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

FIFA

Date: 19th June, 2024

To,
Mr. Venkat Nageswar Chalasani,
Association of Mutual Funds in India
C-701 Naman Corporate Link,
Plot Nos. C-31 / C-32, G Block,
Bandra Kurla Complex, Bandra – East,
Mumbai – 400 051.

Re: AMFI Best Practices Guidelines Circular 112 /2023-24 dated March, 05th 2024

Sub: Payment of Commission to new distributor where change of MFD is done at the request of investor.

As per AMFI Best Practices Guidelines circular no.15 dated May 07, 2010, upon change of distributor / ARN Code and transfer of AUM from one distributor to another distributor made on the request of the investor, the trail commission in respect of transferred assets is not to be paid to old distributor as well as the new distributor. The amount of commission so saved be accounted for separately and utilised for purpose of education of investor.

On behalf of the mutual fund distributor (MFDs) community and our members, we would like to thank AMFI members and the AMFI ARN Committee for favorably considering the long-standing request of the distribution community for payment of commission to the new distributor in case change of distributor initiated by the Investor.

The guidelines have been revised as under:

1. In respect of change of distributor / ARN code initiated by the investor, the AMCs may consider making payment of trail commission to the transferee distributor after a cooling off period of six months from the date of change of distributor code in the Unitholder database. If the distributor code is changed back to the original ARN code within the cooling off period of 6 months, then the cooling off period of further 6 months shall restart from such date of change of distributor code.

2. The payment of commission to the new (transferee) distributor shall be based on the lower of the commission rate (as applicable on the date of change of distributor code) of the transferor and 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 change of distributor code, on a prospective basis.

There is some ambiguity on the implementation of the circular.

(A) EFFECTIVE DATE:

The circular is issued on 5th March and should be effective from that date which should mean that all the cases of change in broker code which have completed the cooling off period by 5th March 2024 the trail commission should be paid to the new distributor.

We have been given to understand that the payment of commission to the transferee distributor will be granted only in respect of those cases where the change of broker has been affected after 5th March, 2024 thus implying that in case of assets thus transferred before the date of the letter, the distributor will not be entitled to receive trail commission on such AUM. This, despite the fact and acknowledgement of the ARN committee that the mutual fund distributor (MFD) provides the same level of support and service to the concerned investors on the transferred assets.

This being the case, there appears no justifiable reason to not pay trail commissions on the assets thus transferred before the date of the letter

In case of broker code changes effected before 5th March 2024 we humbly suggest that the brokerage be paid once the cooling off period is over.

(B) COOLING OFF PERIOD:

One of the conditions in the said letter provides that the payment of commission to the MFD will be only on the AUM remaining with transferee distributor after a period of 6 months from the date of change of broker, therein referred to as the cooling off period. Further in a situation where the investor decides to transfer his AUM back to the original MFD (ARN holder) then the said cooling off period will start once again from that date.

It is being submitted that the transferee distributor provides support and service to the investor from day1 and does not wait for a period of 6 months before providing service and hand holding the investor.

In the case of certain transactions, like insurance policies, addition of payee for online banking transactions, change of address, change of bank mandates etc. at times a cooling off period is mandated but in case of such a transaction where the investor himself has mandated a change of distributor there seems to be no justifiable reason as to why a cooling off period of 6 months is mandated.

In case of insurance policy issuances there is a cooling off period mandated during which the insured person can revoke the transaction without any loss. However, in case of investments in mutual funds has no such provision even at the time of first investment by the investor. How then *is it justifiable to have a cooling off period of 6 months in the case of a change of distributor by the* investor himself?

The only reason could be to avoid fraudulent Change of Broker code, done without investor being aware and for this a period of one or two months is sufficient.
The other ambiguity is on the commission in respect of the cooling off period.

Once the cooling of period is over, we believe it is but fair that the commission related to the cooling of period should also be paid to the new distributor as he is providing services during this period to investor an should be compensated for the same. We have been given to understand that *Commission in respect of the cooling off period would not be payable to the new distributor.*

(C) RATE OF COMMISSION:

It is also prescribed that "the payment of commission to the new (transferee) distributor shall be lower of the commission rate of the transferor and the transferee distributor."

We believe that prescribing lower rates is a restrictive trade practice: The rate should be decided by the respective AMC and it should be free to set lower or a higher rate within the SEBI guidelines.

We also request an opportunity to put our point of view before you and deliberate the matter under discussion. We request any early date and time convenient to yourselves.

With kind regards,

Dhruv Mehta
Chairman