



APMI/2023-24/03

Date: 26th April, 2023

To,

All Portfolio Managers registered with SEBI

Dear Sir / Madam,

Subject: Best Practice for payment of commission to distributors who lose eligibility temporarily

1. SEBI notification no. SEBI/LAD-NRO/GN/2021/48 dated September 07, 2021 specified requirements related to NISM certification for persons engaged by portfolio managers as distributors of portfolio management services.
2. While SEBI has specified the requirement to be fulfilled by the distributors, there is a need to define a practical way to implement the best practices at industry level across multiple scenarios, as it becomes the responsibility of the Portfolio Manager to comply with these rules & regulations.
3. Basis the above, with a view to define a standard implementation plan and the discussions held in committees- APMI made a submission with SEBI on 31st December, 2022 (**Annexure 1**).
4. Post discussions and meetings with the regulator, we have received the below confirmations from SEBI on 24th April'23.

4.1: Distributors whose eligibility to distribute Portfolio Management Services has expired will not be paid commission till they regain eligibility or 12 months whichever is earlier.



4.2: During this period of 12 months,

- a. The distributor shall not be allowed to introduce any new investor.
- b. The brokerage payable on account of funds already received before expiry of eligibility shall continue to be accrued by the Portfolio Manager. However, the same shall not be paid to the distributor.
- c. Additional investments made by existing investors introduced by the distributor before expiry of the eligibility, will be treated as part of above.
- d. A minimum of three (3) notices/reminders should be given by the Portfolio Manager to the distributor for clearance of the said certification.

4.3: If such distributors regain eligibility within the aforesaid timeline of 12 months, the entire brokerage accrued as per 4.2(b) & 4.2(c) above shall be paid to the distributor(s).

4.4: If such distributors fail to regain eligibility within the aforesaid period of 12 months, the brokerage accrued as per 4.2(b) & 4.2(c) above shall be forfeited.

4.5: In case of the demise of a distributor holding a valid certification, commission accrued till the date of demise already shall be paid to the registered nominees directly without evaluating any eligibility criteria.

- a. Further to this, for the commission on the existing business (post the date of demise of the distributor) the nominee shall get 12 months to complete the said eligibility as mentioned above.
- b. All other conditions applicable to this time period will remain unchanged.

We hope these clarifications will be helpful towards execution of the circular.

Yours Sincerely

Rashim Bagga

Principal Officer- Association of Portfolio Managers of India

Encl. 1: APMI submission to SEBI dated 31st Dec'22



Annexure 1:

Date: 31st December, 2022

To: Securities and Exchange Board of India (IMD)

From: Association of Portfolio Managers in India

Subject: Proposed Best Practice for payment of commission to distributors who lose eligibility temporarily

Background:

NISM XXI-A Certification for those associated with distributing Portfolio Management Services

SEBI vide notification no. SEBI/LAD-NRO/GN/2021/48 dated 7th September, 2021 mandated that the associated persons, engaged by a Portfolio Manager as a distributor of the Portfolio Management Services, shall obtain certification from the NISM (National Institute of Securities Markets) by passing NISM-Series-XXI-A (NISM-XXI-A) within two years from the date of this notification and the associated person who have been engaged after the date of this notification has one year period to obtain the NISM XXI-A certificate.

Further, the associated persons (Distributors) who has obtained (i) a valid AMFI Registration Number (ARN) or (ii) NISM Series-V-A exam certification were given exemption from this requirement till the validity of the said registration / certification. While SEBI has specified the requirement to be fulfilled by the distributors, there is a need to define a practical way to implement the best practices at industry level across multiple scenarios.

From a practical standpoint, there may be some time gap between one certification expiring and another being gained. Further, going



ahead, there may be a gap between the expiry of the NISM-XXI-A certificate and its renewal as well. These time gaps have been observed in the Mutual Fund industry as well and protocols put in place to ensure fair treatment of distributors and investors.

Proposal from APMI:

With a view to define a standard implementation plan and in line with the best practices established in Mutual Fund industry, we propose to implement this requirement as follows:

1. Distributors whose eligibility to distribute Portfolio Management Services has expired will not be paid commission till they regain eligibility or 12 months whichever is earlier.
2. During this period of 12 months,
 - a. The distributor shall not be allowed to introduce any new investor.
 - b. The brokerage payable on account of funds already received before expiry of eligibility shall continue to be accrued by the Portfolio Manager. However, the same shall not be paid to the distributor.
 - c. Additional investments made by existing investors introduced by the distributor before expiry of eligibility will be treated as part of (b) above.
 - d. A minimum of three (3) notices / reminders should be given by the Portfolio Manager to the distributor for clearance of the said certification.
3. If such distributors regain eligibility within the aforesaid timeline of 12 months, the entire brokerage accrued as per 2(b) & 2(c) above shall be paid to the distributor(s).



4. If such distributors fail to regain eligibility within the aforesaid period of 12 months, the brokerage accrued as per 2(b) & 2(c) above shall be forfeited.
5. In case of the demise of a distributor holding a valid certification, commission accrued till the date of demise already shall be paid to the registered nominees directly without evaluating any eligibility criteria.
 - Further to this, on the existing business – new commission after the date of demise, the nominee shall get 12 months to complete the said eligibility as mentioned above. All other conditions applicable to this time period will remain unchanged.

Submitted for your views & guidance.

For Association of Portfolio Managers in India

Principal Officer

- This document has been prepared with the combined views & thoughts of the members of the Operation & Compliance Committee of APMI which was later taken up with the Board of Directors of APMI for their views & approval.
- Post the APMI Board approval this document is getting submitted to you for a discussion.