



ASSOCIATION OF MUTUAL FUNDS IN INDIA

CHIEF EXECUTIVE

135 / BP/ 58 /2015-16

May 19, 2015

To All AMFI Members

AMFI Best Practice Guidelines Circular No.58
Sub: Discontinuation of Bonus Plan / Option

Dear Members,

Mutual Funds have been providing Bonus Option/Plan in addition to the standard Growth Option and Dividend Option under certain schemes wherein the Bonus Units are allotted out of distributable surplus of a scheme and are subject to the relevant Tax provisions applicable to Bonus Units allotment.

You will kindly appreciate that Mutual Fund, by definition, is pooling of investors' resources for investments to achieve a common goal which is "income sharing" by way of Dividend or Capital Gains. Bonus Units allotment thus is not income sharing, in strictest term, as they are not retained earnings to facilitate future growth, unlike in a corporate environment. The product is largely being used for tax arbitrage. While issuance of Bonus Units does not violate the letter of any regulation, it is certainly against the spirit of regulation, which may come under scrutiny by regulator or by revenue authority sooner or later.

At the Board Meeting of AMFI held on May 15, 2015, the Board expressed concern over media reports on bonus-stripping and felt that the Industry should now progress on healthier lines rather than following any undesirable practices. It was, therefore, decided by AMFI Board to issue an advisory to all members under Best Practice Guidelines to:

- (i) discontinue accepting any fresh subscriptions under Bonus Option / Plan under all their existing schemes;
- (ii) desist from declaring Bonus Units under any schemes henceforth; and
- (iii) desist from offering Bonus Option / Plan under any schemes henceforth.

The outstanding units of the existing unit holders under the Bonus Option/Plan may be continued (without allowing any fresh subscription from the unitholder) till all the units under the Bonus Option/Plan are redeemed and the Bonus Option/Plan is closed.

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It is understood that some of the AMCs have already implemented the above. Members who have Bonus Option/Plan and are yet to do so, are requested to implement the above recommendation by issuing an addendum to their existing SID(s) at the earliest. A draft of the suggested addendum in this regard is attached herewith.

We request you to please place this Best Practice circular before your Trustees/Board of Directors of AMCs at their next meeting and send us a confirmation that you would be complying with this recommendation.

With regards,

A handwritten signature in blue ink, appearing to read 'H. N. Sinor', written over a horizontal blue line.

H. N. Sinor



**Notice – Cum – Addendum to the Scheme Information Document (SID) and
Key Information Memorandum (KIM) of <Name of Scheme>**

Discontinuation Bonus Option/Plan under <name of the scheme>.

NOTICE is hereby given that the Trustee of _____ Mutual Fund (the Fund) has approved discontinuation of the **Bonus Units** Option/Plan (hereinafter referred to as "Bonus Option") under <name of Scheme> ("the Scheme") w.e.f. _____. Accordingly, the Scheme would have only Dividend and Growth Option thereafter, with <Growth> Option as the default option.

Consequently, no fresh subscriptions would be accepted under the Bonus Option of the Scheme – whether by way of fresh subscription or additional purchase or under Systematic Investment Plan (SIP).

The outstanding units in respect of the existing unit holders under the Bonus Option/Plan shall be continued, without allowing any fresh subscription from the unitholder, till all units under the Bonus Option/Plan of the scheme have been redeemed and subsequently, the Bonus Option/Plan shall be closed.

The aforesaid changes will be applicable with effect from _____, 2015. Accordingly, SIP transactions under the Bonus Option of the Scheme would also be discontinued from the same date.

All the other provisions of the SID/KIM, except as specifically modified herein above, remain unchanged.

This Notice-cum-Addendum forms an integral part of the SID/KIM of the Scheme, as amended from time to time.

For <name of the AMC >

Place:

Date:

Sd/-
Authorised Signatory

**MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS.
READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.**