



ASSOCIATION OF MUTUAL FUNDS IN INDIA

135/ BP/ 60 / 2015-16

September 10, 2015

AMFI Best Practice Guidelines Circular No.60 /2015-16

Revisions in AMFI Best Practice Guidelines Circular No. 54 on Commission Pay-outs

Dear Members,

We invite your reference AMFI Best Practice Guidelines Circulars No. 54 dated March 26, 2015 on Distributors Commission Pay-outs and subsequent Circular No. 59 dated June 26, 2015, whereby certain relaxations were made to the original guidelines as decided by the AMFI Board after reviewing the feedback received from the Members.

While the relaxations were made to promote greater retail participation, we have been receiving numerous queries and suggestions from Members to issue clarifications relating to certain operational aspects of the Guidelines. The matter was therefore reviewed by a sub-Committee headed by Mr. Harshendu Bindal, Director and Chairman of AMFI's Committee on Operations & Compliance. The Committee, after reviewing the matter has recommended certain modifications and clarifications in respect of the AMFI Best Practice Guidelines on Distribution Commission, so that the guidelines could be interpreted and followed uniformly by all members.

Accordingly, it has been decided by the Board of AMFI to make the revisions in the AMFI Best Practice Guidelines Circular No. 54 dated March 26, 2015 as shown in Annexure A.

As regards AMFI Best Practice Guidelines Circular No 59 dated June 26, 2015, an illustration is given in Annexure B to explain / provide further clarity while implementation, the commission structure where upfront commission upto 3% is paid without any trail commission for initial period of 3 years for an SIP in schemes qualifying for exemption under section 80C of Income Tax Act, such as ELSS and Retirement Plans upto ₹ 150,000/- and for close ended RGESS under section 80 CCG upto ₹ 50,000/-.

The aforesaid revisions in AMFI Best Practice Guidelines may be implemented with immediate effect.

With regards

Sincerely,

H. N. Sinor
Chief Executive



ANNEXURE A

Revisions in the AMFI Best Practice Guidelines Circular No. 54 dated March 26, 2015

1	Definitions	
	Existing Clause	Revised Clause
	<p>c) "Marketing Support Expenses" shall mean any expense, other than Upfront Commission or Trail commission, reimbursed to the Distributor or incurred for or on behalf of the Distributor including gift vouchers, debit notes, event sponsorships (excluding meetings/ training programs for sub brokers/relationship managers of a Distributor held within India), overseas trips, outstation trips (excluding normal trips for training programs / Distributor meetings held within India), gift items (excluding customary gifts during festivals), advertisements (other than normal advertisements at arms-length rates on websites / publications of a Distributor or his associate which are widely accessed or have wide circulation; wide circulation/ access for this purpose would mean at least 1 lakh unique persons) , benefits under reward and recognition/loyalty program, per application incentives and any other marketing expenses which are designed to incentivise sales whether it is paid from the scheme(s) or the AMC.</p>	<p>c) "Marketing Support Expenses" shall mean any expense, other than Upfront Commission or Trail commission, reimbursed to the Distributor or incurred for or on behalf of the Distributor including gift vouchers, debit notes, event sponsorships, overseas trips, gift items, advertisements, benefits under reward and recognition/loyalty program, per application incentives and any other marketing expenses which are designed to incentivise sales whether it is paid from the scheme(s) or the AMC.</p> <p>For removal of any doubt, the following expenses shall not be considered as Marketing Support Expenses:</p> <ol style="list-style-type: none"> Meetings/ Training Programs for sub brokers/relationship managers of a Distributor held within India. However, these expenses should be for the event arranged and executed by the AMC and not a payment to Distributors Normal outstation trips for training programs / Distributor meetings held within India Customary gifts during festivals Normal advertisements at arms-length rates on websites / publications of a Distributor or his associate which are widely accessed or have wide circulation; wide circulation/ access for this purpose would mean at least 1 lakh unique persons. <p>Marketing support payments should be backed by necessary documents/evidences and fulfill the nature of expenses covered in the above definition. No payments should be made as marketing support which would be surrogate for Upfront Commission/advancing of trail. In such cases these payments should be considered as upfront commission.</p>
	<p>g) "Applicable Scheme Operating Expenses" shall mean expenses specified in Regulation 52 (4) (b) of the SEBI (Mutual Funds) Regulations, 1996 excluding expenses listed under sub clause numbers (i), (vii), (viii), (ix), (x), (xii), and (xiii), whether charged to the scheme or paid by the AMC</p>	<p>g) "Applicable Scheme Operating Expenses" shall mean expenses specified in Regulation 52 (4) (b) of the SEBI (Mutual Funds) Regulations, 1996 excluding expenses listed under sub clause numbers (i), (vii), (viii), (ix), (x), (xii), and (xiii), whether charged to the scheme or paid by the AMC. This will include the 2 bps set annually aside for investor education and awareness initiatives as prescribed by SEBI vide circular CIR/IMD/DF/21/2012 dated Sept 13, 2012.</p>





2 Best Practice Guidelines:	
Existing Clause	Revised Clause
<p>ii. <u>Upfront Commission</u> While these guidelines will apply to payouts in B15 locations as well, the additional incentive payouts for B15 locations in accordance with SEBI circular no CIR/IMD/DF/21/2012 dated September 13, 2012 shall be excluded from the above mechanism. However, the total B15 commission paid at a scheme level for any financial year should be within the B-15 expenses accrued in the scheme.</p>	<p>ii. <u>Upfront Commission</u> While these guidelines will apply to payouts in B15 locations as well, the additional incentive payouts for B15 locations in accordance with SEBI circular no CIR/IMD/DF/21/2012 dated September 13, 2012 shall be excluded from the above mechanism. However, the additional incentive payouts for B15 transactions at a scheme level for any financial year should be within the B-15 expenses accrued in the scheme.</p>
<p><u>Trail Commission</u></p>	
<p>ii. Trail Commission during the first year should not exceed the Distributable TER of the scheme as reduced by the Upfront commission</p>	<p>ii. Trail Commission during the first year should not exceed the Distributable TER of the scheme as reduced by the Upfront commission. Even in case the trail does not begin from day 1, the rate of trail offered along with the Upfront commission already paid on the asset should be within the Distributable TER of the fund. To further explain, if the upfront commission paid is 1% and assuming the trail commission payment commences from 5th month at 0.75%, the total commission paid would be considered as 1.75% in Year 1 which need to be within the Distributable TER. Further, trail fee for subsequent years shall be 0.75% or less</p>

Marketing Support Expenses	
Existing Clause	Revised Clause
<p>This shall include all expenses as per the definition above and shall be computed on a financial year basis. Expenses shall first be identified / allocated by Distributor. If the expense incurred is identifiable to a particular scheme it shall be divided by the gross mobilization of the Distributor for that scheme to arrive at the basis point spent for that scheme. If not, this shall be divided by the gross mobilization of the Distributor across schemes (excluding Liquid Schemes and Ultra Short Term Bond Scheme category) to arrive at the basis point spent for each such scheme.</p> <p>For avoidance of doubt, Liquid Scheme(s) shall mean scheme(s) categorized as "liquid scheme" as per SEBI (Mutual Funds) Regulations, 1996 and Ultra Short Term Bond Scheme shall mean schemes (other than liquid schemes) with Modified Duration of less than or equal to 90 days.</p>	<p>The marketing support expenses shall include all expenses as per definition and shall be computed on a Financial Year basis. The total marketing support expenses paid per distributor per scheme should be within the total surplus arrived (Distributable TER less Upfront less Trail of all transactions for the year). Expenses shall first be identified / allocated by Distributor. If the expense incurred is identifiable to a particular scheme it shall be divided by the gross mobilization of the Distributor for that scheme. If not, this shall be divided by the gross mobilization of the Distributor across schemes (Excluding Liquid and Ultra Bond scheme category).</p> <p>For avoidance of doubt, Liquid Scheme(s) shall mean scheme(s) categorized as "liquid scheme" as per SEBI (Mutual Funds) Regulations, 1996 and Ultra Short Term Bond Scheme shall mean schemes (other than liquid schemes) with Modified Duration of less than or equal to 90 days.</p>





3	Confirmation to Board of Trustees and the Board of AMC	
	Existing Clause	Revised Clause
	<p>Please note that, based on the certification by the auditors, the Board of Directors of AMC will have to confirm to AMFI on a half-yearly basis that –</p> <ul style="list-style-type: none">a) Commission paid to the Distributors or on behalf of Distributors including all types of payments, are within the prescribed limit;b) Commission paid to Distributors include payments made to group entity of Distributors in adherence to the spirit of the Best Practice Guidelines; andc) All other guidelines in this circular are adhered to.	<p>Please note that, based on the certification by the auditors, the Board of Directors of AMC will have to confirm to AMFI on a yearly basis that –</p> <ul style="list-style-type: none">a) Commission paid to the Distributors or on behalf of Distributors including all types of payments, are within the prescribed limit;b) Commission paid to Distributors include payments made to group entity of Distributors in adherence to the spirit of the Best Practice Guidelines; andc) All other guidelines in this circular are adhered to. <p>Further, AMCs are advised to confirm compliance with Best Practices circular on Commission Payouts and subsequent circulars issued on this subject as part of the half-yearly report sought by AMFI vide e-mail no. 35P/MEM-COR/57/13-14 dated March 03, 2014 about compliance of AMFI Best Practice circulars/ Operational Guidelines issued by AMFI from time to time. AMCs are requested to include compliance of this Best Practices Circular in their Half Year confirmation report.</p>





ANNEXURE B

Revisions in the AMFI Best Practice Guidelines Circular No. 59 dated June 26, 2015

Illustration to explain the commission structure where upfront commission upto 3% is paid without any trail commission for initial period of 3 years for an SIP in ELSS

- SIP Installment ₹10,000/- per month.
- SIP Period – 36 months
- Upfront Commission Rate – 1%
- SIP/STP Relaxation Clause – Advance Upfront: ₹10,000 * 36 Months * 1% = ₹ 3,600 /-
- ELSS Relaxation Clause – 2% with every installment and cannot be advanced
- Trail Commission – During first 36 months of every instalment – NIL.
- Trail Commission - 37th month w.r.t each installment: Trail fee upto Distributable TER (Less) 1% upfront commission paid

