

DEPUTY GENERAL MANAGER
INVESTMENT MANAGEMENT DEPARTMENT
SEBI/IMD/CIR No. 4/ 168230/09
June 30, 2009

**All Mutual Funds, Asset Management Companies
and Association of Mutual Funds in India (AMFI)**

Madam/ Sir,

**Sub: Mutual Funds- Empowering investors through transparency in payment of
commission and load structure**

1. SEBI has been taking various steps to empower the investors in mutual funds by way of more transparency in the loads borne by the investor so that the investor can take informed investment decisions. Towards this end, SEBI had earlier abolished initial issue expenses and mutual fund schemes were allowed to recover expenses connected with sales and distribution through entry load only. Further, investors making direct applications to the mutual funds were exempted from entry load.

2. In terms of existing arrangement, though the investor pays for the services rendered by the mutual fund distributors, distributors are remunerated by Asset Management Companies (AMCs) from loads deducted from the invested amounts or the redemption proceeds. SEBI (Mutual Funds) Regulations, 1996 also permit AMCs to charge the scheme (under the annual recurring expense) for marketing and selling expenses including distributor's commission.

3. Further, all loads including Contingent Deferred Sales Charge (CDSC) for the scheme are maintained in a separate account and this amount is used by the AMCs to pay commissions to the distributors and to take care of other marketing and selling expenses. It has been left to the AMCs to credit any surplus in this account to the scheme, whenever felt appropriate. In order to incentivise long term investors it is considered necessary that exit loads/CDSCs which are beyond reasonable levels are credited to the scheme immediately.

4. In order to empower the investors in deciding the commission paid to distributors in accordance with the level of service received, to bring about more transparency in payment of commissions and to incentivise long term investment, it has been decided that:

- a) There shall be no entry load for all mutual fund schemes.
- b) The scheme application forms shall carry a suitable disclosure to the effect that the upfront commission to distributors will be paid by the investor directly to the

distributor, based on his assessment of various factors including the service rendered by the distributor.

c) Of the exit load or CDSC charged to the investor, a maximum of 1% of the redemption proceeds shall be maintained in a separate account which can be used by the AMC to pay commissions to the distributor and to take care of other marketing and selling expenses. Any balance shall be credited to the scheme immediately.

d) The distributors should disclose all the commissions (in the form of trail commission or any other mode) payable to them for the different competing schemes of various mutual funds from amongst which the scheme is being recommended to the investor.

Applicability

5. This circular shall be applicable for

- a. Investments in mutual fund schemes (including additional purchases and switch-in to a scheme from other schemes) with effect from August 1, 2009 ;
- b. Redemptions from mutual fund schemes (including switch-out from other schemes) with effect from August 1, 2009 ;
- c. New mutual fund schemes launched on and after August 1, 2009; and
- d. Systematic Investment Plans (SIP) registered on or after August 1, 2009.

6. AMCs shall follow the provisions pertaining in clause 5(2)(b) of SEBI Circular SEBI/IMD/CIR No. 5/126096/08 dated May 23, 2008 regarding updation of Scheme Information Document (SID) and Key Information Memorandum (KIM) in this respect.

7. The AMCs shall bring the contents of this circular to the notice of their distributors immediately and monitor compliance.

8. 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,

Ruchi Chojer

DEPUTY GENERAL MANAGER
INVESTMENT MANAGEMENT DEPARTMENT

SEBI / IMD / CIR No. 8 / 174648 / 2009
August 27, 2009

All Mutual Funds, Asset Management Companies (AMCs)
and Association of Mutual Funds in India (AMFI)

Sir / Madam,

Sub: Code of Conduct for Intermediaries of Mutual Funds

1. Please refer to the SEBI circular MFD/CIR/06/210/2002 dated June 26, 2002 on the captioned subject.
2. In order to make the offer document more reader friendly SEBI vide circular SEBI/IMD/CIR No. 5/126096/08 dated May 23, 2008 split the offer document into two parts i.e Statement of Additional Information (SAI) and Scheme Information Document (SID). Further SEBI vide circular SEBI/IMD/CIR No. 4/ 168230/09 dated June 30, 2009 in order to empower the investors through transparency in payment of commission and load structure, has mandated that the distributors shall disclose all the commissions (in the form of trail commission or any other mode) payable to them for the different competing schemes of various mutual funds from amongst which the scheme is being recommended to the investor.
3. In furtherance of the above objectives and to effect necessary changes, AMFI has now revised the existing code of conduct for the mutual funds intermediaries i.e. agents and distributors, a copy of which is enclosed.
4. It is advised that all intermediaries of mutual funds units shall follow the code of conduct strictly. If any intermediary does not comply with the code of conduct, the mutual fund shall report it to AMFI and SEBI. No mutual fund shall deal with those intermediaries who do not follow code of conduct.
5. 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,

Ruchi Chojer

CODE OF CONDUCT FOR INTERMEDIARIES OF MUTUAL FUNDS

1. Take necessary steps to ensure that the clients' interest is protected.
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. 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.
4. Highlight risk factors of each scheme, avoid misrepresentation and exaggeration and urge investors to go through SID/ KIM before deciding to make investments.
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.
6. Abstain from indicating or assuring returns in any type of scheme, unless the SID is explicit in this regard.
7. Maintain necessary infrastructure to support the AMC's in maintaining high service standards to investors, and ensure that critical operations such as forwarding forms and cheques to AMC's/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.

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

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

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

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

12. Maintain confidentiality of all investor deals and transactions.

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.

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

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

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.