AMFI

ASSOCIATION OF MUTUAL FUNDS IN INDIA

135/ BP/ 81/ 2019-20   Sept. 24, 2019

To,
All AMFI Members

Dear Members,

AMFI Best Practices Guidelines Circular No.81 / 2019-20

Sub: Standard Process for treatment of business received through suspended distributors

Background

In case of breach of Code of Conduct by a mutual fund distributor, the ARN of such distributor may be suspended temporarily and the person is debarred from marketing or selling any mutual fund schemes during the period of suspension and is not eligible to receive any commission or incentive, etc. for the period of suspension.

During the course of inspection of mutual funds, SEBI has observed instances wherein AMCs had continued to accept business from distributors who were suspended by AMFI and had also failed to ensure that no commission was paid to such distributors during the period of suspension. SEBI has taken an adverse view in this regard.

The above matter was deliberated by AMFI's Standing Committee on Certified Distributors (ARN Committee) as well as AMFI's Operations and Compliance Committee. Based on the recommendations of the both the committees, a standard process for treatment of purchase/switch/SIP/STP transactions received through suspended distributors as mentioned hereinbelow has been formulated –

1.   During the period of suspension, no commission shall be accrued or payable to the distributor whose ARN is suspended. In other words, during the period of suspension, commission on the business canvassed prior to the date of suspension shall stand forfeited. The above rule shall apply irrespective of whether the suspended distributor is the main ARN holder or a sub-distributor.

2.   All Purchase and Switch transactions, including SIP/STP registered prior to the date of suspension and fresh SIP / STP registrations received under the ARN code of a suspended distributor during the period of suspension, shall be processed under "Direct" Plan" and shall be continued under Direct Plan perpetually*, with a suitable intimation to the unitholder/s mentioning that the distributor has been suspended from doing mutual fund distribution.

      *Note: If the AMC receives a written request / instruction from the unitholder/s to shift back to Regular Plan under the ARN of the distributor post the revocation of suspension of ARN, the same shall be honored.

3. All Purchase and Switch transactions including SIP/STP transactions received through the stock exchange platforms through a distributor whose ARN is suspended shall be rejected, since the money and units pertaining to such transactions move through the Broker Pool account.

4. All the provisions stipulated under para 1, 2 and 3 shall apply *mutatis mutandis* to all Purchase/Switch/ SIP/STP transactions received under the ARN code of a distributor who has been permanently debarred from marketing or selling any mutual fund schemes (i.e., whose AMFI registration/ARN has been permanently terminated).

    In such cases where the ARN has been permanently terminated, the unitholders may be advised about –
    (i)   the option to switch their existing investments under Regular Plan to Direct Plan (with capital gain tax implications); or

    (ii) the option to continue their existing investments under Regular Plan under ARN another distributor of their choice.

5. A suitable paragraph should be inserted in the SAI/SID with regard to treatment of financial transactions received through distributors whose AMFI registration/ARN has been suspended temporarily or terminated permanently as explained above.

The above process has been approved by the Board of AMFI to be uniformly followed and implemented by all AMCs, as Best Practice Guidelines. 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,

N. S. Venkatesh
Chief Executive