DEPARTMENT OF COMMERCE AND FINANCIAL STUDIES

BHARATHIDASAN UNIVERSITY

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MBA (Financial Management)

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Course Name :Mutual Fund

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Scheme of Presentation
UNIT-III

- **Role of Mutual Fund Distributors**
- **Different Kinds of Mutual fund Distributors**
- **Modes of Distribution of Mutual Funds**
- **Pre-requisites to become a Distributor of a Mutual Fund**
- **Revenue for a Mutual Fund Distributor**
- **Commission Disclosure mandated by SEBI**
- **Benefits of Commission Disclosure**
- **Due Diligence Process by AMCs for Distributors of Mutual Funds**
- **Difference between distributors and Investment Advisors**
- **Nomination facilities to Agents/Distributors and payment of commission to Nominee**
- **Change of Distributors**

MUTUAL FUND

Role of Mutual Fund Distributors

Advisory Services: Distributors provide investment advice tailored to individual clients' financial goals, risk tolerance, and investment preferences. They help investors select mutual funds that align with their objectives.

Product Placement: They facilitate the purchase and sale of mutual fund units on behalf of investors. This includes executing transactions and ensuring proper documentation.

Client Relationship Management: Distributors maintain ongoing relationships with their clients, offering updates on fund performance, market conditions, and any relevant changes in the mutual fund industry.

Educational Role: They educate investors about mutual fund products, including their features, risks, and benefits. This helps investors make informed decisions.

Regulatory Compliance: Distributors ensure that all transactions and advice comply with regulatory requirements, which helps protect both the investor and the integrity of the financial system.

Post-Sales Support: They offer support services such as handling queries, processing redemption requests, and providing assistance with account management.

Importance of Mutual Fund Distributors

Accessibility: Distributors provide access to a wide range of mutual funds from various fund houses, making it easier for investors to diversify their portfolios.

Personalized Service: They offer personalized advice and recommendations, which can be more valuable than generic information available online. This tailored approach helps investors achieve their financial goals more effectively.

Convenience: Distributors handle the administrative aspects of investing, such as filling out forms and processing transactions, saving investors time and effort.

Market Insights: They offer valuable market insights and updates that can help investors make better decisions and stay informed about market trends.

Professional Expertise: Distributors often have expertise and experience in the financial markets, which can enhance the quality of investment advice and help investors navigate complex investment options.

Trust and Confidence: By working with a reputable distributor, investors can feel more confident in their investment choices and in the management of their portfolios.

Different Kinds of Mutual fund Distributors:

1. Independent Financial Advisors (IFAs)

- **Description**: Independent individuals or firms that offer mutual funds from various asset management companies (AMCs). They provide personalized investment advice based on an investor's risk profile, financial goals, and preferences.
- **Target Audience**: Retail investors seeking customized advice and services.
- **Compensation**: They earn commissions from AMCs.

2. Banks

- **Description**: Large financial institutions often distribute mutual funds as part of their wealth management services. Many banks have partnerships with specific AMCs to offer a range of mutual fund products.
- **Target Audience**: Clients looking for convenient investment options, often with other banking services.
- **Compensation**: They earn commissions from AMCs, and may also charge service fees to clients.

Different Kinds of Mutual fund Distributors:

3. National Distributors

- **Description**: Large, well-established firms (such as NJ India Invest, Prudent, and Bajaj Capital) with a nationwide presence that distribute mutual funds through their networks. These distributors often have branches across the country and offer a wide range of financial products beyond just mutual funds.

- **Target Audience**: Mass retail investors and high-net-worth individuals (HNIs).

- **Compensation**: They earn commissions from AMCs based on sales volume.

4. Online Platforms

- **Description**: Digital platforms that allow investors to invest in mutual funds through websites or mobile apps. Examples include Zerodha Coin, Groww, Paytm Money, and Kuvera. These platforms often provide easy-to-use interfaces and lower fees.

- **Target Audience**: Tech-savvy retail investors, especially millennials.

- **Compensation**: Some platforms charge transaction fees or offer a free model and earn from AMCs via commissions. Direct mutual fund platforms may have lower fees.

Different Kinds of Mutual fund Distributors

5. Stockbrokers and Securities Firms

- **Description**: Stockbrokers and brokerage firms often distribute mutual funds as part of their broader range of financial services. Investors can purchase mutual funds through their brokerage accounts alongside stocks and other securities.
- **Target Audience**: Active investors, who want to manage all investments under one platform.
- **Compensation**: These firms typically earn commissions from the AMCs for selling mutual funds.

6. Wealth Management Firms

- **Description**: Specialized firms catering to HNIs and ultra-high-net-worth individuals (UHNWIs). They provide comprehensive financial planning services, including investment in mutual funds, alongside tax, estate, and retirement planning.
- **Target Audience**: HNIs and UHNWIs looking for tailor-made financial planning services.
- **Compensation**: Fees and commissions, often higher for personalized and in-depth services.

Different Kinds of Mutual fund Distributors

7. Post Offices

- **Description**: In some countries, the postal system offers financial services, including the distribution of mutual funds. This can be a convenient way for retail investors to access mutual fund investments, especially in rural or underserved areas.
- **Target Audience**: Retail investors, particularly in rural and semi-urban areas.
- **Compensation**: They earn commissions from AMCs for distributing mutual funds.

8. Insurance Companies

- **Description**: Many insurance companies distribute mutual funds as part of their portfolio of financial products. They often bundle mutual funds with insurance products, such as Unit Linked Insurance Plans (ULIPs).
- **Target Audience**: Investors seeking bundled insurance and investment products.

Compensation: Commissions from AMCs and possibly policy-related charges

Modes of Distribution of Mutual Funds

Mutual fund distribution can take place through various modes, each offering a different level of accessibility, convenience, and cost structure. Below are the primary modes of distribution:

1. Direct Distribution

- **Description**: Investors buy mutual funds directly from Asset Management Companies (AMCs) without any intermediaries.
- **Channel**: Through the AMC’s website, physical offices, or customer service centers.
- **Advantages**: Lower cost (no distributor commissions), complete transparency.
- **Disadvantages**: Requires investor knowledge and initiative; no advice or guidance provided.
- **Suitable for**: Knowledgeable investors who prefer lower costs and don’t need advice.

Modes of Distribution of Mutual Funds

2. Distributor (Third-Party) Mode

- **Description**: Investors buy mutual funds through intermediaries like banks, financial advisors, brokers, or other distribution platforms.
- **Channel**: Banks, Independent Financial Advisors (IFAs), brokerage firms, and wealth managers.
- **Advantages**: Professional guidance, personalized advice, and a wider selection of funds from multiple AMCs.
- **Disadvantages**: Higher cost due to commissions paid to distributors.
- **Suitable for**: Investors seeking professional advice or those with limited knowledge of mutual funds.

Modes of Distribution of Mutual Funds

Online Platforms

- **Description**: Digital platforms and fintech companies allow investors to buy and manage mutual fund investments online.
- **Channel**: Websites and mobile apps such as Groww, Zerodha Coin, Paytm Money, and Kuvera.
- **Advantages**: Convenience, low-cost, user-friendly interfaces, and easy portfolio tracking.
- **Disadvantages**: Lack of personalized financial advice, technical reliance.

Suitable for: Tech-savvy, self-directed investors, especially millennials

Modes of Distribution of Mutual Funds

Stock Exchange Platforms (MF Utility)

- **Description**: Investors can buy and sell mutual funds through stock exchange platforms like BSE Star MF or NSE NMF II, which provide a unified platform for various AMCs.
- **Channel**: Stock exchange platforms and brokers offering these services.
- **Advantages**: Convenience of buying mutual funds through existing brokerage accounts, faster transactions.
- **Disadvantages**: Limited access to advisory services.
- **Suitable for**: Investors who are familiar with stock market trading and want to consolidate investments in one place.

Modes of Distribution of Mutual Funds

Banks as Distributors

- **Description**: Banks act as mutual fund distributors, offering their clients various mutual fund schemes from multiple AMCs.
- **Channel**: Through branch networks, relationship managers, and online banking portals.
- **Advantages**: Trust and reliability, easy access through banking relationships, professional advice.
- **Disadvantages**: Commissions and fees, limited fund selection based on the bank's partnerships.

Suitable for: Investors looking for personalized service and convenience through their bank

Modes of Distribution of Mutual Funds

National Distributors

- **Description**: Large distribution firms with a national presence sell mutual funds to retail investors.
- **Channel**: Through their vast network of branches, agents, and online platforms.
- **Advantages**: Access to multiple AMCs, broad reach, advice from experienced professionals.
- **Disadvantages**: Higher fees due to commissions, possibly biased towards high-commission products.

Suitable for: Investors wanting professional services with broader fund options

Modes of Distribution of Mutual Funds

Post Office

- **Description**: In some countries, mutual funds are distributed through the postal system, particularly in rural and underserved areas.
- **Channel**: Physical post offices with dedicated financial service counters.
- **Advantages**: Accessibility in remote areas, reliable services.
- **Disadvantages**: Limited choice of funds, minimal advisory services.
- **Suitable for**: Retail investors, particularly in rural or less accessible regions.

Modes of Distribution of Mutual Funds

. Employer-Based Distribution (Corporate Plans)

- **Description**: Some employers offer mutual fund investments as part of their employee benefit plans or retirement packages.
- **Channel**: Corporate financial advisors or HR departments, sometimes with pre-selected schemes.
- **Advantages**: Easy access, potential tax benefits, simplified investment process.
- **Disadvantages**: Limited flexibility in fund selection.
- **Suitable for**: Employees looking for convenience and tax-efficient investment options.

Modes of Distribution of Mutual Funds

. Insurance Companies

- **Description**: Mutual funds are sold through insurance companies, often bundled with insurance products like ULIPs.
- **Channel**: Insurance agents, websites, and company branches.
- **Advantages**: Combines investment with insurance, easy access to bundled products.
- **Disadvantages**: Complex structures, higher fees.
- **Suitable for**: Investors seeking a combination of insurance and investment.

Each mode of distribution has its own set of features, benefits, and cost structures, allowing investors to choose based on their needs, knowledge level, and preference for advice or independence.

Pre-requisites to become a Distributor of a Mutual Fund

Becoming a mutual fund distributor requires meeting certain legal, educational, and regulatory prerequisites. The process varies slightly by country, but here are the general prerequisites to become a mutual fund distributor:

1. Educational Qualification

- A basic **educational qualification of at least a high school diploma** or equivalent is typically required.
- Some countries or regulatory bodies may require higher qualifications, such as a bachelor's degree in finance, commerce, economics, or a related field.

2. NISM Certification (India-specific)

- In India, to become a mutual fund distributor, individuals must obtain the **National Institute of Securities Markets (NISM) Series V-A Certification**.
    - **Exam Details**: The NISM Series V-A Mutual Fund Distributors Certification Examination tests knowledge about mutual funds, the regulatory framework, ethical practices, and investor services.
    - After passing, you receive a **certificate** that is valid for three years.
    - After the validity period, you must renew the certification by completing a Continuing Professional Education (CPE) program or reappearing for the exam.

Pre-requisites to become a Distributor of a Mutual Fund

3. AMFI Registration Number (ARN)

- Once the NISM certification is obtained, individuals or entities must register with the **Association of Mutual Funds in India (AMFI)**.
- After successful registration, AMFI issues an **ARN (AMFI Registration Number)**, which is mandatory to operate as a distributor.
  - The ARN must be renewed periodically.
- For firms, each person who will be involved in selling mutual funds must have their own ARN, and the firm itself will need to obtain a separate ARN.

4. Registration with Asset Management Companies (AMCs)

- After obtaining an ARN, you need to **register with different AMCs** (mutual fund companies) to distribute their products.
- This usually involves signing a distributor agreement with each AMC, where the terms and conditions, including commissions and compliance with regulatory norms, are outlined.

Pre-requisites to become a Distributor of a Mutual Fund

KYC Compliance

5. As a distributor, you must fulfill the **Know Your Customer (KYC)** norms.

- **KYC compliance** involves submitting identity proof, address proof, and other relevant documentation to the respective financial regulatory authorities.
- You will also be responsible for ensuring that investors you bring in comply with KYC norms.

6. Registration with SEBI (Country-Specific Requirement)

- In some countries, mutual fund distributors need to register with the **Securities and Exchange Board of India (SEBI)** or its equivalent in other countries.
- SEBI registration helps ensure that distributors adhere to the regulations and maintain ethical standards.

Pre-requisites to become a Distributor of a Mutual Fund

7.Adherence to Code of Conduct

- Distributors must adhere to the **Code of Conduct** prescribed by AMFI or the relevant regulatory authority.
- The code emphasizes fair dealings, transparency, providing accurate information, and avoiding mis-selling of mutual fund schemes.

8. PAN (Permanent Account Number) or Tax Identification Number

- Distributors need to have a valid **PAN** (in India) or an equivalent **Tax Identification Number** in other countries.
- This is required for tax purposes and to receive commissions or incentives from AMCs.

9. Bank Account

- A **dedicated bank account** is necessary for receiving commission payments from AMCs.
- You may also be required to provide bank details while registering with AMFI or the AMCs.

10. Business Infrastructure (Optional but Recommended)

- Having a basic infrastructure like an office, a website, and client management systems can help in building a professional business setup.
- Distributors often require software tools to track client investments and manage transactions.

Revenue for a Mutual Fund Distributor

1. Upfront Commissions (Banned in Many Countries)

- **Description**: Upfront commissions are one-time payments made by AMCs to distributors when a new investment or a lump sum is made by an investor in a mutual fund.
- **Rate**: It used to range from **0.5% to 1.5%** of the investment amount, depending on the AMC and the type of mutual fund scheme.
- **Current Status**: In India and many other countries, **upfront commissions have been banned** to prevent mis-selling, ensuring distributors do not push products for short-term gain. Distributors now rely more on trail commissions.
- **Applicable in**: Countries where upfront commissions are still allowed or in specialized products like NFOs (New Fund Offers).

Revenue for a Mutual Fund Distributor

2. Trail Commissions

- **Description**: Trail commissions are ongoing payments made by AMCs to distributors for as long as the investor holds the mutual fund units. This incentivizes distributors to focus on long-term relationships and responsible investing.
- **Rate**: Trail commissions typically range from **0.5% to 1.25%** per annum, depending on the type of fund and the AMC.
    - **Equity funds** tend to offer higher trail commissions compared to **debt funds**.
    - **Direct mutual funds** (where investors bypass distributors) do not carry trail commissions.
- **Payment Frequency**: Paid periodically (monthly, quarterly, or annually).
- **Example**: If an investor has ₹10 lakhs invested in an equity mutual fund and the trail commission is 1%, the distributor earns ₹10,000 per year as long as the investment is maintained.

Revenue for a Mutual Fund Distributor

3. Transaction Fees or Service Charges (Optional)

- **Description**: Some distributors charge their clients a **transaction fee** or **service fee** for facilitating investments or providing advisory services.
- **Rate**: These can be a **fixed fee** per transaction or a **percentage of the investment**. In India, the regulatory cap is ₹100 to ₹150 per transaction for small investments.
- **Applicable to**: Distributors who provide extra services, such as financial planning, portfolio review, or tax-saving advice.
- **Direct Mutual Funds**: Some online platforms charge users a nominal fee to offer access to direct mutual funds.

4. Incentives or Bonuses from AMCs

- **Description**: AMCs sometimes offer additional incentives to distributors based on their performance, such as achieving certain sales targets or promoting specific funds (such as New Fund Offers – NFOs).
- **Types of Bonuses**: Cash bonuses, trips, rewards, or higher commission slabs for achieving milestones.
- **Regulatory Caps**: In some countries, the incentives are capped or tightly regulated to avoid conflicts of interest or mis-selling.
- **Example**: If a distributor helps an AMC raise ₹50 crore in a specific scheme, they may receive an additional performance-based reward.

Revenue for a Mutual Fund Distributor

Advisory Fees (Fee-based Model)

- **Description**: Distributors who operate under a **Registered Investment Advisor (RIA)** model may charge their clients an advisory fee instead of relying on commissions.
- **Rate**: Typically, **1% to 2% of assets under management (AUM)** annually, or a fixed fee for financial advice.
- **Advantages**: This aligns the interests of the advisor with the investor, as the income depends on the client's satisfaction and portfolio growth, rather than the volume of sales.
- **Applicable to**: Distributors who are also certified financial planners or registered investment advisors.
- **Example**: If a client has ₹1 crore invested, and the advisory fee is 1%, the distributor/advisor earns ₹1 lakh per year.

6. Execution-only Services Fees

- **Description**: Some distributors offer execution-only services (i.e., processing transactions without offering advice) and may charge a fee for this service.
- **Rate**: This is often a **flat fee per transaction** or a **subscription model** (monthly or annual fees).
- **Applicable to**: Digital platforms or independent advisors who cater to clients who don’t need advisory services but need assistance with transactions.

Revenue for a Mutual Fund Distributor

Platform/Service Provider Fees

- **Description**: Distributors using technology platforms (like fintech apps) may receive a **cut of platform fees** if they bring new customers or manage portfolios through these platforms.
- **Rate**: This can vary depending on the arrangement with the platform provider.
- **Applicable to**: Distributors who partner with or use large distribution platforms to offer mutual fund services.

8. Volume-Based Compensation

- **Description**: Distributors dealing with high volumes of investments or larger portfolios may receive a higher percentage of trail commissions due to volume-based incentives.
- **Rate**: Some AMCs have tiered commission structures, where the percentage of trail commission increases as the assets under management (AUM) handled by the distributor grows.
- **Example**: A distributor handling a ₹100 crore portfolio may receive a higher trail commission rate (e.g., 1.5%) compared to one managing a ₹1 crore portfolio (e.g., 0.75%).

Commission Disclosure mandated by SEBI

The Securities and Exchange Board of India (SEBI) has mandated that mutual fund distributors must disclose the commissions they earn from Asset Management Companies (AMCs) to ensure transparency and protect investors' interests.

Key Mandates for Commission Disclosure by SEBI:

1. Disclosure in the Account Statement

- **Mandate**: AMCs are required to disclose the commission paid to distributors in the account statement sent to investors.
- **Frequency**: These disclosures must be made **semi-annually** (every six months).
- **What is Disclosed**:
  - **Upfront and trail commissions** received by the distributor from the AMC.
  - **Any other monetary incentives** received from the AMC, including marketing expenses, gifts, and non-cash benefits.
- **Format**: The disclosure should be presented clearly, typically as a part of the **transaction statement** sent to the investor.

Commission Disclosure mandated by SEBI

2. Point of Sale Disclosure by Distributors

- **Mandate**: Distributors are required to disclose the commission structure (both upfront and trail) at the **point of sale** to the investor.
- **What is Disclosed**:
  - The percentage or amount of **commissions earned** on the mutual fund scheme being sold.
  - This includes both the **initial commission (upfront)**, if applicable, and the **ongoing trail commission** the distributor will receive during the investment holding period.
- **Purpose**: The disclosure allows the investor to make an informed decision, knowing whether the distributor may be influenced by commissions to recommend certain products.

3. Disclosure on AMC Websites

- **Mandate**: AMCs must disclose on their websites the commission structure applicable to distributors, providing transparency on how much they pay.
- **What is Disclosed**:
  - The **structure of commissions** for all mutual fund schemes, including the slabs and different categories of distributors (banks, IFAs, online platforms).
  - Any incentives or rewards provided to distributors.

Commission Disclosure mandated by SEBI

4. Disclosure in Scheme-related Documents

- **Mandate**: AMCs are required to include a note on the commission structure in the **Scheme Information Document (SID)** and the **Key Information Memorandum (KIM)**.
- **What is Disclosed**:
  - A general note on how AMCs pay commission to distributors.
  - Disclosure that distributors receive remuneration in the form of upfront commissions, trail commissions, and other incentives.

5. Disclosure of Distributor Classification

- **Mandate**: SEBI requires AMCs to classify and disclose the **nature of distributors** based on their contribution to the AMC's business. This includes whether they are empanelled with a single AMC or multiple AMCs.
- **Categories**: Distributors can be classified based on their asset size and the commission received. AMCs must make this information available to investors on request.
- **Purpose**: This helps investors understand if a distributor has ties to specific AMCs and whether that could influence their recommendations.

Commission Disclosure mandated by SEBI

6. Disclosure in Commission Agreements

- **Mandate**: When signing a distribution agreement with an AMC, the distributor must be informed of the **commission structure**.
- **What is Disclosed**:
  - Detailed breakdown of how much commission the distributor will earn across different products (equity, debt, hybrid funds).
  - Any changes to the commission structure must be communicated promptly.

7. Disclosure in Advisory vs. Distribution Model

- **Mandate**: Distributors acting under the **Registered Investment Advisor (RIA)** model (fee-based) are required to disclose to the investor that they are not receiving commissions and are instead charging an advisory fee.
- **What is Disclosed**:
  - RIAs must inform clients that they are operating on a **fee-only model** and not receiving commissions, ensuring there is no conflict of interest.

Benefits of Commission Disclosure:

Transparency: Investors get a clear understanding of how much distributors earn, reducing the likelihood of mis-selling or biased recommendations.

Investor Protection: Ensures that distributors recommend products that align with the investor's financial goals, rather than those that provide higher commissions.

Informed Decisions: Investors can compare commission structures across distributors and make more informed choices based on their objectives.

Conflict of Interest Management: Mandating disclosure helps in managing conflicts of interest where distributors might be incentivized to push higher-commission products.

Due Diligence Process by AMCs for Distributors of Mutual Funds:

The **Due Diligence Process** carried out by Asset Management Companies (AMCs) for mutual fund distributors is essential for ensuring that distributors comply with regulatory standards, maintain ethical practices, and are capable of managing investors' funds appropriately. Here’s an overview of the key components of the due diligence process followed by AMCs:

1. Registration and Certification Verification

- **NISM Certification**: AMCs must verify that the distributor or intermediary has the required **NISM (National Institute of Securities Markets) certification** for mutual fund distribution.

- **AMFI Registration Number (ARN)**: The AMC ensures that the distributor has a valid **AMFI Registration Number (ARN)**. This is required for all distributors, including individuals, entities, and institutions, and should be renewed periodically.

- **Sub-distributors**: In the case of sub-distributors working under a main distributor, the AMC also needs to verify that these sub-distributors are similarly registered and compliant with regulatory requirements.

Due Diligence Process by AMCs for Distributors of Mutual Funds:

2. KYC (Know Your Distributor) Compliance

- **Background Check**: AMCs conduct a thorough **background check** to verify the identity, business history, and reputation of the distributor. This may include:
  - Verifying business address and contact details.
  - Checking prior complaints, regulatory actions, or fraud allegations.
- **KYC Documentation**: Distributors must submit **KYC documents**, including proof of identity, address, and financial status, to confirm their legal standing and integrity.

3. Financial Health and Stability

- **Assessment of Financial Soundness**: AMCs assess the financial stability and business operations of distributors. This helps ensure that the distributor can sustain their operations and handle large volumes of investor funds.
- **Documents Reviewed**: This may include balance sheets, profit and loss statements, and bank account statements, depending on the size and structure of the distributor's business.

Due Diligence Process by AMCs for Distributors of Mutual Funds:

Adherence to Code of Conduct

- **AMFI Code of Conduct**: Distributors are expected to comply with the **AMFI Code of Conduct**, which emphasizes the ethical and professional behavior of mutual fund distributors. The AMC checks whether the distributor has violated any conduct rules in the past.
- **Mis-selling**: AMCs investigate any allegations of **mis-selling** by distributors, where investors may have been led into inappropriate investments based on false or misleading information. Repeat offenders are often disqualified.

5. Assessment of Distribution Practices

- **Sales Practices**: The AMC evaluates the sales practices of distributors, especially in terms of:
  - Whether they promote the right products to the right client segments (for example, not selling high-risk products to low-risk investors).
  - Ensuring that distributors are not aggressively pushing high-commission products over others that may be more suitable for investors.
- **Client Onboarding**: AMCs ensure that distributors are **onboarding clients properly**, with full disclosure of risks and rewards.

Due Diligence Process by AMCs for Distributors of Mutual Funds:

6. AML (Anti-Money Laundering) Compliance

- **AML Checks**: AMCs are required to ensure that distributors follow **Anti-Money Laundering (AML) guidelines**.
- **Documentation**: Distributors are expected to perform KYC checks on their clients to ensure they are genuine investors. The AMC verifies that the distributor adheres to these norms and reports any suspicious transactions.

7. Monitoring of Investor Complaints

- **Complaints and Redressal Mechanism**: AMCs monitor the number of complaints lodged against a distributor by investors. A history of **frequent investor complaints**, especially related to unethical practices, is taken seriously.
- **Complaint Resolution**: The speed and effectiveness with which a distributor resolves investor complaints are also evaluated. AMCs may take action against distributors who repeatedly fail to resolve issues appropriately.

Due Diligence Process by AMCs for Distributors of Mutual Funds:

8.Due Diligence for Large Distributors

- **Additional Checks for Large Distributors**: Large distributors or institutions managing significant assets are subject to more rigorous checks. AMCs may carry out:
  - **On-site visits** to review business practices, infrastructure, and record-keeping.
  - **Detailed Financial Audits** to confirm the accuracy of financial reporting and ensure transparency in their dealings.

9. Distributor Classification

- **Categorization Based on Business Volume**: Distributors are classified by AMCs based on the volume of business they handle, typically into categories like **retail distributors, corporate distributors, and banks**.
- **Business Model Evaluation**: AMCs assess whether distributors have any **conflicts of interest**, such as pushing products from one AMC over others due to higher commissions. The AMC examines the mix of products being sold by the distributor to ensure fairness in the market.

Due Diligence Process by AMCs for Distributors of Mutual Funds:

10. Training and Support for Distributors

- **Periodic Training**: AMCs often require distributors to undergo periodic **training programs** to stay updated on regulatory changes, new product offerings, and best practices.
- **Investor Awareness Initiatives**: Distributors must also participate in **investor awareness initiatives** mandated by SEBI and AMFI to ensure that investors are properly educated about mutual fund products before investing.

11. Regular Monitoring and Reviews

- **Ongoing Monitoring**: Due diligence is not a one-time process. AMCs conduct **ongoing monitoring** of distributors to ensure they continue to comply with all regulatory and ethical requirements.
  - Distributors are required to submit **periodic reports** on sales practices and investor portfolios.
- **Audits**: AMCs may conduct regular or surprise audits of distributors to ensure they are complying with the regulations.

Difference between distributors and Investment Advisors

Aspect	Mutual Fund Distributors	Investment Advisors (RIA)
Primary Role	Distributors primarily sell mutual fund products on behalf of AMCs.	Advisors provide personalized financial advice and recommend investment products based on clients' needs.
Nature of Service	Focus on selling mutual fund schemes and processing transactions.	Provide holistic financial planning and investment advice across multiple asset classes, including mutual funds.
Product Focus	Restricted to distributing mutual funds (often from multiple AMCs).	Broader product portfolio, including mutual funds, stocks, bonds, and insurance, depending on the advisor's expertise.
Client Relationship	Typically focused on product sales, may or may not provide advisory.	Focused on building long-term, fiduciary relationships with clients, offering tailored advice.
Objective	Help investors select and invest in mutual funds.	Help clients achieve their financial goals through tailored advice.

Aspect	Mutual Fund Distributors	Investment Advisors (RIA)
Regulating Authority	Regulated by **AMFI (Association of Mutual Funds in India)**.	Regulated by **SEBI (Securities and Exchange Board of India)** under the SEBI (Investment Advisors) Regulations, 2013.
Registration	Distributors must have an **AMFI Registration Number (ARN)**.	RIAs must register with **SEBI** as investment advisors and hold RIA licenses.
Compliance Requirements	Distributors follow **AMFI guidelines**.	RIAs must comply with **SEBI's fiduciary obligations**, disclose conflicts of interest, and adhere to strict ethical standards.
Fiduciary Duty	Distributors are not required to act in a fiduciary capacity.	RIAs have a **fiduciary duty** to act in the best interest of their clients.

Aspect	Mutual Fund Distributors	Investment Advisors (RIA)
Earnings	Distributors earn **commissions** from Asset Management Companies (AMCs).	RIAs charge a **fee** to the client, which can be either **fixed** or **percentage-based** (AUM-based).
Commission Structure	Earnings come in the form of **upfront** or **trail commissions** from AMCs based on the investment amount and duration.	RIAs typically do not earn commissions; their compensation comes solely from client fees to avoid conflicts of interest.
Conflict of Interest	Potential conflict as distributors may recommend higher-commission products.	Minimal conflict as RIAs' revenue is tied to the client's success, ensuring alignment of interests.
Transparency	SEBI mandates commission disclosure, but distributors are still commission-driven.	RIAs provide **full disclosure** of fees, ensuring transparency and alignment with client goals.

Aspect	**Mutual Fund Distributors**	**Investment Advisors (RIA)**
Nature of Advice	Distributors offer **execution-only services** or basic fund recommendations but do not offer in-depth financial planning.	RIAs offer **customized, goal-oriented advice** that includes comprehensive financial planning, risk analysis, and asset allocation.
Suitability of Products	Distributors may suggest mutual funds based on basic investor profiles but are often inclined to recommend products offering higher commissions.	RIAs recommend investments based on **detailed analysis** of client needs, risk tolerance, and financial goals, ensuring product suitability.
Product Scope	Limited to mutual funds.	RIAs can advise on a broader array of financial products, such as stocks, bonds, insurance, and real estate, beyond mutual funds.

Aspect	Mutual Fund Distributors	Investment Advisors (RIA)
Client Focus	Distributors typically cater to a **large number of clients** with a focus on selling and processing mutual fund transactions.	RIAs focus on providing **individualized advice** and long-term relationships based on a thorough understanding of client needs.
Ongoing Relationship	Distributors may not maintain long-term relationships after the initial sale, except for service-related queries.	RIAs generally maintain **continuous engagement** with clients, reviewing portfolios and updating strategies as per market changes or client goals.
Client Base	Often retail investors seeking mutual fund products.	Typically, individuals or families with more complex financial planning needs.

Nomination facilities to Agents/Distributors and payment of commission to Nominee

1. Nomination Facility for Distributors/Agents

a. Purpose of Nomination

- The nomination facility allows a distributor/agent to nominate an individual (or more than one nominee) to receive the **commissions and other benefits** that are due to them upon their death.
- This ensures that the distributor's commissions, such as **trail commissions** that continue to be paid after an investment is made, are not lost or held up.

b. Eligibility to Nominate

- Any mutual fund distributor or agent holding a valid **AMFI Registration Number (ARN)** can nominate a person (or multiple persons) to receive their future commissions.
- Nominees are typically family members such as a spouse, children, or legal heirs.

c. How to Nominate

- **Nomination Form**: Distributors must fill out a **nomination form** provided by the Asset Management Company (AMC) or the Association of Mutual Funds in India (AMFI). The form will include details of the distributor and the nominee(s), such as their relationship, name, address, and percentage of entitlement if multiple nominees are chosen.
- **Changes in Nomination**: A distributor can change or update the nominee anytime by submitting a fresh nomination form.

d. Nominee's Role

- The nominee is entitled to receive the distributor's commissions after their demise. However, they do not become a distributor themselves unless they also have an **AMFI Registration Number (ARN)**.
- The nominee is only eligible to receive the commissions earned by the distributor, not to act as a representative in terms of selling mutual fund schemes.

Nomination facilities to Agents/Distributors and payment of commission to Nominee

2. Payment of Commission to Nominee

After the demise of the distributor, the process for transferring commissions to the nominee begins. Here's how this process works:

a. Notification to the AMC

- Upon the death of the distributor, the nominee must notify the respective AMC(s) or AMFI about the distributor's passing.
- The nominee will need to submit a **death certificate** of the distributor along with other required documents.

b. Documents Required

The nominee must submit the following documents to the AMC(s) to initiate the commission transfer process:

- **Death Certificate**: Certified copy of the distributor’s death certificate.
- **Nomination Form**: A copy of the nomination form submitted by the distributor.
- **KYC Documents**: The nominee’s KYC (Know Your Customer) documents, including proof of identity (e.g., PAN card, Aadhaar card) and proof of address.
- **Bank Details**: The nominee’s bank account details to facilitate direct transfer of the commissions.

c. Payment of Trail Commissions

- **Trail Commissions**: The nominee is entitled to receive the trail commissions that were being earned by the deceased distributor. These are commissions paid regularly based on the investments already procured by the distributor.
- The AMC will transfer the **pending trail commissions** and any future trail commissions related to the business generated by the deceased distributor to the nominee's bank account.

d. Frequency of Payments

- The **frequency of commission payments** to the nominee remains the same as it was for the deceased distributor, which can be monthly, quarterly, or yearly, depending on the AMC's payment schedule.

Nomination facilities to Agents/Distributors and payment of commission to Nominee

b. Commission to Legal Heirs (if no nominee)

- If no nomination was made, the AMC will transfer the commission to the legal heirs upon receipt of relevant legal documents (such as a succession certificate or a will).

4. Key Points to Note

- **Non-transferable Business Rights**: While the nominee is entitled to receive commissions, they do not automatically acquire the **business rights** of the deceased distributor. The nominee will not become a mutual fund distributor unless they also acquire their own AMFI registration.
- **Multiple Nominees**: A distributor can appoint multiple nominees, specifying the percentage of the commission that each nominee is entitled to receive. The total percentage allocation must equal 100%.
- **Validity of Nomination**: The nomination is valid as long as the distributor's ARN is active. If the ARN lapses or is cancelled, the commission payments may cease.

5. Regulatory Framework

- **SEBI Guidelines**: The **Securities and Exchange Board of India (SEBI)** oversees the mutual fund industry, and AMCs must comply with SEBI's guidelines regarding the transfer of commissions to nominees.
- **AMFI Guidelines**: The **Association of Mutual Funds in India (AMFI)** also provides specific rules on the nomination facility and the process of commission transfer to ensure transparency and fairness.

Change of Distributors

When an investor wants to change their mutual fund distributor, the process involves transferring the distributor code associated with their investments to a new distributor or opting for a direct plan. Here's a detailed explanation of the **Change of Distributor** process in mutual funds:

1. Reasons for Changing a Distributor

- **Dissatisfaction with Current Distributor**: Investors may feel that their distributor isn't offering the level of service or advice they require.
- **Desire for Better Advice**: Investors may want to switch to a distributor who provides more personalized, in-depth financial advice or investment strategies.
- **Opting for Direct Plans**: Some investors may choose to move their investments to **direct plans**, which offer lower expense ratios since they bypass the distributor's commissions.
- **Inactive or Non-compliant Distributor**: A distributor may become inactive, lose their AMFI Registration Number (ARN), or be found non-compliant with regulations.

Change of Distributors

2. Process of Changing a Distributor

a. Transferring to a New Distributor

When changing to a new distributor, the **Distributor Change Form** needs to be submitted to the respective Asset Management Companies (AMCs). Here's how the process works:

- **Step 1: Select a New Distributor**: The investor selects a new mutual fund distributor who holds a valid AMFI Registration Number (ARN).
- **Step 2: Obtain Distributor Change Form**: The investor needs to fill out a **Distributor Change Request Form**. This form is usually available on the AMC’s website or can be obtained from the new distributor.
- **Step 3: Provide Details**: The form requires details like:
  - Folio number(s) associated with the investments.
  - Details of the old distributor (existing ARN code).
  - Details of the new distributor (new ARN code).
  - Signatures of all unit holders (if it’s a joint holding account).
- **Step 4: Submit the Form**: The completed form must be submitted to the AMC or the Registrar and Transfer Agent (RTA) like **CAMS** or **Karvy**.

Step 5: Change Acknowledgment: The AMC will update the distributor details in its records and send an acknowledgment to the investor confirming the change

Change of Distributors

b. Switching to a Direct Plan

Investors may also opt to move their investments from a regular plan (with a distributor) to a direct plan (without a distributor). The process involves:

- **Step 1: Submit a Switch Request**: Investors can request to switch their investments from the regular plan to the direct plan of the same mutual fund. This can be done either online through the AMC's website or through a physical form submission.

- **Step 2: Folio and Investment Details**: The switch request requires the investor's folio number and details of the fund they want to switch from and to (i.e., regular plan to direct plan).

Step 3: Effect of Switch: The switch is treated as a **redemption** from the regular plan and a **purchase** into the direct plan. Capital gains tax may apply on the redemption, depending on the holding period of the units.

Change of Distributors

c. ARN Expiry or Cancellation of Distributor

If a distributor's ARN expires or is cancelled, the investor’s investments are not affected. The following steps apply:

- **ARN Expiry**: If the distributor’s ARN has expired, the AMC typically continues to maintain the folio under that distributor’s code for some time. However, the investor can request a change in distributor by following the steps outlined above.

- **Transfer to Direct Plan**: In case of distributor inactivity or ARN cancellation, investors may automatically be shifted to a direct plan, or they can choose to do so voluntarily.

Change of Distributors

3. Points to Keep in Mind During Distributor Change

a. Impact on Investments

- **Existing Investments**: Changing the distributor will not affect the existing units held by the investor or their **Net Asset Value (NAV)**. The investor's mutual fund investments will continue as they are.

- **Future Investments**: Once the distributor change is processed, any **future investments** made in the folio will be credited to the new distributor (if the investor opts for a regular plan).

b. Commission Implications

- **Trail Commissions**: When an investor changes distributors, the **trail commissions** earned from past investments continue to be paid to the old distributor for the business they brought in. The new distributor will earn commissions on **future investments** made under their ARN.

- **Switching to Direct Plans**: In case of switching to direct plans, the investor will not pay any distributor commissions, reducing the **expense ratio** of the mutual fund. However, there is no commission paid to any distributor under a direct plan.

Change of Distributors

c. No New Purchase Required

- Investors do not need to redeem or reinvest their existing holdings to change the distributor. The change of distributor is applied to the existing folios and units without the need for new purchases or sales.

d. Joint Holders' Consent

- If the folio has multiple holders (joint accounts), all holders must sign the distributor change form for the request to be processed.
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Change of Distributors

4. Online Methods of Changing Distributors

Many AMCs and RTAs offer **online services** for changing distributors. The process may vary slightly based on the platform

a. Through AMC Website

- Investors can log in to their account on the respective AMC's website, navigate to the service request section, and opt for a change in distributor by updating the ARN of the new distributor

b. Registrar Websites (CAMS/Karvy)

- Investors can also visit registrar websites like **CAMS** or **Karvy** to request a change in distributor across multiple mutual funds managed by different AMCs

c. Online Investment Platforms

- If an investor uses online platforms like **Groww**, **Zerodha Coin**, or **Kuvera**, they may offer options to switch between direct and regular plans or facilitate a change of distributor.

Change of Distributors

5. Termination of Distributor Services

If the investor feels that their current distributor is not offering adequate service or advice, they may terminate the services of that distributor. Here's how:

a. No Nomination of New Distributor

- In some cases, investors may not want to nominate a new distributor but instead simply stop working with the current one. They can do this by submitting a form to the AMC to **remove the ARN code** associated with their investments.
- In such cases, the investor's investments remain in the same mutual fund scheme, but the folio is no longer associated with any distributor. The investor can choose to operate the folio independently or later opt for direct plans.

b. Switch to Direct Plans

- Alternatively, the investor can switch their entire portfolio to **direct plans**, thus eliminating the need for any distributor and reducing ongoing commission expenses.

Change of Distributors

6. Benefits of Changing Distributor

a. Better Service

- Switching to a more competent distributor or advisor can provide better guidance, personalized financial planning, and improved portfolio management.

b. Cost Savings via Direct Plans

- Moving to **direct plans** can lead to cost savings by eliminating distributor commissions, resulting in a **lower expense ratio** and potentially higher returns over time.

c. Transparency and Control

- Investors gain greater control over their investments, especially when switching to direct plans, and can have better transparency regarding their portfolio management and returns.