

ASSOCIATION OF MUTUAL FUNDS IN INDIA

July 14, 2009

AMFI Guidelines for Uniform Implementation of SEBI letter dated June 19, 2009 on exemption of PAN for Systematic Investment Plans (SIP) upto Rs. 50,000 per year per investor.

1. Background:

- 1.1. Common KYC process for mutual fund investors through CDSL Ventures Ltd (CVL) was commenced on February 1, 2008.
- 1.2. SEBI, vide circular dated April 27, 2007, had made income-tax Permanent Account Number (PAN) mandatory for all transactions in securities market.
- 1.3. Currently, all investments of Rs. 50,000 or more is subject to KYC with PAN as the sole identification number (except for bonafide Sikkim residents or any other specific exempt category of investors) and PAN is mandatory for Investments less than Rs 50,000 (including SIPs).
- 1.4. AMFI received a letter dated June 19, 2009 from SEBI (attached as Annexure A for reference) wherein it has been conveyed that micro schemes such as SIPs upto Rs. 50,000 per year per investor shall be exempted from the requirement of PAN. The letter further states that this may be operationalised by accepting other standard specified identification instruments like Voter ID card, Government/Defense ID card, Card of Reputed employer, Driving License, Passport in lieu of PAN.
- 1.5. The following paragraphs outline a uniform procedure for implementation of the SEBI letter referred to in point 1.4 above.

2. Applicability & Transactions covered:

- 2.1. The following transactions will be covered:
 - 2.1.1. Systematic Investment Plans (SIPs) where aggregate of installments in a rolling 12 month period or in a financial year i.e. April to March does not exceed Rs 50,000 (to be referred as "Micro SIP" hereinafter).
- 2.2. The following transactions will not be covered as they are currently not considered either for PAN or KYC requirement:
 - 2.2.1. Redemption

2.2.2. Switch

2.2.3. Systematic Transfer Plans

2.2.4. Systematic Withdrawal Plans

2.2.5. Dividend Reinvestments / Sweep transactions

2.3. This exemption will also not be applicable to normal purchase transactions upto Rs. 50,000 which will continue to be subject to PAN requirement.

2.4. This exemption will be applicable ONLY to investments by individuals (including NRIs but not PIOs), Minors and Sole proprietary firms. HUFs and other categories will not be eligible for Micro SIPs.

2.5. The exemption is applicable to joint holders also.

3. KYC procedure:

3.1. Micro SIP will not be subject to common KYC process through CVL.

3.2. It is recommended that the process be handled at Registrars (RTA) level.

3.3. Investors (including joint holders) will submit a photocopy of any one of the documents identified in Para 4 along with Micro SIP applications.

3.4. Supporting document must be current and valid.

3.5. Supporting document copy shall be self attested by the investor / attested by the ARN holder mentioning the ARN number.

3.6. While making subsequent Micro SIP applications with a mutual fund, investor can quote the existing folio number where a Micro SIP has been registered and therefore need not resubmit the supporting document.

3.7. It is suggested that existing SIP forms may be modified to provide for additional columns for (1) identifying the application as 'Micro SIP' (2) providing the date of birth and (3) listing the type of the supporting document and identification number (if any).

3.8. RTA will capture the details given under 3.7 as part of the investor registration.

4. Any one of the following PHOTO IDENTIFICATION documents can be submitted along with Micro SIP applications as proof of identification in lieu of PAN.

4.1. Voter Identity Card

4.2. Driving License

- 4.3. Government / Defense identification card
- 4.4. Passport
- 4.5. Photo Ration Card
- 4.6. Photo Debit Card (Credit card not included because it may not be backed up by a bank account).
- 4.7. Employee ID cards issued by companies registered with Registrar of Companies (database available in the following link of Ministry of Company affairs <http://www.mca.gov.in/DCAPortalWeb/dca/MyMCALogin.do?method=setDefaultProperty&mode=31>)
- 4.8. Photo Identification issued by Bank Managers of Scheduled Commercial Banks / Gazetted Officer / Elected Representatives to the Legislative Assembly / Parliament
- 4.9. ID card issued to employees of Scheduled Commercial / State / District Co-operative Banks.
- 4.10. Senior Citizen / Freedom Fighter ID card issued by Government.
- 4.11. Cards issued by Universities / deemed Universities or institutes under statutes like ICAI, ICWA, ICSI.
- 4.12. Permanent Retirement Account No (PRAN) card issued to New Pension System (NPS) subscribers by CRA (NSDL).
- 4.13. Any other photo ID card issued by Central Government / State Governments /Municipal authorities / Government organizations like ESIC / EPFO.

5. Verification Procedure by RTA:

5.1. Front Office:

- 5.1.1. RTA front office will verify whether (a) the aggregate of all installments in a year (where the registration is for a period exceeding one year) OR (b) the installment amount (*into) number of installments (where the registration is for less than one year) will exceed Rs 50,000.
- 5.1.2. RTA front offices will verify whether Micro SIP applications are accompanied with document copy as recommended in Para 4
- 5.1.3. RTA front office will on a best effort basis do a preliminary due diligence in terms of ensuring that the supporting document belongs to the investor by

verifying the name and address (if available on the document) and the same is current and valid (by checking the expiry date where available).

5.1.4. RTA front office will endeavour to reject applications where deficiencies are found in the supporting document.

5.1.5. Transactions submitted by Channel / Online distributors should have a confirmation that the supporting document has been obtained and verified.

5.2. Back-office (at the time of registration):

5.2.1. RTA back office will do a second level of check as regards points in 5.1 above.

5.2.2. RTA back office will verify from their database of Micro SIP registrations whether, by registering the Micro SIP application, the aggregate of Micro SIP installments of the investor will exceed Rs. 50,000 in a financial year (April to March). This validation shall be done for the first holder.

5.2.3. The investor may be identified using one or more of the following information provided by the investor in the application:

5.2.3.1. Name

5.2.3.2. Address

5.2.3.3. Bank details - both bank mandate and source bank details

5.2.3.4. Date of Birth (if available in the database and the supporting document)

5.2.3.5. Document identification number

5.2.4. RTA back-office will reject a Micro SIP application where it is found that the registration of the application will result in the aggregate of Micro SIP installments in a financial year exceeding Rs 50,000 or where there are deficiencies in supporting documents.

5.2.5. Rejected application will be sent back to the investor with a deficiency memo.

5.2.6. In case the first Micro SIP installment is processed (as the cheque may be banked), and the application is found to be defective, the Micro SIP registration will be ceased for future installments. No refunds to be made for the units already allotted. Investor will be sent a communication to this effect. However, redemptions shall be allowed.

6. Implementation Road-map:

6.1. It is recommended that this procedure be implemented by all mutual funds with immediate effect and latest by **August 1, 2009**.

6.2. AMCs to modify application form to include:

6.2.1. two additional columns for supporting document type and reference number (where available)

6.2.2. a declaration stating that the investor does not have any existing Micro SIPs which together with the current application will result in aggregate investments exceeding Rs. 50,000 in a year.

6.3. AMCs to modify the agreement and SLA with channel / on-line distributors to include appropriate clauses relating to the implementation of this circular.

Annexure A - extract of the letter received from SEBI

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MRD/DoPIPAN/PMI166999/20D9

June 19, 2009

Shri A P Kurien
Chairman.
Association of Mutual Funds of India,
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Dear Sir,

Sub: Exemption from the need for Permanent Account Number (PAN) for micro financial products

1. SEBI, vide circular dated April 27, 2007, had made PAN mandatory for all transactions in securities market. Further, SEBI vide its letter no. MRD/Policy/PAN/AT/97151/2007 dated June 25, 2007 clarified) o you that if an investor is participating only in micro-pension, he may not be required to obtain PAN.
2. We would like to inform that, MoF vide its letter no. 5/55/CM12006 dated June 3, 2009 has conveyed their decision that micro schemes such as Systematic Investment Plans of Mutual Funds, Micro Products by Micro Finance Institutions, upto Rs. 50.000/- per year per investor shall be exempted from the requirement of PAN. Such schemes may be operationalized with other standard specified identification instruments like Voter ID Card, Government / Defense ID Card, Card of reputed employer, Driving License, Passport.

Yours faithfully,
HARINI BALAJI