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AMFI
GUIDELINES AND NORMS FOR INTERMEDIARIES

AMFI

Association of Mutual Funds in India

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Intermediaries play a pivotal role in promoting sale of mutual fund schemes. AMFI has therefore taken the initiative of developing a cadre of trained professional intermediaries. As the first step AMFI launched the certification programme in association with NSE's Certification in Financial Markets (NCFM) in July 2000 and SEBI has made AMFI Certification compulsory in a phased manner.

Intermediaries consisting of individual agents, brokers, distribution houses and banks engaged in selling of mutual fund products as of now do not have any guidelines or regulatory framework relating to the business of selling Mutual Funds.It is important and necessary that these intermediaries follow professional and healthy practices. AMFI has therefore taken the initiative of framing a broad set of guidelines alongwith a code of conduct.

AMFI working group on Best Practices for sales and marketing of Mutual Funds under the Chairmanship of Shri B. G. Daga, Former Executive Director of Unit Trust of India with Shri Vivek Reddy of Pioneer ITI, Shri Alok Vajpeyi of DSP Merrill Lynch, Shri Nikhil Khattau of Sun F & C and Shri Chandrashekhar Sathe, Formerly of Kotak Mahindra Mutual Fund has suggested formulation of guidelines and code of conduct for intermediaries and this work has been ably done by a sub-group consisting of Shri B.G. Daga and Shri Vivek Reddy. On behalf of AMFI, I record our thanks and appreciation to all the members of the working group especially Shri B.G. Daga and Shri Vivek Reddy. Both of them have devoted considerable time and efforts in formulating AGNI.

It is our request that all the intermediaries make sincere efforts to adhere to the guidelines and the code of conduct so that all those engaged in the business of selling and marketing of mutual fund schemes follow professional, healthy and best practices for the sustained benefit of all concerned - investors, intermediaries and the Mutual Fund industry as a whole.

Place : Mumbai
Date : February 19, 2002

A P KURIAN
CHAIRMAN

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1. ROLE OF INTERMEDIARIES IN THE INDIAN MUTUAL FUND INDUSTRY

1.1 The mutual fund industry in India started in 1964 with the establishment of the Unit Trust of India (UTI). In 1987, other public sector institutions entered this business, and it was in 1993 that the first of the private sector participants commenced its operations.

1.2 From the beginning, UTI and other mutual funds have relied extensively on intermediaries to market their schemes to investors. It would be accurate to say that without intermediaries, the mutual fund industry would not have achieved the depth and breadth of coverage amongst investors that it enjoys today. Intermediaries have played a pivotal and valuable role in popularizing the concept of mutual funds across India. They make the forms available to clients, explain the schemes and provide administrative and paperwork support to investors, making it easy and convenient for the clients to invest.

1.3 Intermediation itself has undergone a change over the past few decades. While individual agents provided the foundation for growth in the early years, institutional agents, distribution companies and national brokers soon started to play an active role in promoting mutual funds. Recently, banks, finance companies, secondary market brokers and even post offices have also begun to market mutual funds to their existing and potential client bases.

1.4 It is, thus clear that all types of intermediaries are required for the growth of the industry, and their well-being, quality orientation and ways of doing business will have a significant impact on how the mutual fund industry in India evolves in the future.

2. GUIDELINES FOR SELLING AND MARKETING MUTUAL FUNDS

<u>Background :</u>

2.1 Investors can purchase and sell mutual fund units through various types of intermediaries-individual agents, distribution companies, national/regional brokers, banks, post offices etc. as well as directly from Asset Management Companies (AMCs).

2.2 Investors of Mutual Funds can be broadly classified into 3 categories :

(i) those who want product information, advice on financial planning and investment strategies.

(ii) those who require only a basic level of service and execution support i.e. delivering and collecting application forms and cheques, and other basic paperwork and post sale activities.

(iii) those who prefer to do it all themselves, including choice of investments as well as the process/paperwork related to investments.

2.3 To cater to different types of investors, the Mutual Fund industry comprising of AMCs and intermediaries at present offers the following two levels of services:

(a) Value added services :-

This includes product information and advice on financial planning and investment strategies. The advice encompasses analyzing an investor's financial goals depending upon the segment of investor, assessing his/her resources, determining his/her risk bearing capacity/preference and then using this information to recommend an asset allocation/specific investment/s that are in tandem with the investor's needs. Investors may also receive information on taxation, estate planning and portfolio rebalancing to remain aware about the changes/developments in market conditions and adjust the portfolios from time to time according to their needs. In such advisory services, the emphasis is on building an ongoing relationship with the investor/s.

In India, given that mutual funds are relatively new, there is a low level of awareness amongst investors about the working and benefits of Mutual Funds. Also, very few investors take an organized approach to financial planning. Therefore, it is clear that the vast majority of investors would benefit significantly from the value-added services enumerated above.

(b) Basic services :-

This includes providing the basic information on schemes launched to investors, assisting them in filling application forms, submission of application forms along with cheques at the respective office/s, delivering redemption proceeds and answering scheme related queries investor/s may have. What investors receive here is convenience and access to mutual funds through agents and employees of brokers who visit them and facilitate the paperwork related to investment.

These services are also given through the branches and front office staff of AMCs and intermediaries. These are transaction-oriented service where investors make the investment decisions themselves, and rely on the AMC and intermediary mostly for execution and logistics support.

Recommendations

2.4 While institutions can continue to be serviced by AMCs and intermediaries, it is proposed that AMCs and the intermediary community focus more on individual investors and take every effort to:

(a) provide high quality advice and product information to such customers.

(b) explain and position this service in such a way that clients recognize it as a specialized and value added service, a task which may be difficult to accomplish on their own.

(c) convince investors that the transaction and intermediation cost they are paying is justified in lieu of the long-term benefits accruing from such counseling and guidance.

2.5 The Mutual Fund industry has to now take the more difficult but long-term sustainable route of gathering assets from individual investors by providing them value added, financial planning services and ensuring that Mutual Funds are an integral part of their overall portfolio. Only if this happens will AMCs and intermediaries command higher margins and levels of profitability, and not suffer from the low margins associated with dispensing only basic types of service/s.

2.6 While doing this, the mutual fund industry in India should take care to ensure that:

(a) each investor, institutional or individual, receives the exact level of service they choose and correct advice based on clear and concrete facts and figures. Correspondingly, the intermediation and transaction cost investors incur should reflect the value of the service and advice they receive.

(b) Mutual Funds are accurately represented and appropriately positioned to investors, whichever channel or mode they choose to invest in. The industry should safeguard the investor's right towards correct description of the product, good service, transparency and ability to take informed decisions.

(c) there is comprehensive knowledge and understanding of Mutual Funds amongst all individuals instrumental in selling the Mutual fund schemes to investors including employees of intermediaries, Individual agents and financial planners.

2.7 The AMFI Certification is designed to be a professional qualification that provides intermediaries with a thorough understanding of mutual funds and how to present them appropriately to clients. The AMFI certification is needed both for individuals and corporate distributors. The certification is required for all individuals selling and representing mutual funds to clients, whether they are employees of an intermediary organization or they are an individual financial planner/agent.

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3. CODE OF CONDUCT FOR INTERMEDIARIES

3.1 Take necessary steps to ensure that the clients' interest is protected.

3.2 Adhere to SEBI Mutual Fund Regulations and guidelines issued from time to time related to selling, distribution and advertising practices. Be fully conversant with the key provisions of the Scheme Information Document (SID), Statement of Additional Information (SAI) and Key Information Memorandum (KIM) as well as the operational requirements of various schemes.

3.3 Provide full and latest information of schemes to investors in the form of SID, performance reports, fact sheets, portfolio disclosures and brochures and recommend schemes appropriate for the client's situation and needs.

3.4 Highlight risk factors of each scheme, avoid misrepresentation and exaggeration and urge investors to go through SID/KIM before deciding to make investments.

3.5 Disclose to the investors 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.

3.6 Abstain from indicating or assuring returns in any type of scheme, unless the SID is explicit in this regard.

3.7 Maintain necessary infrastructure to support the AMCs in maintaining high service standards to investors and ensure that critical operations such as forwarding forms and cheques to AMCs/registrars and despatch of statement of account and redemption cheques to investors are done within the time frame prescribed in the SID/SAI and SEBI Mutual Fund Regulations.

Note SID should be read in conjunction with SAI and not in isolation.

3.8 Avoid colluding with clients in faulty business practices such as bouncing cheques, wrong claiming of dividend/ redemption cheques, etc.

3.9 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 find investments to earn higher commissions, even if they mean higher transaction costs and tax for investors.

3.10 Avoid making negative statements about any AMC or scheme and ensure that comparisons if any, are made with similar and comparable products.

3.11 Ensure that all investor related statutory communications (such as changes in fundamental attributes, load, exit options and other material aspects) are sent to investors reliably and on time.

3.12 Maintain confidentiality of all investor deals and transactions.

3.13 When marketing various schemes, remember that a client's interest and suitability to their financial needs is paramount, and that extra commission or incentive earned should never form the basis for recommending a scheme to the client.

3.14 Intermediaries will not rebate commission back to investors and avoid attracting clients through temptation of rebate/gifts etc.

3.15 A focus on financial planning and advisory services ensures correct selling, and also reduces the trend towards investors asking for passback of commission.

3.16 All employees engaged in sales and marketing should obtain AMFI certification. Employees in other functional areas should also be encouraged to obtain the same certification.

<u>Sequence of steps in the Event of Breach of Above "Code of Conduct" by the Intermediary</u>

If any breach of the above Code of Conduct for intermediary is reported to AMFI by either an investor or an AMC in writing, then AMFI will initiate the following steps:

- Write to the intermediary (enclosing copies of the complaint and other documentary evidence) and ask for an explanation within a time limit of 3 weeks.
- In case an explanation is not received within the time limit, or the explanation is not satisfactory, AMFI will issue a warning letter indicating that any subsequent violation will result in cancellation of AMFI Registration.
- If there is a proved second violation by the intermediary, the registration will be cancelled and an intimation sent to all AMCs.

The intermediary will have a right of appeal to AMFI.

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