



ASSOCIATION OF MUTUAL FUNDS IN INDIA

135/BP/ 62 /2015-16

September 18, 2015

Dear Members,

AMFI Best Practices Guidelines Circular No. 62 / 2015-16
Uniform Implementation of KYC Requirements to Overcome KYC Related Issues

I. Issues Related to KYC Compliance – Pre-KRA KYC v/s. Post-KRA KYC

To bring uniformity in KYC requirements for the securities markets, SEBI, vide its circular no. MIRSD/SE/Cir-21/2011 dated October 5, 2011 had mandated, (i) Standard KYC form with uniform KYC guidelines and supporting documents to be used by SEBI registered intermediaries and (ii) Centralized KYC registration through KYC Registration Agencies (KRAs) registered with SEBI, w.e.f. January 1, 2012, so that each investor could undergo a uniform KYC process in the securities market just once, based on SEBI prescribed norms and the KYC details are shared with all SEBI registered intermediaries by the KRAs.

Subsequently, SEBI, vide its circular no. MIRSD/Cir-5/2012 dated April 13th 2012 advised various intermediaries:

- To upload KYC data of its existing customers into the KRA system. While uploading KYC data into the KRA system, intermediaries were also required to highlight such 'Missing/Not Available' KYC information of a customer, which was either not required or not taken previously, but was mandatory as per uniform KYC guidelines issued by SEBI.
- KRAs were required to make necessary provisions in their system to categorise the KYC of such clients under the category of existing clients and highlight the information which was missing or not available.
- Accordingly, when an existing customer approaches another intermediary, it is the responsibility of that intermediary which downloads the data of that customer from the KRA system, to update the missing information, do In-Person Verification (IPV) (if not done already) and send the relevant supporting documents, if any, to the KRA, after which, the KRA system would indicate the records as updated.

Based on a representation from AMFI, SEBI had permitted AMCs time up to November 30, 2012 to obtain missing/not available KYC information and also complete IPV. Accordingly, vide AMFI's communication dated August 7, 2012, it was clarified that as and when the existing



customers chose to invest in a new mutual fund where they had not invested (or opened a folio) earlier, the investors would be required to submit '**Missing/Not Available**' KYC information and complete the IPV requirements (as applicable), compulsorily after November 30, 2012, failing which, the AMCs need to reject the applications in respect of such "new" customers.

Consequently, many investors seem to prefer making additional investments only in the MF schemes in which they had already invested in, as they seem reluctant to undergo the stipulated additional KYC requirements in order to open a new account with another mutual fund. It is therefore expedient to have a uniform practice across the Industry in this regard.

II. Ultimate Beneficial Owner - information not available or not provided:

As per SEBI Circular CIR/MIRSD/2/2013 dated January 24, 2013, all intermediaries were required to identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons. While most of the AMCs are reported to have implemented this provision, it has not yet been made mandatory by all AMCs. It is understood that a large number of existing clients have not provided these details. It is therefore expedient to implement the above uniformly across the Industry.

III. Missing KYC details in Part II of Account Opening Form (AOF)

As per SEBI circular no. CIR/MIRSD/13/2013 dated December 26, 2013 certain information which used to be captured in Part I of the basic KYC form (such as Gross Annual Income Details, Net Worth, Occupation, PEP) was shifted to Part II of standard Account Opening Form (AOF). However, as per feedback from across the MF Industry, there are many cases, where the investors do not provide these details. Currently, there is no uniform process followed to tackle such cases in the Industry.

IV. "KYC On Hold" Cases

Post the introduction of KRA Regime, the KYC compliance statuses are classified in the KRA system as follows:

1. KYC – Registered,
2. KYC – On Hold,
3. KYC – Under Process,
4. KYC – Rejected,
5. KYC – Not Available,
6. MF – KYC Registered,
7. KYC – Deactivated.

'KYC-On-Hold' status is defined as the record which is pending verification due to deficiency or incompleteness of the key information in the underlying KYC form or/and KYC documents. In



the absence of specific guidelines, most AMC's have been accepting the transactions from customers as long as the KYC status is not flagged as "Rejected" in the KRA database, but the requisite remediation documents are not collected or insisted for any subsequent transaction/s received. There is lack of a standardized customer follow-up process either by the KRA/ RTA/ POS, to apprise the customer of the missing requirements, nor have the KRAs been rejecting such applications even after prolonged period. There is also an associated cost of remediation of such records, which has been adversely impacting the overall operational efficiency.

Currently, "KYC - On Hold" cases constitute a significant part of the unregistered KYC records. It is also observed that there has been a sustained increase in the number of such cases over a period of time. For all such records, the MF Industry has been using the information provided in the AOF / investment application form for updating in their records.

The Board of AMFI has expressed concern about a large number of "KYC On Hold" cases pending for more than year in respect of which AMCs had accepted initial purchase transactions, pending KYC clearance by KRAs. The Financial Intelligence Unit – India (FIU-IND), at a recently held meeting with KRAs and RTAs has urged the MF Industry to identify and clear all 'KYC On Hold' cases at the earliest. The Board has, therefore, suggested that AMCs should clear all pending 'KYC On Hold' cases at the earliest possible and effective from November 01, 2015 accept purchase transactions, whether fresh or additional subscriptions and switches pertaining to "KYC On Hold" cases only if the relevant missing information is submitted by the investors.

In addition to the aforesaid KYC obligations, the MF Industry is required to implement FATCA and Common Reporting Standard (CRS), which would involve significant amount of additional information to be sought from investors

Accordingly, effective from November 01, 2015, Members are advised to -

- a. make it mandatory for all new MF customers to provide 'Beneficial Ownership' details as part of account opening, as required under the Regulatory guidelines;**
- b. make it mandatory for all new MF customers to provide additional KYC details as prescribed in Part II of the AOF of the Mutual Funds as part of account opening; and**
- c. not to accept purchase transactions (whether fresh or additional subscriptions) and switches pertaining to 'KYC-On Hold' cases, unless and until the customer also submits KYC missing information, or updated information, which the respective AMC/intermediary should update in KRA-KYC system promptly.**



A ready-reckoner of action expected from AMCs / RTAs in respect of new customers/folios/accounts is given in the table below:

KYC Status	Action till October 31, 2015	Action from November, 1 2015
KYC – Registered	Accept	Accept
KYC – On Hold	Communicate for remediation	Reject ALL Purchase & Switch transactions if the missing information is NOT provided
KYC – Under Process	Accept	Accept
KYC – Rejected	Reject	Reject
KYC – Not Available	Reject	Reject
KYC – Deactivated	Reject	Reject

Note: SIP and STP mandates already registered till October 31, 2015 may be exempted from the above stipulations.

As regards tackling cases involving '**Missing/Not Available**' KYC information and completion of IPV in respect '*pre-KRA KYC*' folios, it has been decided with the approval of the Board of AMFI that Members should be advised to make focused and sustained efforts to obtain the Missing/Not Available KYC information from the existing customers and/or complete the IPV requirements, as the case may be, by December 31, 2015 by creating strong internal review mechanism to monitor the progress made in getting the missing information and also highlight the pending cases internally to their Trustees, in order to ensure that the KYC obligations are met and implemented by the MF Industry in letter and spirit, but without causing inconvenience to bona-fide investors.

Accordingly, effective from January 01, 2016, Members are advised to make it mandatory for the existing MF customers to -

- update the beneficiary ownership details in order to continue to make additional subscriptions (including switches) in their existing folios/accounts;**
- provide / update additional KYC details as prescribed in Part II of the AOF of the Mutual Funds (where such information was not provided to KRAs earlier, to be able to continue to make additional subscription (including switches) in their existing folios with the respective schemes.**
- provide the missing information, and complete IPV in order to continue to make additional subscriptions, including switches in their existing folios with the respective schemes/Mutual Funds to make this process consistent across the Industry; and**

A ready-reckoner of action expected from AMCs / RTAs in respect of existing folios with KYC status as '**MF – KYC Registered**' is given in the table below:



KYC Status	Action till December 31, 2015	Action from January 01, 2016
MF- KYC Registered	Make sustained efforts to obtain the requisite Missing/Not Available KYC information and/or complete the IPV requirements, as the case may be and update in KRA records.	Reject ALL Purchase and switch transactions, if the missing KYC information is NOT provided and/or IPV is not completed

Note: SIP and STP mandates already registered till December 31, 2015 in such existing folios may be exempted from the above stipulations.

Common Account Opening Process through M F Utilities

In order to facilitate and ensure operational efficiency, and keeping in view the importance of Client Identification Process in accordance with PMLA, it would be prudent for the members to ensure that their clients are fully KYC Compliant by adopting a common Account Opening Process before accepting any financial transactions, so as to prevent KYC related issues highlighted hereinabove.

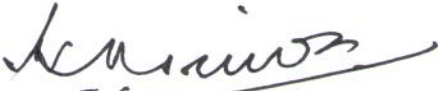
The Board also felt that it would be very convenient for investors to provide all the above information at one central record keeping authority. Since Mutual Fund Utility (MFU) is now fully operational, AMCs should explore availing MFU's services to capture all the requisite KYC information for the MF Industry as part of Common Account Numbering (CAN) process, quite similar to the arrangement which MF Industry had with CVL for implementing a centralized KYC record keeping, prior to KRA regime. This will make it convenient for investors who will not have to provide the same information each time they deal with different AMCs.

Members who have not opted to sign up for MFU services could also be offered this facility at a nominal cost.

Members may therefore consider availing MFU's services to capture all the requisite KYC information for the MF Industry as part of CAN process for all new accounts to be opened effective from November 01, 2015. However, investors may continue to transact either using common transaction form through MFU or continue to use mutual fund specific transaction forms.

Please confirm having noted the contents of this circular for due compliance and also to place the circular before your Trustees for information at their next meeting.

With regards,


H. N. Sinor
Chief Executive