date of closure of the subscription list. As per Regulation 53(a) and 53(c) of SEBI MF Regulations, an AMC is liable to pay interest to the unitholders, in the event of failure to dispatch the (i) dividend within 30 days of the declaration of the dividend; and (ii) redemption / repurchase proceeds within 10 working from the date of redemption or repurchase, respectively. Further, as per the SEBI circular no. SEBI/MFD/CIR/2/266/2000 dated May 19, 2000, the interest for the period of delay in repurchase/redemption payment should be added to the proceeds when such payments are made to the investors.

SEBI has observed that interest for the period of delay is paid separately/ subsequently by the mutual funds instead of being added to / paid with the redemption proceeds as required by the aforesaid circular.

There are divergent practices followed by the AMCs with respect to computation and payment of interest on such delayed payments due to operational challenges and funding requirements and hence, it was felt expedient to lay down standard guidelines in this regard.

The matter was examined in detail by AMFI's Operations and Compliance Committee and after extensive deliberations, the Committee has recommended a standard process mentioned hereinbelow. The same has been approved by the Board of AMFI to be uniformly followed and implemented by all AMCs, as Best Practice Guidelines.



The AMCs shall in all cases establish the validity of each transaction and the liability to pay the interest before paying the interest and ensure, wherever possible, systemic controls are built to avoid future recurrence of such incidents. It may be noted that the liability to pay interest on delayed payment of Redemption, Dividend or Subscription refund arises if the delay in payment is on the part of the AMC or inability of the investor to encash the payment instrument is due to a data entry error or any other error committed by the AMC or RTA.

A. For avoidance of doubt, it may be noted that the interest payable for delay should be computed for the number of calendar days from the calendar day immediately following the due date till the actual date of payment. **Interest on Delay in Redemption Payment**

1. As per Regulation 53(b) of SEBI MF Regulations, read with aforesaid SEBI circular dated May 19, 2000, in case of failure to make redemption / repurchase payment within 10 working days from the date of redemption or repurchase, the AMC is liable to pay interest @ 15 % p.a. for the period of delay.
2. Thus, if the redemption payment is delayed beyond 10 working days, interest @ 15% p.a. is payable from the calendar day immediately following the 10th working day, till the date of actual remittance of redemption proceeds to the customer's bank account or dispatch of redemption cheque/instrument, as the case may be. If the interest so computed is less than INR1, the amount should be rounded to INR 1 and paid.

Illustration 1

- The Redemption request received on Thursday 02-May-2019.
- The redemption proceeds payable on or before → 16-May-2019 (being the 10th working day, excluding the date of redemption)
- The redemption proceeds are paid on → Monday 03-June-2019.
- The no. of days of delay → 17-05-2019 to 03-06-2019 = 18 calendar days (from the day following the 10th working day upto the date of payment)

Thus, in the above case, interest shall be payable for 18 calendar days

3. The interest for the delay in payment of redemption so computed, should be added to the redemption proceeds and paid along with the redemption amount. If the interest amount could not be added to/clubbed with the redemption proceeds due to any reason, the interest amount should in any case be paid **simultaneously** with redemption proceeds on the same day.
4. A suitable communication should be sent to the customer within a day, providing details of the interest paid for the delay in redemption payment, including the no. of days of delay, the rate of interest, and the computation of the interest paid.

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B. Interest on Delay in Dividend Payment

1. As per Regulation 53(a) of SEBI (Mutual Funds) Regulations, 1996, read with SEBI Circular No. SEBI / IMD / CIR No 14 / 187175/ 2009 dated December 15, 2009, in the event of failure to dispatch the dividend within 30 days of declaration of the dividend, the AMC is liable to pay interest @ 15% p.a. for the period of delay.

Accordingly, in the event of delay in payment of dividend beyond 30 days from the date of declaration of the dividend, i.e., the Record Date¹, interest @ 15% p.a. shall be payable from the 31st calendar day from the Record Date till the date of actual remittance/credit of dividend amount to the customer's bank account or dispatch of dividend warrant, as the case may be. If the interest for the delayed period so computed is less than INR1, the amount should be rounded to INR 1 and paid.

Illustration:

- Record Date of dividend → 03-April-2019
- Dividend pay-out payable on or before → 03-May-2019 (being the 30th calendar day excluding the Record Date)
- Date of payment of dividend → 20-May-2019
- No. of days of delay in payment → 04-05-2019 to 20-05-2019 = 17 calendar days (from the day following the 30th calendar day upto the date of payment)

Thus, in the above case, interest is payable for 17 calendar days, from 03-05-2019 to 19-05-2019

2. The interest for the delay in payment of dividend so computed till the actual date of payment of dividend, should be paid simultaneously / along with the dividend amount on the same day.
3. A suitable communication should be sent to the customer within a day, providing details of the interest paid for the delay in dividend payment, including the no. of days of delay, the rate of interest, and the computation of the interest paid.

C. Interest on Delay in Refund of Subscription amount

1. As per Regulation 35 of SEBI MF Regulations, interest @ 15% p.a. is payable in the event of failure to refund the subscription amounts within a period of five working days from the date of closure of the NFO.

¹ As per SEBI circular dated April 4, 2006 regarding 'Procedure for Dividend Distribution by the mutual funds', the Record date shall be the date which will be considered for the purpose of determining the eligibility of investors for receiving dividend. It is also specified in the said circular that it shall not be compulsory for schemes having frequency of dividend distribution from daily upto monthly frequency to issue the public notice, provided that there is a disclosure to that effect in the offer document. It therefore follows that for schemes (such as Liquid Funds or Ultra Short duration bond funds) which offer Daily/Weekly/ Fortnightly/Monthly dividend, the date of dividend distribution as specified in the SID [i.e., the Record Date] shall be regarded as date of declaration of dividend for the purposes of Regulation 53(a). From the above, it follows that the Record Date is the date of "declaration" of dividend for the purposes of Regulation 53(a).



2. While there are no specific regulatory provisions as regards payment of interest for delay in refund of subscriptions received during ongoing offer period (i.e., post NFO), keeping in view the spirit of Regulation 35(4), AMCs are advised to follow the same principle for interest payment for delay in refund of subscription amount received during ongoing offer, as applicable for NFOs.

- The period of five working days for computation of interest payable for delay in refund of subscription amounts during on-going offer period shall be reckoned from the date of purchase transaction as per time stamp / applicable NAV, provided the application form / online transaction is received along with the payment and the funds have been realized.
- Where the subscription amount and the application / online transaction are received separately, the period of 5 working days for computation of interest payable for delay in refund of subscription amounts shall be reckoned from the later of the date of identifying the remitter details, based on the credit provided by the bank or receipt and time stamping of application/online transaction.

It is clarified that the interest will be payable only in those cases where the credit pertains to a subscription in the scheme backed by a transaction request by the customer and such subscription is rejected by the AMC.

3. If the refund of subscription amount is not made within 5 working days, as mentioned above, interest @ 15% p.a., shall be computed from the calendar day immediately following the 5th working day from the date of purchase transaction or date of identification of remitter details per the above till the date of actual remittance/credit of refund amount or dispatch of Refund Order, as the case may be. If the interest amount for the delayed period is less than INR 1, the same should be rounded to INR1 and paid.

Illustration

- Last date of NFO / Date of receipt of Purchase transaction / Date of identification of remitter details for ongoing subscriptions → Thursday 02-May-2019.
- 5th working day → Thursday 09-May-2018 (excluding the last date of the NFO / date of purchase transaction / date of identification of remitter details for ongoing subscription)
- Subscription amount refunded on 20-May-2019
- The no. of days of delay → 10-05-2019 to 20-05-2019 = 11 calendar days (from the day following the 5th working day from the date of identification of remitter details upto the date of payment)

Thus, in the above case, interest shall be payable for 11 calendar days

4. The interest for the delay in refund of subscription amount should be paid simultaneously/ along with the subscription amount on the same day.

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5. A suitable communication should be sent to the customer within a day, providing details of the interest paid for the delay in refund, including the no. of days of delay, the rate of interest, and the computation of the interest paid.

D. Interest for delay in correction or revalidation of Redemption/Dividend/Refund instrument.

1. If a request is received from the customer for correction of redemption instrument/ dividend warrant / refund order etc. (along with the redemption instrument/ dividend warrant / refund order (the Instrument) where the payment has been made physically) due to erroneous data entry or due to any other error committed by the AMC or RTA, because of which the customer was unable to encash the instrument, the interest should be paid @15 % p.a. as per the procedure explained above under para A, B and C while making fresh payment of Redemption/Dividend/Refund, as the case may be, in case the date of fresh payment is beyond the maximum days permitted for the initial payment (Maximum Initial Payment Date) viz., 10 working days for redemption, 30 calendar days for dividend and 5 working days for refund of subscription.
2. The interest shall be computed for actual no. of calendar days from the Maximum Initial Payment Date till the date of issue of corrected instrument or electronic payment, provided the customer has approached the AMC/RTA for correction within 30 days from the date of issuance of the original Redemption/ Dividend/ Refund instrument (Original Instrument) along with the instrument where applicable. If such interest amount for the delayed period is less than INR1, the amount should be rounded to INR1 and paid.
3. If such correction request is received after 30 days from the date of issuance of the original Redemption/ Dividend/ Refund instrument (Original Instrument), interest may be paid for a maximum of 30 calendar days from the date of issuance of the Original Instrument

Illustration

- Redemption request received on Thursday 02-May-2019.
- The redemption amount payable on or before → 16-May-2019 (being the 10th working day excluding the date of redemption)
- The redemption proceeds paid on → 08-May-2019 (within regulatory timelines)
- However, the customer returns the redemption instrument to the AMC for correction of typographic error in respect of his bank account number on → 20-May-2019.
- The duly corrected instrument is issued to him on → 03-June-2019.
- In this case, interest shall be payable for 18 calendar days from 17-05-2019 (day following the 10th working day) to 03-06-2019 (upto the date of corrected payment).

Instead, if the customer returned the instrument for correction on say, 10-June-2019 (i.e., after more than a month from the date of initial issuance viz. 08-May-2019), interest shall be computed for the period from 17-05-2019 (day following the 10th working day) upto the date of corrected payment, subject to a maximum of 30 days.

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4. If the request for correction is received from the customer without any error on the part of AMC/RTA, no interest shall be payable, provided the corrected instrument or instruction has been issued by AMC / RTA within the Maximum Initial Payment Date or 10 working days from the date of receipt of the request for correction, whichever is later. For any delay beyond such date Interest shall be payable @ 15% p.a. till the date of actual payment, based on the number of calendar days.
5. The interest amount should be paid simultaneously on the same date on which the corrected / revalidated payment is issued/ made.
6. The fresh payment of the Redemption/Dividend/Refund amount, as the case may be, along with interest for delay computed as above shall be made only via electronic bank transfer through NEFT or RTGS or IMPS etc.
7. In case the requisite bank details such as complete bank account number and IFSC etc. required for making the electronic payment are not available or the electronic payment instructions have failed or have been rejected by the bank, or there is change in bank account details, the AMC/RTA shall obtain the account details of the customer, along with a cancelled cheque (or a self-attested copy thereof) to update the unitholder's data. The specimen cancelled cheque shall bear the name of the customer. Alternatively, the customer may submit a copy of latest bank passbook /statement containing the required details, duly attested by the bank. RTA shall then update the bank details in its records after due verification. (Interest to be calculated subject to the earlier clause from the date when a request complete in all respects is received from the customer)
8. A suitable communication should be sent to the customer within a day, providing details of the interest paid for the delay in payment, including the no. of days of delay, the rate of interest, and the computation of the interest paid.
9. The RTA shall maintain records of the revalidated / re-issued Redemption/ Dividend/ Refund payments with details of Scheme Name/ISIN, Folio No./ DPID/Client ID/ (as applicable), Original Instrument Number, IFSC / MICR No., Payee's name, Payee's bank account Number, Bank name, Bank account no., Reason for revalidation / correction etc.
10. Details of the rejection of electronic remittance, dividend/ redemption /refund instruments undelivered, dividend/redemption/refund instruments expired and subsequent payment of dividend/interest/redemption made through new instruments including the status of payment of the same shall be linked to dividend/interest/redemption payment record of each of the specific folios by RTA and audit trail shall be kept in the system of the RTA.

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E. Transfer of Unpaid amounts to Unclaimed Dividend / Redemption Account

AMCs are advised to carry out reconciliation of unpaid dividend / redemption instruments on an ongoing basis and monitor the respective bank accounts, so that unclaimed / unpaid funds are withdrawn promptly and credited to the Unclaimed Dividend / Unclaimed Redemption account of the Mutual Fund.

The AMCs are advised to ensure that their bankers provide the reconciliation of the Paid / Unpaid details (including bank Transaction Reference Number, payee name etc.) of the Dividend/Redemption/Refund payments on a fortnightly basis during the validity of the instrument. AMCs are also advised to take steps to cancel the unpaid instruments and credit proceeds of unpaid amounts to the bank account of the mutual fund on a fortnightly basis.

Members are requested to take note of the above best practice guidelines for uniform implementation latest by October 31, 2019.

Members are also requested to confirm having noted the contents of this circular for due compliance and also to place this Circular before their Trustees for information at the next meeting of the Trustees.

With best regards,

A handwritten signature in black ink, appearing to read 'N. S. Venkatesh', is written over a horizontal line.

N. S. Venkatesh
Chief Executive