



Association of Mutual Funds in India

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135/BP/ 87 /2020-21

July 16, 2020

To,
All AMFI Members

Dear Members,

AMFI Best Practices Guidelines Circular No. 87 / 2020-21

Revision in the Guidelines on Transfer of AUM from one MF Distributor to another & Transfer of AUM of a deceased ARN holder to the ARN of the nominee/ legal heir of the deceased

(In partial modification of AMFI Circular no. CIR/ ARN-15/ 12-13 dated March 28, 2013 and AMFI Best Practice Circular no. 135/ BP/ 78 / 201-19 dated March 26, 2019)

- I. It has been decided to revise the existing AMFI best-practice guidelines for Transfer of AUM from one MF Distributor (ARN-holder) to another, in partial modification of AMFI Best Practice Circular no.78 dated March 2, 2019 as per recommendations of AMFI's Standing Committee on Certified Distributors (ARN Committee) and approval of the Board of AMFI for uniform implementation by all Members. The revised guidelines for Transfer of AUM from one MF Distributor to another MF Distributor are given in the Annexure A hereto.
- II. As per AMFI Circular no. CIR/ ARN-15/ 12-13 dated March 28, 2013, the nominee or the legal heir of a deceased mutual fund Distributor (MFD) is allowed to transfer the AUM under the ARN of the deceased MFD to his/her ARN on specific request in this regard from the client(s) of the deceased MFD, provided the nominee/ or legal heir has a valid ARN. In other words, the nominee/ legal heir of the deceased MFD is required to obtain a specific written consent from all the clients of deceased ARN holder, in order to get their AUM transferred under his/ her ARN.

AMFI has been receiving requests to review the above stipulation as the nominees/ legal heirs of the deceased MFDs have been expressing difficulty and challenge in obtaining such consent from clients of the deceased MFD, especially where there are a large no. of clients and spread across different regions / cities.

On a review, it has been decided to revise the existing above clause in consultation with AMFI's Standing Committee on Certified Distributors (ARN Committee) and approval of the Board of AMFI for uniform implementation by all Members. The revised guidelines for Transfer of AUM in respect of a deceased ARN holder to the ARN of the nominee/ legal heir of the deceased MF Distributor are given in the Annexure B hereto.

This circular supersedes all previous circulars/ guidelines issued on the above subject.

Members are requested adopt the revised guidelines latest by August 1, 2020. 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 best regards,

Sincerely,

B. M. Kini
Dy. Chief Executive



Annexure A

Revised Guidelines for Transfer of AUM from one ARN holder to another ARN holder

1. Distributor (ARN Code) change initiated by the Investor:

As per SEBI's circular no. SEBI/IMD/CIR No.13/187052/2009 dated December 11, 2009, Mutual Funds/AMCs need to ensure compliance with instructions of an investor who desires to change his/her distributor or switch to direct plan, without compelling that investor to obtain an NOC from the existing distributor. Such change of distributor code/ARN leads to the investor's unit-holdings being delinked from the earlier distributor/ARN and tagged / linked to the new distributor/ARN. Upon change of distributor (ARN Code) and on transfer of AUM from one distributor (ARN Code) to another distributor (ARN Code) on such requests, the trail commission in respect of transferred assets should not be paid to the new distributor (ARN holder), except for the cases as mentioned at point no.3 hereinbelow.

2. Distributor (ARN Code) change initiated by the existing distributor:

A. Change in Distributor (ARN code) upon request of an existing distributor may be effected only in the following circumstances:

- i. Change in the name / legal status of the distributor (such as an individual MF distributor converting his MF distribution business to a partnership firm, a partnership firm converting itself into Limited Liability Partnership (LLP), a private limited company converting itself into a public limited company or vice versa);
- ii. Mergers / acquisitions / consolidation of business / transfer of business / demergers / dissolution of business / change in partnership firms or LLP / new code acquired by the distributors (ARN Holders);
- iii. Transfer of AUM of an ARN Holder acting as a sub-distributor under a principal ARN Holder, provided the entire AUM of the sub-distributor is being transferred out. Both the sub-distributor and principal ARN Holder need to certify to the AMC that the entire AUM of the sub-distributor is being transferred.

B. Change in Distributor / ARN code may be effected only upon completion of the following formalities in cases at Serial Nos. i to iii above:

- i. Request for change in distributor/ ARN code may only be initiated by a distributor whose ARN is valid, who is 'KYD' Compliant and who has furnished all the requisite self-certifications due as on the date of request.
- ii. Transfer should be of full assets (other than cases that qualify under clause 2.A.iii) and after the transfer, the Transferor Distributor shall cease to operate / function and his ARN code shall be surrendered to AMFI for cancellation. An undertaking to this effect shall be furnished by the Transferor Distributor to the concerned AMCs. The Transferor Distributor shall thereafter submit a letter to AMFI for cancellation of ARN along with the original ARN card/ Certificate/ Letter of Registration within 15 days of completion of transfer of AUM. A copy of the aforesaid letter submitted to AMFI shall also be filed with the AMCs, where the distributor has submitted request for transfer of AUM.

Provided that the Transferor Distributor need not surrender his/her ARN, if he/she becomes a sub-distributor of the Transferee Distributor in order to service clients. However, after transferring the assets, the Transferor Distributor shall not do any business independently under his/her ARN. The AMC shall conduct periodic checks in this regard and report to AMFI if any distributor is found to be non-compliant / doing business as a sub-distributor as well as the main ARN holder.

- iii. Any Transferor Distributor who has surrendered his valid ARN in order to obtain a fresh ARN/EUIN, shall be considered eligible to transfer his assets to the fresh ARN, even if on the date of application for transfer of AUM, the Transferor ARN is "surrendered / not valid". Provided that the application for transfer of AUM should be made within a period of six months from the date of cancellation of ARN.



- iv. The Transferor Distributor must send a suitable letter / email to all his/her MF clients informing about the impending change of the distributor/ARN code, the reason for the same, along with the details of the new distributor who will be servicing them after the transfer of assets. It must also be highlighted in the letter / email that if the clients have any objection for the change in the distributor/ARN code, they must write to the respective AMC directly, and that the AMCs will effect the change of distributor/ARN unless they hear to the contrary from the investors within 15 days from the date of the distributor's letter / email.
 - v. Request letter for transfer of assets submitted to the AMCs by the Transferor Distributor shall also contain:
 - a. The reason for the transfer, duly supported by documentary evidence;
 - b. Certification that letters / emails have been sent to all the existing clients intimating them of the change of distributor. A list of all these clients needs to be provided along with sample letter/email for proof of dispatch of letters / email to these clients.
 - vi. Commissions to the Transferee Distributor shall be paid only on the valid assets i.e., where commissions would have been rightfully and legitimately payable to the Transferor Distributor. Payment of commission to the Transferee Distributor on transferred assets should be released only on cancellation of transferor ARN, except for the cases where the transferor distributor becomes a sub-distributor of the transferee distributor in order to service the clients and hence, retains his/ her ARN, as explained under point no. 2 above. Transfer of assets should not be resorted to / used by the distributors as a measure to circumvent any legal/regulatory obligation and/or AMFI guideline / requirements.
 - vii. In case any investors communicate their objection to the transfer of assets/ change of distributor / ARN to either of the distributors (new or old), that distributor must immediately inform the concerned AMC(s).
 - viii. In case there are no objections from any clients, the AMCs will effect the change in the distributor/ARN code, after a cooling off period of 15 days from the date of receipt of distributor's request.
- C.** For all cases under Serial No.2.A.i and 2.A.ii above, the transferee distributor shall be entitled for trail commission on a prospective basis on the valid transferred assets at the same commission rate of the transferor distributor. For all cases under Serial Nos. 2.A.iii above, the transferee distributor shall be entitled for trail commission on a prospective basis on the valid transferred assets, basis the lower of the commission rate (as applicable on the date of transfer) of the transferor and the transferee distributor. Other than the trail commission referred to above, no other payments of any nature whatsoever, including incentives or commissions shall be made on account of the transferred assets on a prospective basis. Commission payment to the Transferee Distributor shall continue to be subject to claw-back provisions as would have been applicable to the Transferor Distributor.

3. Change in Distributor / ARN code due to voluntary cessation of business by a MF distributor

Where a distributor decides to voluntarily discontinue his / her distribution business, the following procedure may be adopted as a best practice and change in distributor code may only be effected upon completion of the requisite formalities:

- i. The distributor shall write to his/her clients, about his/ her distribution business being discontinued and advising the clients that they may opt to change their MF distributor to any another MF distributor of their own choice, for their future service requirements / MF investments. The distributor shall also advise the clients to write to the respective mutual funds about their desire / decision to change in their MF distributor and for inclusion of the new distributor's ARN code in place of the existing distributor's ARN code. The distributor shall submit a copy of the aforesaid communication sent to the clients, along with a list of the clients to the respective AMCs.
- ii. If a distributor's ARN has expired and he/she does not renew the ARN within 3 months, the AMCs may write to clients to choose another distributor for servicing and inform the AMC to change the ARN code in the client's' folios or switch to Direct Plan. Further, if the distributor does not renew the ARN within 6 months after expiry of the validity, the said ARN may be deemed to be cancelled and no fresh business should be accepted / registered under such ARN.



- iii. AMC's shall keep in their records, a copy of the communication sent by the existing distributor to his/her clients, along with a list of such clients /investors.
- iv. AMC's shall, on receipt of letter from the investors communicating a new distributor's code, at any time in future, effect the change of distributor (ARN) code in their records and send a suitable confirmation to the investors. AMC's may pay the commission to the new distributor for such assets which are transferred due to expiration of ARN /cessation of business by a distributor.
- v. Once the distributor / ARN code has been changed in the AMC records, the trail commission thereafter for all business done by the earlier distributor shall be payable to the new distributor prospectively, basis the lower of the commission rate (as applicable on the date of transfer) to the earlier (transferor) distributor and the new (transferee) distributor. Other than the trail commission referred to above, no other payments of any nature whatsoever, including incentives or commissions shall be made on account of the transferred assets on a prospective basis. Commission payment to the new /transferee distributor shall continue to be subject to claw back provisions, as would have been applicable to the previous (transferor) distributor.
- vi. Commission to the new/ transferee distributor shall be paid only on the valid assets i.e., where commissions would have been rightfully and legitimately payable to the previous / transferor distributor.
- vii. The Transfer of assets should not be used by the Distributor as a measure to circumvent any legal/regulatory obligation and/or AMFI guideline / requirements.
- viii. A MF distributor who has stopped his mutual fund distribution business must surrender his ARN to AMFI for cancellation, with a copy of the letter submitted to the AMC(s) (with AMC acknowledgement thereon) as soon as his details are removed from the investors' folios in the AMC's records.

In case of any exceptions to the above best practices, members are advised to refer the same to AMFI for direction / guidance on a case-by-case basis.



Annexure B

Transfer of AUM of a deceased MF distributor to the ARN of the nominee/ legal heir of the deceased

1. For being eligible for transfer of AUM of the of the deceased mutual fund distributor -
 - (a) ARN of the deceased agent / distributor should have been valid on the date of demise of the distributor and his/her commission payment/ ARN should not have been suspended for any reason whatsoever, at the time of his/her demise.
 - (b) the Nominee/ legal heir should have a valid ARN as on the date of request for transfer of AUM and should be KYD compliant. , and should have submitted his/her annual declaration(s) of self-certification (where applicable) due as on the date of request for transfer of AUM. Also, his/ her ARN should not have been suspended by AMFI for any reason whatsoever.
2. Only those assets which were procured by the deceased Agent / Distributor prior to his/her demise and during the validity of his/her ARN can be transferred to the ARN of the nominee/ legal heir.
3. The nominee/legal heir of the deceased distributor needs to submit an application for cancellation of ARN of the deceased distributor to CAMS - AMFI Unit no later than six months from the date of demise of the deceased distributor, along with a copy of death certificate of the deceased distributor duly attested by a Notary or by a gazetted officer and the ARN card of the deceased distributor. On receipt of the above, CAMS will cancel the ARN in the ARN database and intimate all AMCs and RTAs and also send a confirmation to the nominee / legal heir.
4. After receiving the confirmation from CAMS having noted the demise of the deceased distributor and having cancelled his/her ARN, the nominee/legal heir needs to approach the individual AMCs with whom the deceased distributor was empanelled and make an application for transfer of AUM of the deceased the distributor to the ARN of nominee/ legal heir, in accordance with the procedure stipulated in AMFI's Best Practice circular no. 135/ BP/ 78/ 2018-19 dated March 26, 2019 on transfer of AUM from one ARN to another ARN, as may be amended from time to time
5. The nominee/ legal heir of the deceased ARN holder should notify the clients of the deceased ARN holder by way of a letter or email (as explained at point no. II B (iv) of the aforesaid AMFI circular dated 26-Mar-2019) informing them about the proposed change of the distributor/ ARN code, the reason for the same, along with the details of. the new distributor who will be servicing them after transfer of AUM. It must also be highlighted in the letter/email that if the clients have any objection for the change in the distributor/ARN code, they must promptly write to the respective AMC directly; and that the AMCs will effect the change of distributor/ARN unless they hear from the client to the contrary within 15 days from the date of the distributor's letter. A specimen copy of the letter/ email of intimation sent to the clients regarding the change of distributor along with the list of the clients (containing their name, PAN & folio numbers) must be appended to application for transfer of AUM submitted to the concerned AMCs.
6. The AMCs shall process the request for the change in the distributor/ARN code/ transfer of assets to the ARN of the nominee/legal heir, after a cooling off period of 15 days from the date of receipt of distributor's request, except for those specific clients / cases where objections have been received from the clients of the deceased distributor.