FOUNDATION OF INDEPENDENT FINANCIAL ASSOCIATES
Formerly known as Foundation of Independent Financial Advisors

Date: April 15, 2025

Mr. Venkat Nageswar Chalasani
The Chief Executive Officer
Association of Mutual Funds in India (AMFI)
13th Floor, One BKC, A Wing
Bandra Kurla Complex
Bandra (East), Mumbai - 400051

Subject: Misuse of Best Practices Guidelines Circular No.112 / 2023-24 Regarding Payment of Commission upon Change of MFD at Investor's Request

Dear Sir/Madam,

On behalf of the **Foundation of Independent Financial Associates (FIFA)**, we wish to bring to your attention the concern expressed by our members regarding the growing misuse of **AMFI Best Practices Guidelines Circular No.112 / 2023-24**, which allows for the **payment of commission to a new distributor where the change of Mutual Fund Distributor (MFD) is initiated by the investor**.

While we understand and respect the intention behind this circular—to empower investor choice—the regulation is unfortunately being **exploited by certain Mutual Fund Distributors who have turned this into a business model** centered around offering inducements to clients for transfer of assets, rather than genuine investor interest.

FIFA members from across **Tier 1 to Tier 4 cities** have brought to our notice that:

- Clients are being **enticed to shift their mutual fund holdings** under a new ARN through **monetary incentives**, including **cash pay-outs, purchase of white goods, payment for travel tickets**, and other material benefits.
- These offers are **shared openly by clients with their current distributors**, causing distress and a loss of trust in the fairness of the distribution framework.
- **Ex-employees of AMCs and banks** have also been observed engaging in such activities, leveraging prior networks to garner AUM by luring clients under this model.

While we acknowledge that such practices are difficult to substantiate with hard evidence, there are some FIFA members who have been able to collect **written statements or letters from clients** that can serve as **indicative proof**. We believe that a **focused investigation by AMFI**, in collaboration with AMCs, could bring to light the extent of this malpractice and the MFDs involved.

At FIFA, we believe in maintaining the **integrity of the distribution ecosystem** and recognize that this circular was issued with the right intent. However, its **current application is not aligned with the best practices** and is **being exploited in a manner that is detrimental to the industry's long-term health and credibility.**

Under the regulations, the Investors and Mutual have a principal to principal relationship and MFDs are agents acting on behalf of the AMC. We believe there is also onus on the AMC of ensuring that any change of Broker (agent of AMC) should be only on reasons of non-service/in adequate service by the current MFD and not based on any financial inducements.

In view of the above, we respectfully urge AMFI to:

1. **Initiate an investigation** into the misuse of Circular No.112 / 2023-24, especially in regions and segments where such complaints are being widely reported.
2. **Consider suspending or reversing this circular**, as the misuse has far outweighed its intended benefits, and its implementation is not adhering to the spirit in which it was introduced.
3. **Re-evaluate and possibly redesign the framework** for MFD changes and commission pay-outs to ensure transparency, fairness, and prevention of unethical inducements.
4. **Issue strict guidelines and enforcement mechanisms** to discourage the practice of offering material benefits for asset transfers.

We are happy to engage further on this issue and provide examples, data points, or member testimonies if required. We strongly believe that timely intervention by AMFI can help curb this malpractice and preserve the trust that investors and distributors place in our mutual fund ecosystem.

Thank you for your continued efforts in promoting ethical practices and investor protection.

Warm regards,

Dhruv Mehta

Chairman