



## Code of Conduct for MFDs

### I. Background:

- a. As per clause 15.6 of SEBI Master circular for Mutual Funds<sup>27</sup>, it is mandatory for all MFDs to follow the provisions of SEBI (Mutual funds) Regulations and guidelines with specific focus on regulations/guidelines on advertisements/sales literature and code of conduct.
- b. Further, vide clause no. 15.6.2, SEBI has mandated that all intermediaries shall *strictly abide by the Code of Conduct for Mutual Fund Distributors prescribed by AMFI* and not indulge in any practice contravening it directly or indirectly
- c. The SEBI has stipulated under clause 15.6.1 of the Master Circular that AMCs shall monitor the activities of their distributors so that they do not indulge in any kind of malpractice or unethical practice while selling/marketing mutual funds units. SEBI has further stipulated that if any distributor does not comply with the AMFI code of conduct, the AMC shall (i) report it to AMFI and SEBI, and (ii) not deal with such distributors who do not follow the AMFI code of conduct.
- d. The AMFI Code of Conduct for MFDs was first issued in the year 2002 and was revised in the year 2009 and again in the year 2013, pursuant to regulatory reforms introduced by SEBI vide SEBI circular dated September 13, 2012 and introduction of SEBI Investment Advisers Regulations, 2013.
- e. In the year 2022, the code of conduct was freshly reviewed and revised to enhance governance standards and align the same with the changes in the eco-system, based on the recommendations of AMFI's Standing Committee on Certified Distributors ("ARN Committee"), after incorporating certain modifications therein based on the deliberations by the Mutual Funds Advisory Committee (MFAC) of SEBI as advised by SEBI vide letter no. SEBI/HO/IMD/IMD-I DOF5/P/OW/ 2022/14567/1 dated April 04, 2022. The revised Code of Conduct for MFDs is appended in Section B hereinbelow.

### II. Code of Conduct for Mutual Fund Distributors<sup>28</sup>

#### A. Purpose and Scope of the Code

- a. This Code of Conduct ("**Code**") requires Mutual Fund Distributors to demonstrate the core values of being a fiduciary by establishing professional standards in their dealings with the investors, Asset Management Companies ("**AMCs**"), and other distributors so as to exemplify the values of transparency, competency, fairness, integrity and thereby seek to inspire and maintain trustworthiness in the profession of distribution of Mutual Fund schemes.
- b. This Code applies to all persons and entities who are registered with the Association of Mutual Funds in India (AMFI) as mutual fund distributors i.e. holders of AMFI Registration Number ("**ARN**") (referred to as "**MFDs**" in this Code) and is binding on all the Directors/partners, members, sub-distributors, employees and representatives of the MFDs (collectively referred to as "**Representatives**" in this Code). The term "MFDs" is deemed to include the sales personnel of the MFDs engaged in marketing, sale and distribution of mutual fund products.

#### B. Obligations of the MFDs

##### 1. Fiduciary Duty

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<sup>27</sup> Cf. SEBI circular no. MFD/CIR No.10/310/01 dated September 25, 2001

<sup>28</sup> CIR/ ARN-22a/ 2022-23 dated April 07, 2022.



- a. MFDs must consider investor's interest as paramount and exercise due diligence, take proper care and exercise independent professional judgment in the best interest of the investor.
- b. MFDs should try to avoid conflict of interest as far as possible, and when it cannot be avoided, they shall ensure that appropriate disclosures are made to the investors, and that the investors are treated fairly. Further, while selling Mutual Fund products of their group/affiliate/associates, MFDs shall make appropriate disclosures to the investors regarding the conflict of interest arising from distribution of such Mutual Fund scheme.
- c. MFDs shall ensure that financial incentive should not form the basis for recommending any particular scheme or transaction to any investor. MFDs shall promote a culture of ethics and integrity within the organization, so as to dissuade unfair practices, conflicts, aggressive sales tactics and other inappropriate conduct directed to achieve sales targets in disregard of its fiduciary duty of care, diligence and loyalty.
- d. MFDs shall not rebate or pass-back commission to investors and shall refrain from attracting investors through inducement of rebate or gifts / gift-vouchers etc.
- e. MFDs shall not collude or undertake malpractices such as:
  - (i) encouraging over transacting and churning of investments to earn higher commissions.
  - (ii) splitting applications to earn higher transaction charges / commissions.
  - (iii) participating in payment defaults (such as dishonouring of cheques) or diversion of funds.
  - (iv) making false claims for or participating in wrongful dividend / redemption payouts.
  - (v) carrying out unethical practices such as churning, selling unsuitable products to clients, selling of units of schemes of any mutual fund, directly or indirectly, by making false or misleading statements, concealing or omitting material facts of the scheme, concealing the associated risk factors of the schemes, etc.

## 2. Compliance related obligations

- a. MFDs shall adhere to Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 ("**Mutual Fund Regulations**") and guidelines/circulars issued by Securities and Exchange Board of India ("**SEBI**") and AMFI, from time to time, pertaining to distributors, selling, distribution and advertising practices (including the preparation of sales promotional literature and content) and code of conduct. Performance disclosures should also comply with the requirements specified by SEBI. MFDs must also adhere to restrictions prescribed under other SEBI Regulations as may be applicable to their marketing, selling and distribution activities, for example, obligation on segregation of distribution and advisory services mandated under SEBI (Investment Advisers) Regulations, 2013.
- b. MFDs shall comply with the Know Your Distributor ("**KYD**") norms prescribed by AMFI. MFDs shall be diligent in attesting / certifying investor documents and performing In-Person Verification ("**IPV**") of investors for the KYC process in accordance with the guidelines prescribed by AMFI / KYC Registration Agency ("**KRA**") from time to time.
- c. MFDs should endeavor to 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 and should explain to the investors the key features (including fundamental attributes) of the schemes and any risk associated therein.



- d. In order to assess suitability of the Mutual Fund scheme being marketed, the MFDs should seek information from their clients about their financial status, investment experience and investment objectives.
- e. MFDs shall ensure that their Representatives have the necessary education and experience to perform their respective services.
- f. MFDs and their Representatives shall maintain confidentiality of all information relating to the AMC and investors, and shall not:
  - (i) share or publish such information in any private or public forum without prior written consent of the concerned AMC/investor
  - (ii) share or make any disclosure to any third party except pursuant to any filings or disclosures as may be required under applicable law or order of any court or regulatory body.
  - (iii) share data with Group Companies for cross marketing.

MFDs and their Representatives shall comply with the Data Sharing Principles prescribed by AMFI and the applicable laws on Personal Data Protection.

- g. MFDs shall adhere to contractual agreements with AMC relating to data privacy to ensure that the data is always protected, used only for the purpose for which it was obtained and purged as soon as the data is no longer required to be stored for rendering services for which it was collected or stored securely.
- h. MFDs shall ensure that they and their sub-distributors are compliant with SEBI regulations, AMFI guidelines and code of conduct at all times and also that all their sub-distributors have a valid ARN. In other words, principal MFD should not engage or continue to engage a sub-distributor whose ARN is rendered invalid.

### 3. Infrastructure, record keeping and other related obligations

- a. **Physical Infrastructure:** MFDs should maintain necessary infrastructure to support the AMCs in maintaining high service standards to investors and ensure that critical operations such as forwarding /submission of forms and cheques etc. to AMCs/RTAs are appropriately supported.
- b. **Digital Infrastructure:** In view of increased initiatives towards digitization of mode of performance of services, including new client on-boarding, transaction processing and ongoing servicing for investors, MFDs should adopt adequate information technology related infrastructure, including in relation to cyber security measures to maintain confidentiality of electronic data during collection, transmission and storage as well as to mitigate risks related to execution of Mutual Fund transactions through digital platforms.
- c. **Internal control, financial and operational resources:** The MFDs should have internal control procedures and financial and operational systems and processes which can be reasonably expected to detect and prevent mis-selling as well as mitigate financial loss arising from fraud and other dishonest acts, professional misconduct or omissions, theft, or force majeure events. MFDs are encouraged to take up appropriate insurance coverage for their activities.
- d. **Record keeping:** MFDs should maintain adequate records in relation to clients, whether in physical or digital form, as applicable, in compliance with the applicable laws and SEBI



regulations, including KYC records as well as correspondence with the investors on particular scheme or transaction suitability and consent/dissent of the investors.

#### **4. Client related obligations**

- a. MFDs shall provide full and updated information on schemes, as provided to them by the AMC, to the investors including SAI, SID, addenda, performance reports, fact sheets, portfolio disclosures and brochures. MFDs shall not deliberately withhold or omit any material fact or information supplied to them by the AMC from any investor that the investor should know or may want to know, including information about particular scheme or transaction not being appropriate for the investor.
- b. MFDs shall highlight risk factors of each scheme to their investors, desist from making any misrepresentation or exaggerated statements or conceal associated risk factors of a scheme and shall advise and urge their investors to go through SAI/SID/KIM before deciding to make investments.
- c. MFDs shall disclose to the investors all material information including all commissions (in the form of trail commission or any other mode) received or receivable by them for the different competing schemes of various Mutual Funds from amongst which the scheme is being recommended to the investor.
- d. MFDs shall disclose to their clients the list of mutual funds they are affiliated with and inform to the clients that the information provided is limited to the mutual fund products that are being distributed/promoted by the MFDs and also inform the clients that the clients may also consider other alternate products, which are not being offered by the MFDs before making investment decision.
- e. If the MFD is an associate/group company/ sponsor of AMC of a mutual fund, the MFD shall, while providing suggestions to investor, disclose all material information about its association with the concerned AMC and the total amount of commission received/receivable.
- f. In terms of SEBI letter no. SEBI/IMD1/DoF-1/SK/2021/25517/1 dated September 06, 2021, MFDs cannot deal in Direct Plans. MFDs shall ensure that on any digital platform provided by MFD for offering investment facility to investor, it is categorically disclosed that the scheme the investor is subscribing to is of Regular Plan which involves payment of commission to MFD. The link for the rate of commission received or receivable by the MFD for the different competing schemes of various Mutual Funds shall be prominently displayed on the platform indicating the same as a hyperlink. Further, a link to the scheme offer documents (SID/SAI/KIM) shall also be prominently displayed on the concerned page.
- g. MFDs shall (i) not provide any indicative portfolio or indicative yield or indicative return for any particular scheme or transaction and (ii) abstain from indicating or assuring returns for any particular scheme or transaction.
- h. MFDs engaged in providing other financial services in addition to distribution of mutual fund products, where other financial products with assured return are being offered to clients, MFDs and their employees shall ensure that they do not mis-sell mutual fund products on the basis of indicative or assured return or regular income to the customers seeking to make investments. It



shall be explained to the clients that MF investments are not guaranteed or assured return products and that the principal amount may be exposed to risk of loss.

- i. To prevent submission of fraudulent, incomplete, tampered or incorrect forms or applications, MFDs shall set up adequate training and processes to ensure that:
  - (i) information in the application forms (including address and contact details) is filled diligently with the investor's own, accurate and complete information. Whether requested by the investor or not, the contact details / information of the MFDs' Representatives or any other third party is not filled in the application forms, so as to pass-off as the information relating to the investor;
  - (ii) any additions, revisions to the investor's contact details / information is done only upon receipt of such information from the investor or the investor's authorized person,
  - (iii) application forms submitted by the investor are not tampered with, whether by inserting, deleting or modifying any information / field in the application forms,
  - (iv) EUIN of the concerned employee of the MFD is written on the application forms for identification.
- j. MFDs shall endeavour to resolve investor grievances/ complaints arising out of marketing, sale and distribution activities and shall provide complete assistance to the AMC for redressal of grievances/ complaints.
- k. MFDs shall use marketing material as is provided to them by the AMCs and shall not design their own marketing materials in respect of any scheme or display the name, logo, mark of any AMC without the prior written approval of the AMC.
- l. MFDs shall draw attention of their clients to the disclosures made in the SID/SAI/ /KIM relating to general risks of investing through mutual fund schemes as well as scheme specific risks such as (i) returns being subject to market risk including loss of capital on account of market volatility, force majeure events, changes in political and economic environment, default by issuers of securities to mutual funds, bankruptcy or insolvency of issuers and potential segregation of portfolio by AMC in such circumstances; (ii) suspension of redemption facility in case the scheme faces liquidity crisis; (iii) risks associated with subscription to new fund offering of the scheme such as price volatility risk, liquidity risk and delisting risk; (iv) winding up of schemes on account of illiquid instruments, higher volume of redemption requests from the investors or on account of unforeseen market events.
- m. MFDs shall ensure that comparisons, if any, are made with similar and comparable schemes/ products along with complete facts.

## **5. Other obligations**

- a. Individual MFDs shall obtain NISM certification and register themselves with AMFI and obtain ARN and Employee Unique Identification Number (EUIN) from AMFI. The NISM certification and AMFI registration shall be renewed on a timely basis. Non-individual MFDs shall register themselves with AMFI and obtain the ARN, and shall ensure that their sales personnel or Representatives engaged in marketing, sale and distribution of mutual fund products hold a valid NISM certificate and AMFI registration / EUIN. Employees of the MFD in other functional areas



should also be encouraged to obtain appropriate NISM certification. MFDs shall quote a valid ARN and EUIN in the client's application / transaction feed, in order to place transactions in Regular Plan and receive commissions

- b. MFDs shall ensure that their Representatives undergo training on proper conduct for their sales, marketing and distribution activities and focusing on (i) awareness and understanding of their fiduciary obligations towards investors, (ii) adequate procedures to be followed in performance of their functions so as to prevent and detect any frauds and errors, and (iii) responsible usage of social media platform with respect to content standards, authenticity and approval for the information, frequency of usage and other ethical practices.
- c. MFDs shall co-operate with and provide assistance to AMCs, AMFI, SEBI, competent authorities, due diligence agencies appointed by AMFI/AMCs (as applicable) in relation to their services to the AMCs including by providing copies of relevant documents of the investors in their possession as may be required by AMCs from time to time or as may be called for by SEBI/AMFI / competent authority pursuant to any investigation or other proceeding.
- d. MFD shall promptly intimate the AMC and AMFI any change in the MFD's status, constitution, address, contact details or any other information provided at the time of obtaining ARN.
- e. MFDs shall refund to the AMCs, (either by set off against future commissions or by payment) all incentives of any nature, including commissions received, that are subject to clawback as per SEBI regulations or the terms and conditions issued by the respective AMC.
- f. MFDs shall immediately notify the AMC and AMFI, in writing, if any of its Representatives has committed any act amounting to moral turpitude, financial irregularities or has been arrested by the police or whose employment/service has been terminated on account of any of the aforesaid bad acts.
- g. Pursuant to Regulation 3 (3) of the SEBI (Investment Advisers) Regulations, 2013, MFDs shall not use terms such as Adviser / Advisor / Financial Adviser/ Investment Adviser/ Wealth Adviser/Wealth Manager/Wealth Managers, Consultant/s, etc. or any other similar name in their name, unless registered with SEBI as an Investment Adviser. The name of an MFD should reflect the registration held by the entity and should not in any way create an impression of performing a role for which the entity is not registered. The registered name of the MFD shall not contain any misleading phrase about the role of the entity. Thus, every MFD, while dealing in distribution of mutual fund schemes/products, should clearly specify to the client that he /she is acting as a MFD.

MFDs shall mention/display a tagline, "AMFI-registered Mutual Fund Distributor" along with/below their name and ARN Code, in a clear and legible font of at least font size 12, in all forms of printed communication. MFD shall display their name and tagline in a clear and legible font in all forms of communication i.e., website, mobile app, printed or electronic materials, business card, sign board etc.

## **6. Obligations towards integrity of the Mutual Fund industry**

- a. MFDs shall not indulge in fraudulent or unfair trade practices of any kind while marketing, selling or distributing any Mutual Fund scheme. MFDs and their Representatives must observe high

standards of integrity and consistently conduct their dealings in a manner to uphold the professional image of the Mutual Fund industry.

- b. MFDs, shall refrain from making false or defamatory statements about any AMC, AMFI, Mutual Fund schemes or other MFDs in any private or public forum (including chat groups, social media, print or electronic press, conferences etc.). MFDs shall maintain professional decorum, provide fair and balanced perspective and not participate in transmitting untrue statements or rumours so as to malign any AMC or Mutual Fund scheme or bring disrepute to any AMC, AMFI or the Mutual Fund industry. Any written or oral communication should be based on facts and be presented in an unbiased manner so as not to mislead the public.

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