AMFI

ASSOCIATION OF MUTUAL FUNDS IN INDIA

135/ BP/ 67 / 2016-17 **April 18, 2016**

<u>AMFI Best Practice Guidelines Circular No. 67 /2016-17</u>

<u>Revision in AMFI Best Practice Guidelines on Commission Pay-outs to Distributors</u>

Dear Members,

We invite your reference AMFI Best Practice Guidelines circulars no. 54 dated March 26, 2015, Circular No. 59 dated June 26, 2015, and no. 60 dated September 10, 2015 on Commission Pay-outs to Distributors.

Based on the feedback received from members, with a view to bring about greater transparency and operational efficiency, it has been decided with the approval of AMFI Board, to make a few revisions in respect of the existing Best Practice Guidelines as shown in the annexure 'A'.

As the two broad areas of revision in the existing guidelines, namely, (i) additional incentives for B-15 business and (ii) Marketing Support expenses, are to be tracked on a financial year basis, members are advised to adopt and implement the revised Guidelines contained herein with effect from April 1, 2016.

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 regards

Sincerely,

C. VR. Rajendran
Chief Executive

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ANNEXURE A

Revisions in the AMFI Best Practice Guidelines Circular No. 54 dated March 26, 2015, read with Circular No. 59 dated June 26, 2015, No. 60 dated September 10, 2015

Clause No.	Existing Clause	Revised Clause	Rationale
1(c) as revised vide circular no 60 dated September 30, 2015	**"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 incentivize sales whether it is paid from the scheme(s) or the AMC. For removal of any doubt, the following expenses shall not be considered as Marketing Support Expenses: a. 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 b. Normal outstation trips for training programs / Distributor meetings held within India c. Customary gifts during festivals d. 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. 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.	**"Marketing Support Expenses"** shall mean any expense, other than Upfront Commission or Trail commission, reimbursed/paid 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 incentivize sales, whether it is paid from the scheme(s) or the AMC. For removal of any doubt, the following expenses shall not be considered as Marketing Support Expenses: a. Expenses incurred by the AMC for Meetings / Training Programs attended by Distributors or their sub brokers or their relationship managers held within India. However, these expenses should be for the event arranged, executed and paid for by the AMC with adequate supporting bills and not a payment/reimbursement to Distributors b. Customary gifts during festivals not exceeding a value of ₹ 5,000 per financial year 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. For removal of doubts, this shall also include any such payments made by a group company of the AMC.	AMFI has received feedback that this clause is being circumvented in the market place through payments which are not in compliance with the spirit of the guideline. Therefore, in order to remove all ambiguities and make guidelines simple, AMFI Board decided to remove all exclusions and restrict only to trainings / meetings conducted and paid for by the AMC and customary festival gifts.

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Clause No.	Existing Clause	Revised Clause	Rationale
2(c) as revised vide circular no 60 dated September 30, 2015	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). 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.	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 to a distributor during a financial year shall not exceed the surplus which shall remain after deducting the total upfront commissions and trail commissions paid from the Aggregate Absolute Distributable TeR. Aggregate Absolute Distributable TeR for a financial year shall be computed by multiplying the applicable DTeR to the subscription transactions across all schemes except Liquid Schemes, Money Market Schemes and Ultra Short Bond Schemes. This shall be monitored at Distributor level for a financial year. Categorisation of Liquid Scheme and Money Market Scheme shall be as per as per SEBI (Mutual Funds) Regulations, 1996. Ultra Short Term Bond Scheme Category shall include all debt schemes (other than Liquid Schemes and Money Market Schemes) with an <u>Average Maturity</u> of less than or equal to one year.	Feedback received from members about certain practical challenges in adhering to the current definition which requires AMCs to monitor the limits at each transaction level. With the revised clause, the monitoring of limits for Marketing Support Expenses will be at distributor level for a financial year.
2 (a) (ii) as per Circular 60 dated September 10, 2016	<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 B15 expenses accrued in the scheme.	<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 Upfront Incentive for B15 transactions at a scheme level for any financial year shall not exceed 2%. Needless to say, accrual of additional expenses for B15 transactions in a scheme shall be as per SEBI guidelines.	Feedback received from members that accrual of B15 expenses in a scheme is very dynamic as it is based on multiple variables i.e. Gross mobilization, B15 mobilisation and Average AuM. As B15 incentives are published in advance based on estimates of the above variables, there are situations where the scheme is unable to absorb the full incentives on account of the actual mobilization and AAuM not being in line with estimates.

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Clause No.	Existing Clause	Revised Clause	Rationale
Circular no 59 dated June 26, 2015	Relaxations regarding commission payouts for SIPs/STPs and Tax-exempt products	The following clause shall be inserted at the end of the circular which shall be applicable from April 1, 2016: AMCs shall have a monitoring mechanism to ensure that distributors do not resort to splitting of transactions in order to earn advance upfront commissions available under Clauses 1 or 2.	This is to clarify the spirit of the circular which is to apply the limits of ₹10,000 per month for SIPs/STPs and ₹150,000 for Tax-exempt ELSS / Retirement benefit products at investor-PAN level and not at a transaction level.

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