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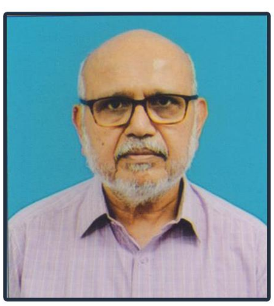

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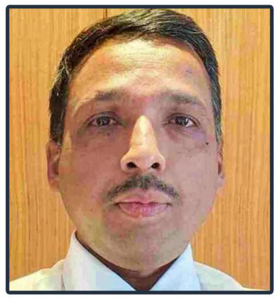

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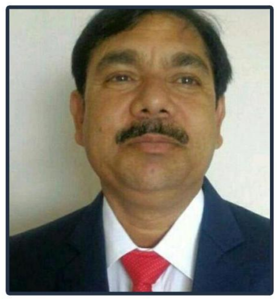

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On 26th Nov 2023, FIFA has put forth its views and suggestions through email to AMFI Board of Directors, Chairman, Vice Chairman and Chief Executive to AMFI circular no. 135/BP/54/2014-15 dated March 26, 2015. Please find the note below.

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1. The Board of Directors,
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FOUNDATION OF INDEPENDENT FINANCIAL ADVISORS

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Dear Sir,

Subject: Representation on behalf of the members of Foundation of Independent Financial Advisors in respect of the Total Expense Ratios of the Asset Management Companies and the restriction on upward revision in rates of trail commission paid to the mutual fund distributors.

In Re.: Request for revision/modification in the Best Practices Circular of Association of Mutual Fund in India bearing number 135/BP/54/2014-15 dated March 26, 2015.

Ref.: 1. Best Practices Circular of Association of Mutual Fund in India bearing number 135/BP/54/2014-15 dated March 26, 2015.

2. Consultation Paper on Review of Total Expenses charged by Asset Management Companies dated May 18, 2023.

We are concerned for our members and on their behalf we would like to address your good self on the captioned subject, as follows:

1. We state that Foundation of Independent Financial Advisors (hereinafter referred to as **"FIFA"**) is a Not-For-Profit Company incorporated under Section 25 of the erstwhile Companies Act, 1956 having its registered address at 3rd Floor, Rahimtoola House, 07, Homji Street, Fort, Mumbai – 400001. FIFA presently has more than 3000 members who function as distributors of the Mutual Fund Schemes for various Asset Management Companies (hereinafter referred to as **"AMCs"**) in various parts of India.

2. It is stated that the Securities and Exchange Board of India (hereinafter referred to as **"SEBI"**), vide its circulars dated June 26, 2002 and November 28, 2002 issued under Regulation 77 of the Securities and Exchange Board of India (Mutual Fund) Regulations, 1996 (hereinafter referred to as the **"Mutual Fund Regulations"**), had mandated that all the distributors of the mutual fund products to be registered with Association of Mutual Funds in India (hereinafter referred to as **"AMFI"**) and be subjected to the Code of Conduct as issued by AMFI.

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3. Here, we would like to refer to the Mutual Fund Advisory Committee (hereinafter Referred to as the **"MFAC"**) constituted by SEBI which deliberated upon commission being paid to the mutual fund distributors by AMCs in the year 2014 and subsequently, SEBI suggested AMFI to come up with industry guidelines regarding commission paid by the AMC to the distributors which could be applied uniformly without compromising on the freedom of AMCs to manage their commercials. Hence, AMFI issued a circular bearing number 135/BP/54/2014-15 dated March 26, 2015 (hereinafter referred to as the **"Best Practices Circular"**) mentioning the *"Best Practices Guidelines"* to be followed by the AMCs. It is submitted that vide the said Circular, in respect of commission paid to the Mutual Fund Distributors, AMFI had mandated that there would be *"no upward revision"* in any rates of commission paid to the distributor for the Asset under Management (hereinafter referred to as **"AUM"**) as existing as on March 26, 2015.

4. We state that very recently, SEBI came up with a consultation paper dated May 18, 2023 (hereinafter referred to as the **"Consultation Paper"**) with respect to the Total Expenses (hereinafter referred to as the **"TER"**) which a Mutual Fund (hereinafter referred to as **"MFs"**) is allowed to charge from the unit-holders of the schemes of MF's. Vide the Consultation Paper, SEBI has recommended that for calculation of allowable TER, the AUM should be determined at AMC level.

5. It is submitted that as SEBI has made the mutual fund distributors subject to the guidelines of AMFI, it is incumbent on us, as an association of the participants in the Mutual Fund industry to flag out irregularities in the applicable standards and the possible anomalies between the proposals in the Consultation Paper and the Best Practices Circular.

6. It is submitted that presently the allowable and effective TER are determined based on the AUM of the individual scheme based on well-defined slabs. The underlying thought for determination of the TER is that the TER of a scheme keeps on decreasing as the AUM rises due to economies of scale. Conversely, a substantial decrease in the AUM of schemes would necessarily lead to rise in the allowable TER of the concerned schemes of the MFs, then in that case, while the AMC is allowed to maintain an increased allowable and effective TER, the commission paid to distributors is specifically capped due to the Best Practices Circular.

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7. It is submitted, and as your good self would be aware that the commission paid by the AMC to distributors of the Mutual Fund schemes forms a part of the allowable TER as well as the effective TER hence, the distributor's commission gets reduced whenever the allowable TER falls or is reduced as it leads to shrinkage in the effective TER of the AMC. The above inter-relation between the allowable TER, effective TER and the distributor commission illustrates the positive co-relation between them and hence, it is equitably expected that when, for some reason or other, the allowable TER of the AMC increases, the increase in the distribution commission should not be capped and should be kept open for negotiation/deliberation between the AMC and the Mutual Fund distributors.

8. It is submitted that due to the guidelines in the Best Practices Circular while there is an express bar on upward revision of the distributor commission with respect to the assets prior to March, 2015, however there is no corresponding bar on upward revision of the allowable TER of the AMC managing the assets prior to March, 2015. The practice of not increasing TER is continued to be followed by AMCs for assets acquired after March 2015. Hence, whereas the AMC are allowed to increase the allowable and effective TER for the assets which were acquired prior to March 2015 and assets acquired post March 2015 there is no corresponding option available to the mutual fund distributors which is totally inequitable and arbitrary.

9. It is submitted that the express bar on the upward revision of the distributor's commission goes against the ethos of the Best Practices Circular as it does not take into consideration the interest of the mutual fund distributors, which is a directly affected party.

10. By putting an absolute bar on upward revision of the rates of the trail commission, the said circular has also curtailed the commercial freedom of the AMC to negotiate and arrange their affairs in the manner they seem appropriate. It is submitted that at the time when the Best Practices Circular was issued by AMFI, an upward revision in the allowable and effective TERs of the schemes was not envisaged and hence the distributor commission was capped at the relevant level. Hence, in an event where the allowable TER goes up, the distributor's commission should also be allowed to be revised upward. Otherwise, while the AMCs would benefit from the upward movement of the TER, the distributors' commission would be capped at an unreasonable level on a totally arbitrary basis.

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11. We further submit that in practice, the AMCs by citing the restriction imposed under the Best Practices Circular are restricting the mutual fund distributors from upward revision of commission with respect to assets created after March, 2015 also and hence the such a misapplication of the Best Practices Circular at the hands of AMC warrants that the Best Practices Circular should be withdrawn with immediate effect.

12. Further, with coming of the new standards and slabs for determination of TERs at AMC level, certain AMCs, might have an opportunity to increase their TERs however the respective distributors of such AMCs will not be able to be remunerated on higher rates on existing assets due to the express bar on upward revision imposed under the Best Practices Circular.

13. Also, the Best Practices Circular, creates an unnecessary differentiation between assets in existence prior and after March 26, 2015 (as no upward revision is allowed for assets prior to March 26, 2015 but revision is allowable for assets created after March 26, 2015) which is not based on any rational basis and intelligible differentia and hence such a distinction in as much as it relates to distributor commission is totally arbitrary and unfounded.

14. Hence, in view of the discussion above, we request your good self to kindly review and modify the Best Practices Circular to the effect of removing the stipulations regarding bar on upward revision of the distributor's commission. Such a modification would not only preclude the possibility of a conflict between the Best Practices Circular and the recommendations of SEBI in the Consultation Paper but would also, to the least, provide an opportunity to the AMCs and distributors to mutually discuss the remuneration paid to the distributors and provide a necessary reprieve to the distributors who are presently functioning on ever decreasing margins.

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15. We hope for a positive consideration of our concerns raised above.

Thanking you for your patience and kind attention.

With kind regards

Dhruv Mehta
Chairman

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Abhishek Mohta from Kolkata is a General Member of FIFA. His article "Spotting The Right Multibaggers" has been published in Dalal Street Investment Journal.

Financial Planning

MF Page - 07

Abhishek Mohta
Founder, Trustedarms Wealth.

Spotting The Right Multibaggers

When it comes to equities or equity investing, almost every other investor is in search of a multibagger. The commonly held belief is that the surest way to create outsized wealth is only by bagging a few multibaggers.

A multibagger is defined as a stock that gives a return of over 100 per cent or more. Coined by Peter Lynch in his 1988 book, One Up on Wall Street, the origin of this phrase comes from the sport of baseball, where each base is colloquially referred to as a 'bag'. If a runner in baseball reaches multiple bases, it is considered a successful play. Applying this term to the equity market, a ten-bagger stock is a stock that gives a return of 10 times the original amount invested, and a twenty-bagger would give a return twenty times more than the original investment.

Now the question is how does one identify and invest in multibaggers? In the world of investing, there are few individuals such as Warren Buffet or Rakesh Jhunjhunwala who are known to have successfully identified multiple multi-baggers. We know about them only when they become famous and successful. Furthermore, nobody has been rich by copying their stock portfolio because one does not have the patience to hold for a long term on a borrowed idea. As a result, more often, individual investors have lost more money in direct investing than in finding the next multibagger.

So, what is the alternative? Before answering that, every investor must answer a question - What kind of a multibagger are you looking for? Whatever the answer, the truth is it can be made into a reality by investing in equity mutual funds. While most of the readers may be doing that, there is a reason why those investments may not have turned into a multibagger and we will get to that towards the end.

Given is the list of 10 mutual funds which have completed 20 years and have multiplied wealth between 25-74 times, the average being 43 times. In this journey, at times, the NAV of these funds fell by 30 per cent, 40 per cent and even 60 per cent during the bear market but over time, the NAV has only recovered.

Scheme Name	Start NAV	End NAV	Multiplied by
HDFC Tax Saver	19	797	42
Kotak Bluechip Fund	12	371	32
DSP Equity Opp Fund	8	352	44
ICICI Pru Multicap Fund	13	454	35
Nippon India Vision Fund	27	821	30
Aditya Birla SL Equity Advantage	23	576	25
Franklin India Flexi Cap	23	966	42
HDFC Flexi Cap Fund	22	1122	50
Franklin India Prima Fund	28	1476	52
Nippon India Growth Fund	28	2083	74
Data Period: April 01, 2003 to March 31, 2023			

For the sake of assumption, let us consider a fund that you have invested in is generating a return of 12 per cent for the next 5/10/15 years. At this rate, wealth will double every 6 years. In the 26th year of investment, the wealth will be 85 times. In the 32nd year, it will be 165 times. In your earning lifespan of 30-35 years, you can multiply your wealth and secure your future.

But now comes the most difficult part - the ability to stay the course. The biggest risk to your wealth creation journey is not your willingness or willpower to invest or your desires but the innocuous little roadblocks that pop up from time to time. For example: In your investment journey, you will require funds a few times for which your mutual fund portfolio will be the easiest source of money. At such times, you will not touch other investments like FDs, PF, Insurance Policies, Real Estate & Gold because you believe they are assets which should not be touched. Now to make up for the lost opportunity, you will follow the multibaggers ideas, F&O tips shared on social media and news channels only to lose money.

While it is a known fact that everyone cannot be a Warren Buffett or Rakesh Jhunjhunwala, just by staying the course with your equity investments can make your investments into a multibagger. For this, trust your financial adviser, who under all circumstances will help you navigate the ups and downs of the investment journey and help you reach your financial destination in a stress-free manner.

The writer is Founder of Trustedarms Wealth. ■ **Email:** abhishek@trustedarms.com ■ **Website:** www.trustedarms.com

WE ARE OPEN TO CONTRIBUTIONS FROM OUR VALUED MEMBERS!

The editor is open for interesting contributions from our members. It can range from IAP programme snapshots or pictures/snippets of fun events conducted for investors, to fun anecdotes as well as any valuable inputs you would like to share! Please write to **nisreen@moneyworks.co.in** to get featured in our next edition.

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