



CIRCULAR

Cir/ IMD/ DF/13/ 2011
August 22, 2011

All Registered Mutual Funds/ Approved Asset Management Companies (AMCs)

Sir/Madam,

Sub: Circular for Mutual Funds

A. Transaction charges

1. Please refer to SEBI circular no. SEBI/IMD/CIR No. 4/168230/09 dated June 30, 2009 regarding empowering investors through transparency in payment of commission and load structure.
2. It has been represented to SEBI that distributors incur expenditure on traveling and incidentals for reaching investors and procuring business for Mutual Funds. Distributors are also required to set up appropriate infrastructure for servicing investors as well as incur certain expenses while marketing the units of Mutual Funds.
3. In order to enable people with small saving potential and to increase reach of Mutual Fund products in urban areas and smaller towns, it has been decided that a transaction charge per subscription of ₹10,000/- and above be allowed to be paid to the distributors of the Mutual Fund products from the date of this circular. However, there shall be no transaction charges on direct investments. The transaction charge shall be subject to the following:
 - i. For existing investors in a Mutual Fund, the distributor may be paid ₹ 100/- as transaction charge per subscription of ₹ 10,000/- and above.
 - ii. As an incentive to attract new investors, the distributor may be paid ₹ 150/- as transaction charge for a first time investor in Mutual Funds.
 - iii. The terms and conditions relating to transaction charge shall be part of the application form in bold print.
 - iv. The transaction charge, if any, shall be deducted by the AMC from the subscription amount and paid to the distributor; and the balance shall be invested.
 - v. The statement of account shall clearly state that the net investment as gross subscription less transaction charge and give the number of units allotted against the net investment.
 - vi. Distributors shall be able to choose to opt out of charging the transaction charge. However, the 'opt-out' shall be at distributor level and not investor level i.e. a distributor shall not charge one investor and choose not to charge another investor.



- vii. The AMCs shall be responsible for any malpractice/mis-selling by the distributor while charging transaction costs.
 - viii. There shall be no transaction charge on subscription below ₹ 10,000/-
 - ix. In case of SIPs, the transaction charge shall be applicable only if the total commitment through SIPs amounts to ₹ 10,000/- and above. In such cases the transaction charge shall be recovered in 3-4 installments.
 - x. There shall be no transaction charge on transactions other than purchases/subscriptions relating to new inflows.
4. Mutual Funds shall institute systems to detect if a distributor is splitting investments in order to enhance the amount of transaction charges and take stringent action including recommendations to AMFI to take appropriate action.
5. Mutual Funds/AMCs shall carry out an exercise of de-duplication of folios across all Mutual Funds within a period of 6 months from the date of this circular.
6. It is also clarified that as per SEBI circular no. SEBI/IMD/CIR No. 4/ 168230/09, dated June 30, 2009, upfront commission to distributors shall continue to be paid by the investor directly to the distributor by a separate cheque based on his assessment of various factors including the service rendered by the distributor.

B. Distributors of Mutual Fund products

1. It has been felt that in the interest of investors there is a need to regulate the distributors through AMCs by putting in place a due diligence process to be conducted by AMCs as follows:
- i. The due diligence process shall be initially applicable for distributors satisfying one or more of the following criteria:
 - a. Multiple point presence (More than 20 locations)
 - b. AUM raised over ₹ 100 Crore across industry in the non institutional category but including high networth individuals (HNIs)
 - c. Commission received of over ₹ 1 Crore p.a. across industry
 - d. Commission received of over ₹ 50 Lakh from a single Mutual Fund
 - ii. At the time of empanelling distributors and during the period i.e. review process, Mutual Funds/AMCs shall undertake a due diligence process to satisfy 'fit and proper' criteria that incorporate, amongst others, the following factors:
 - a. Business model, experience and proficiency in the business.
 - b. Record of regulatory / statutory levies, fines and penalties, legal suits, customer compensations made; causes for these and resultant corrective actions taken.
 - c. Review of associates and subsidiaries on above factors.
 - d. Organizational controls to ensure that the following processes are delinked from sales and relationship management processes and personnel:
 - i.) Customer risk / investment objective evaluation.
 - ii.) MF scheme evaluation and defining its appropriateness to various



customer risk categories.

iii. In this respect, customer relationship and transactions shall be categorized as:

- a. Advisory – where a distributor represents to offer advice while distributing the product, it will be subject to the principle of ‘appropriateness’ of products to that customer category. Appropriateness is defined as selling only that product categorization that is identified as best suited for investors within a defined upper ceiling of risk appetite. No exception shall be made.
- b. Execution Only – in case of transactions that are not booked as ‘advisory’, it shall still require:
 - i.) The distributor has information to believe that the transaction is not appropriate for the customer, a written communication be made to the investor regarding the unsuitability of the product. The communication shall have to be duly acknowledged and accepted by investor.
 - ii.) A customer confirmation to the effect that the transaction is ‘execution only’ notwithstanding the advice of in-appropriateness from that distributor be obtained prior to the execution of the transaction.
 - iii.) That on all such ‘execution only’ transactions, the customer is not required to pay the distributor anything other than the standard flat transaction charge, as mentioned in part ‘A’ above.
- c. There shall be no third categorization of customer relationship / transaction.
- d. While selling Mutual Fund products of the distributors’ group/affiliate/associates, the distributor shall make disclosure to the customer regarding the conflict of interest arising from the distributor selling of such products.

iv. Compliance and risk management functions of the distributor shall include review of defined management processes for:

- a. The criteria to be used in review of products and the periodicity of such review.
 - b. The factors to be included in determining the risk appetite of the customer and the investment categorization and periodicity of such review.
 - c. Review of transactions, exceptions identification, escalation and resolution process by internal audit.
 - d. Recruitment, training, certification and performance review of all personnel engaged in this business.
 - e. Customer on boarding and relationship management process, servicing standards, enquiry / grievance handling mechanism.
 - f. Internal / external audit processes, their comments / observations as it relates to MF distribution business.
 - g. Findings of ongoing review from sample survey of investors
2. Mutual Funds/AMCs may implement additional measures as deemed appropriate to help achieve greater investor protection.



C. Transparency of information

1. SEBI vide circular no. SEBI/IMD/CIR No. 4/ 168230/09, dated June 5, 2000, has stipulated that only compounded annualized yield shall be advertised if the scheme has been in existence for more than 1 year.
2. It has been decided, henceforth, that when the scheme has been in existence for more than three years:
 - i. Point-to-point returns on a standard investment of ₹ 10,000/- shall also be shown in addition to CAGR for a scheme in order to provide ease of understanding to retail investors.
 - ii. Performance advertisement shall be provided since inception and for as many twelve month periods as possible for the last 3 years, such periods being counted from the last day of the calendar quarter preceding the date of advertisement, along with benchmark index performance for the same periods.
3. Where scheme has been in existence for more than one year but less than three years, performance advertisement of scheme(s) shall be provided for as many as twelve month periods as possible, such periods being counted from the last day of the calendar quarter preceding the date of advertisement, alongwith benchmark index performance for the same periods.
4. Where the scheme has been in existence for less than one year, past performance shall not be provided.
5. For the sake of standardization, a similar return in INR and by way of CAGR must be shown for the following apart from the scheme benchmarks:

Scheme Type	Benchmark
Equity scheme	Sensex or Nifty
long term debt scheme	10 year dated Gov security
short-term debt fund	1 year T-Bill

These disclosures shall form a part of the Statement of Additional Information and all advertisements of Mutual Funds.

6. Any disclosure regarding quarterly/half yearly/yearly performance shall pertain to respective **calendar** quarterly/half yearly/yearly only.
7. When the performance of a particular Mutual Fund scheme is advertised, the advertisement shall also include the performance data of all the other schemes managed by the fund manager of that particular scheme.

In case the number of schemes managed by a fund manager is more than six, then the AMC may disclose the total number of schemes managed by that fund manager along with the performance data of top 3 and bottom 3 schemes (in addition to the performance data of the scheme for which the advertisement is being made) managed by that fund manager in all performance related advertisement. However, in such cases AMCs shall ensure that true and fair view of the performance of the fund manager is communicated by providing additional disclosures, if required.



Assets Under Management (AUM) disclosure

8. Wherever the Mutual Funds discloses the AUM figures for the fund, disclosure on bifurcation of the AUM into debt/equity/ balanced etc, and percentage of AUM by geography (i.e. top 5 cities, next 10 cities, next 20 cities, next 75 cities and others). The Mutual Funds shall disclose the aforesaid data on their respective websites & to AMFI and AMFI shall disclose industry wide figures on its website.

Commission disclosure

9. Mutual Funds / AMCs shall disclose on their respective websites the total commission and expenses paid to distributors who satisfy one or more of the following conditions with respect to non-institutional (retail and HNI) investors
- i. Multiple point of presence (More than 20 locations)
 - ii. AUM raised over ₹ 100 crore across industry in the non institutional category but including high network individuals (HNIs).
 - iii. Commission received of over ₹ 1 crore p.a. across industry
 - iv. Commission received of over ₹ 50 lakh from a single Mutual Fund/AMC.
10. Mutual Funds / AMCs shall also submit the above data to AMFI. AMFI shall disclose the consolidated data in this regard on its website.
- D. The aforesaid circulars stand modified to the said extent.
- E. This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

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