



Association of Mutual Funds in India

Role of AMFI

&

**Present SEBI Regulations governing
Mutual Fund Distributors**

WIRC - ICAI

Seminar on Mutual Funds, PMS & Capital Mkts

Sep. 17, 2016

Balkrishna Kini, Dy. Chief Executive, AMFI

About AMFI



- **Association of Mutual Funds in India (AMFI)** is a trade body of Asset Management Companies (AMCs) of all SEBI registered mutual funds in India.
- AMFI was established on August 22, 1995 as a non-profit organisation formed under sec. 25 of the Companies Act, 1956.
- AMFI is dedicated to developing the Indian Mutual Fund Industry on professional, healthy and ethical lines and to enhance and maintain standards in all areas with a view to protecting and promoting the interests of mutual funds and their unit holders.

AMFI's Objectives



- To define and maintain high professional and ethical standards in all areas of operation of mutual fund industry.
- To recommend and promote best business practices and code of conduct to be followed by members and others engaged in the activities of mutual fund and asset management including agencies connected or involved in the field of capital markets and financial services.
- To interact with the Securities and Exchange Board of India (SEBI) and to represent to SEBI on all matters concerning the mutual fund industry.
- To represent to the Government, Reserve Bank of India and other bodies on all matters relating to the Mutual Fund Industry.
- To develop a cadre of well trained Agent distributors and to implement a programme of training and certification for all intermediaries and others engaged in the industry.
- To undertake nation wide investor awareness programme so as to promote proper understanding of the concept and working of mutual funds.
- To disseminate information on Mutual Fund Industry and to undertake studies and research directly and/or in association with other bodies.
- To take regulate conduct of distributors including disciplinary actions (cancellation of ARN) for violations of Code of Conduct.
- To protect the interest of investors/unit holders.

Role of AMFI



Regular interactions with the SEBI on behalf of the Mutual Fund industry to represent to SEBI on all matters concerning the Industry.

Interactions and liaison with the Ministry of Finance on behalf of the Mutual Fund industry to represent to the Government on various matters relating to the Mutual Fund Industry, particularly the Income Tax and Budget related matters.

- Regular inter-actions with the Govt. (MoF), SEBI, RBI, NPCI, KRAs, RTAs, CERSAI, etc. in respect of various common issues relating to the Mutual Fund industry to resolve the issues and difficulties faced by the MF Industry and also to ensure level playing field with other financial services players

Role of AMFI



- Interactions other trade bodies like Indian Banks' Association etc. to resolve common challenges faced by BFSI sector

(e.g. GST/ FATCA / Form 15 CA-CB etc.)

Role of AMFI



Introducing ‘Best Practice Guidelines’ relating to various operational, risk, valuation, investor awareness and distribution related matters in the best interest of investors, as well as all stake holders **and to facilitate uniform and standardised processes across the industry.**

Role of AMFI



- Hosting of NAVs of all the schemes of all Mutual Funds since November 2000 on AMFI's website www.amfiindia.com.
- Dissemination of useful and insightful data pertaining to MF Industry as well as disclosures prescribed / mandated by SEBI on AMFI's website

Role of AMFI



- As per SEBI circular No. Cir/IMD/DF/13/2011 dated Aug. 22, 2011, Mutual Funds/AMCs are required to disclose on their websites, the total commission and expenses paid to distributors who satisfy any of the conditions laid down in SEBI guidelines.
- In addition, SEBI circular No. Cir/IMD/DF/21/2012 dated Sep.13, 2012, requires Mutual Funds/AMCs to make additional disclosure relating to gross inflows, net inflows, average AUM and ratio of AUM to gross inflow on their websites.
- The distributor-wise consolidated data is also required to be disclosed on the AMFI website.
- In compliance with these guidelines, AMFI has been collecting the relevant data from all AMCs and displaying it on AMFI Website.

Role of AMFI



AMFI plays an important role in creating greater awareness about Mutual Funds as an asset class among masses through investor awareness and education outreach programs, particularly through mass media.

The aim is to educate and encourage retail investors to start saving and investing via the mutual fund route for wealth creation.

Role of AMFI



- Facilitating Benchmark in collaboration with CRISIL Indices for evaluating the performance of various Mutual Fund schemes.
- Facilitating scrip-level valuation of debt securities by two service providers (for better price discovery) including organising unified audit of the process thereof followed by the service providers.
- Introduction / Facilitating unified KYC across the MF industry through CVL in 2006-07, which was emulated across the securities by SEBI through KRA Regulations.
- Arranging 'Unified Due Diligence' process as mandated vide SEBI circular dated August 22, 2011 on behalf of all AMCs, in respect of qualifying MF Distributors.
- Complaint redressal of investor and distributors.

Role of AMFI



Interaction and exchange of useful & insightful information with fund associations across various continents, as a member **of International Investment Funds Associations (IIFA)** (www.iifa.ca), an association of fund associations from various countries.

IIFA was established in 1987 to promote the protection of investment fund investors, to facilitate the growth of the investment funds industry internationally, to act as a medium for the advancement of understanding of the investment fund business around the world, and to encourage adherence to high ethical standards by all participants in the investment funds industry.

IIFA has a membership of more than 40 national and regional investment fund associations from around the world.

Role of AMFI in respect of Mutual Fund Distributors



- AMFI is the registering body for all Mutual Fund Distributors, as per SEBI Regulations.
- AMFI has been issuing AMFI Registration Numbers (ARN) to intermediaries since the year 2002. **Without ARN, MFDs cannot undertake distribution of mutual fund products.**
- Till May 2010, AMFI used to conduct the AMFI Certification Examination through NSE / BSE / ICM / CIEL. From 1st June 2010, SEBI has entrusted this function to NISM.
- As mandated by SEBI, since Sept. 2012 AMFI also issues employee unique identity number (EUIN) to employees of intermediaries interacting with investors for sale of mutual fund products .

Role of AMFI in respect of Mutual Fund Distributors



As per SEBI MF Regulations, all MF Distributors must abide by the AMFI Code of Conduct, in letter and in spirit.

AMFI monitors the adherence to Code of Conduct by the MFDs through its members (i.e., AMCs).

In case of violation of the Code of Conduct, AMFI takes appropriate disciplinary action against the erring distributor, which could range from suspension / stoppage of commission to suspension of ARN code or permanent cancellation of ARN.

Role of AMFI in respect of Mutual Fund Distributors



In 2002, AMFI constituted **AMFI's Standing Committee on Certified Distributors**, commonly referred to as **ARN Committee** for brevity.

The Committee deals all issues related to ARN Holders, including review of Code of Conduct for MF Distributors, investigating instances of breach of the Code of Conduct and recommending disciplinary actions against the errant MF Distributors found guilty of breach, or involved in fraud/mis-selling etc. after following principles of natural justice.

Role of AMFI in respect of Mutual Fund Distributors



- Implementation of Know Your Distributors (KYD) process from September 1, 2010 with bio-metrics (as directed by SEBI).
- Conducting a “Unified Due Diligence” process for certain set of MF Distributors on behalf of the Mutual Fund industry pursuant to SEBI circular of dated August 22, 2011 requiring all AMCs to conduct due diligence on MF Distributors to ensure that they meet the ‘fit and proper’ criterion.
- Interactive meetings with various associations of MF Distributors on a regular basis.
- Resolving operational issues faced by MF Distributors.



Mutual Fund Distributors (MFDs) need to fulfil following two requirements before engaging or being employed in sale and/or distribution of mutual fund products :

- Obtain the relevant NISM Certification; AND
- Register with Association of Mutual Funds in India (AMFI).

SEBI Regulations for Mutual Fund Distributors



SEBI has made it mandatory for MF Distributors (and their employees) to adhere to the **Code of Conduct for Mutual Fund Intermediaries** prescribed by AMFI.

All MFDs need to adhere to the AMFI Code of Conduct .

Code of Conduct ... a few most important points



- ✓ Ensure that the clients' interest is protected .
- ✓ Adhere to SEBI Mutual Fund Regulations and guidelines issued from time to time related to selling, distribution and advertising practices.
- ✓ Highlight the risk factors of the MF scheme being promoted
- ✓ Avoid misrepresentation and exaggeration
- ✓ Urge the client to go through SID/ KIM before deciding to make investments.
- ✓ Disclose to the client, all material information including all the commissions (in the form of trail or any other mode) received for the different competing schemes of various Mutual Funds from amongst which the scheme is being recommended to the investors.
- ✓ Refrain from indicating or assuring returns in any type of scheme, unless the SID is explicit in this regard.

Code of Conduct ... a few most important points



- Avoid colluding with clients in faulty business practices such as bouncing cheques, wrong claiming of dividend/redemption cheques, etc.
- Avoid commission driven malpractices such as :
 - (a) recommending inappropriate products solely because the intermediary is getting higher commissions therefrom.
 - (b) encouraging over transacting and churning of Mutual Fund investments to earn higher commissions, even if they mean higher transaction costs and tax for investors.
- Avoid making negative statements about any AMC or scheme and ensure that comparisons if any, are made with similar and comparable products.

Code of Conduct ... a few most important points



- Maintain confidentiality of all investor deals and transactions.
- Ensure suitability of the product to the financial need of the client (commission or incentive earned should never form the basis for recommending a scheme to the client).
- No pass-back of commission back to client
- Avoid attracting clients through temptation of rebate/gifts etc.

SEBI Regulations for Mutual Fund Distributors



- Till May 2010, MFDs were required to
 - (i) obtain a certification from AMFI by passing AMFI Certification Examination; and
 - (ii) obtain registration from AMFI in terms of SEBI Circulars dated September 25, 2001, November 28, 2002, April 03, 2003 and February 04, 2004.
- From June 1, 2010, SEBI has entrusted the certification of persons employed or engaged in mutual fund distribution to National Institute of Securities Markets (NISM) under regulation 3 (1) of the (Certification of Associated Persons in the Securities Markets) Regulations, 2007

SEBI Regulations for Mutual Fund Distributors



- Thus, the MFDs are now required to obtain NISM's certification by passing 'NISM Series V-A : Mutual Fund Distributors Certification Examination'.
- After clearing the NISM Certification, an MFD needs to register with AMFI and obtain AMFI Registration Number (ARN) .



Grandfathered Category

As per regulation 4 (3) of the Certification Regulations, persons who are aged 50 years & above and persons who have at least 10 years' experience in the securities markets in the sale and/ or distribution of mutual fund products as on May 31, 2010, have an option of obtaining the NISM certification either by passing the NISM certification examination or qualifying for Continuing Professional Education (CPE) certificate by attending a one-day CPE program conducted by NISM or its accredited CPE service providers.



Employee Unique Identity Number (EUIN)

The SEBI circular of September 13, 2012 also stipulates that employees engaged in selling and marketing of mutual fund products on behalf of corporates and individual ARN holders are also required to be registered with AMFI by obtaining “Employee Unique Identification Number” (EUIN) in addition to the AMFI Registration Number of the distributor.

The application form for mutual fund schemes to have a provision for disclosing the EUIN of such sales personnel along with the ARN of the distributor.



New Cadre of Distributors

- SEBI has vide its circular no. CIR/IMD/DF/21/2012 dated September 13, 2012 permitted a new cadre of distributors, such as postal agents, retired government and semi-government officials (Class III and above or equivalent) with a service of at least 10 years, retired teachers with a service of at least 10 years, retired bank officers with a service of at least 10 years, and other similar persons (such as Bank correspondents) as may be notified by AMFI/AMCs from time to time, to sell units of “simple and performing mutual fund schemes”.
- Simple and performing mutual fund schemes are defined in the circular as diversified equity schemes, fixed maturity plans (FMPs) and index schemes that have returns equal to or better than their scheme benchmark returns during each of the last 3 years.

SEBI Regulations for Mutual Fund Distributors



- The new cadre of distributors require a simplified form of NISM certification, namely, Passing certificate of "NISM-Series-V-B: Mutual Fund Foundation Certification Examination" or Certificate of having attended one day “NISM Mutual Fund Foundation CPE Program”, as specified by NISM
- They also need to register with AMFI and obtain ARN and EUIN, like regular distributors .



Payment of Commission by investor directly to the distributor

- SEBI Circular dated June 30, 2009 on “Mutual Funds- Empowering investors through transparency in payment of commission and load structure” stipulates that the upfront commission to distributors will be paid by the investor directly to the distributor, based on his assessment of various factors including the service rendered by the distributor.
- In order to empower the investors through transparency in payment of commission and load structure, SEBI has also mandated that the distributors shall disclose all the commissions (in the form of trail commission or any other mode) payable to them for the different competing schemes of various mutual funds from amongst which the scheme is being recommended to the investor.



Disclosure of Commission

- SEBI Circular no. SEBI/HO/IMD/DF2/CIR/P/2016/42 March 18, 2016 has mandated that Mutual Funds / AMCs shall disclose the amount of actual commission paid by AMCs/Mutual Funds to distributors (in absolute terms) during the half-year period against the concerned investor's total investments in each MF scheme in the Half-yearly CAS.
- The term 'commission' covers all direct monetary payments and other payments made in the form of gifts / rewards, trips, event sponsorships etc. by AMCs/MFs to distributors.
- In addition, the scheme's average Total Expense Ratio (in percentage terms) for the half-year period, of both direct plan and regular plan, for each scheme where the concerned investor has invested in shall also be disclosed.
- Such half-yearly CAS shall be issued to all investors, excluding those who do not have any holdings in MF schemes and where no commission has been paid against their investment during the concerned half-year period.



Transaction Charges

- As per SEBI circulars dated August 22, 2011 and September 13, 2012 MFDs are allowed to be paid Transaction charges
- Transaction charges allowed @Rs.100/- per subscription for existing investors and @Rs.150/- per subscription for new investors, for subscriptions of Rs.10,000/- and above.
- In case of SIPs, the transaction charges are applicable only if the total commitment through SIPs amounts to Rs.10,000/- and above. In such cases, the transaction charges shall be recovered in 3-4 installments.
- No transaction charges allowed on transactions other than purchases/ subscriptions relating to new inflows.



Transaction charges - Opt In or Opt Out

- Transaction charges allowed to be paid to the distributors, who opt for levying such transaction charges out of the amount invested by the investor
- Earlier MFDs were had an option to either Opt in or Opt out of levying transaction charges, at distributor level across all types of product across all Mutual Funds.
- MFDs are now allowed to opt in or opt out of levying transaction charges on the basis of type of the product, which will be valid across all Mutual Funds.



Mis-selling

Through a Gazette Notification dated December 11, 2012, SEBI has brought mis-selling of Mutual Fund Schemes under the ambit of Fraudulent and Unfair Trade Practices.

Mis-selling is defined as sale of units of a Mutual Fund Scheme by any person, directly or indirectly by :

- making a false or misleading statement, or
- concealing or omitting material facts of the scheme, or
- concealing the associated risk factors of the scheme, or
- not taking reasonable care to ensure suitability of the scheme to the buyer

Thank You for your attention

