



ASSOCIATION OF MUTUAL FUNDS IN INDIA

AMFI Working Group for Implementation of
NISM Recommendations on “Operational Risk Issues in Mutual Fund Investor Service Processes”

January 28, 2011

3.12 Accounts of Minors and Account Status Change - Minor attaining Majority

3.13 Change of Guardian

3.14 Registration of Nominee

3.15 Transmission of Units

1. Background:

- 1.1. NISM report on Operational Risk issues in Mutual Fund Investor Service Processes (NISM Report) highlighted the following areas which require standardization or further enhancements:
 - 1.1.1. Inconsistent industry practice regarding accounts opened on behalf of Minors, change in status and operation of the folio when the minor turns major,
 - 1.1.2. Appointment of guardian, including any subsequent change in guardian,
 - 1.1.3. Lack of awareness about the Nomination facility, the importance of nomination in financial matters, and undue hardships to claimant/s due to lack of nomination in the event of the demise of sole/all unit holder(s),
 - 1.1.4. In case of transmission of units, document requirements under different situations vary across AMCs. Lack of uniformity in document requirements leads to confusion as the claimants of the units have to deal with the varying practices and this also leads to delays in processing of transmission and consequent redemption, if requested.
- 1.2. This report has carefully considered each of the recommendations of NISM report relating to the above issues and made suitable modifications as may be relevant for implementation across the industry.
- 1.3. Mutual Funds and RTAs are requested to take note of the following guidelines and take steps to implement the same by April 1, 2011.



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2. **“On Behalf of Minor” Accounts:** Where the account/folio (account) is opened on behalf of a minor, mutual funds and RTA should follow these guidelines, which are in line with the guidelines applicable to dematerialized accounts:
 - 2.1. The minor shall be the first and the sole holder in an account. There shall not be any joint accounts with minor as the first or joint holder.
 - 2.2. Guardian in the folio on behalf of the minor should either be a natural guardian (i.e. father or mother) or a court appointed legal guardian.
 - 2.2.1. AMC shall mandatorily obtain information on the relationship/status of the guardian as father, mother or legal guardian in the application form.
 - 2.2.2. In case of natural guardian, AMC shall obtain a document evidencing the relationship if the same is not available as part of the documents submitted as per 2.3 below.
 - 2.2.3. In case of court appointed legal guardian, supporting documentary evidence shall be obtained
 - 2.3. Date of birth of the minor along with photocopy of supporting documents as enumerated below shall be mandatory while opening the account on behalf of minor:
 - 2.3.1. Birth certificate of the minor, or
 - 2.3.2. School leaving certificate / Mark sheet issued by Higher Secondary Board of respective states, ICSE, CBSE etc., or
 - 2.3.3. Passport of the minor, or
 - 2.3.4. Any other suitable proof evidencing the date of birth of the minor.
3. **Minor Attaining Majority - Status Change:** When the units are held on behalf of the minor, the ownership of the units rests with the minor. A guardian operates the account until the minor attains the age of majority.

When a minor turns major, mutual funds shall obtain relevant documents and follow the guidelines as enumerated below:

- 3.1. Prior to minor attaining majority, mutual funds shall send advance notice to the registered correspondence address advising the guardian and the minor to submit an application form along with prescribed documents (as per 3.5 below) to change the status of the account to “major”. The notice shall clearly state that all transactions including SIP, STP, SWP shall be



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- suspended in case the documents to change the status are not received by the date when the minor attains majority.
- 3.2. The account shall be frozen for operation by the guardian on the day the minor attains the age of majority and no transactions shall be permitted till the documents for changing the status as stated in 3.1 are received.
 - 3.3. AMC shall suspend all standing instructions like SIPs, SWPs, STPs etc. from the date of the minor attaining majority, by giving adequate notice prior to that date.
 - 3.4. AMC shall register standing instructions like SIP, SWP, STP in a minor folio only till the date of the minor attaining majority, though the instructions may be for a period beyond that date.
 - 3.5. List of standard documents to change account status from minor to major:
 - 3.5.1. Services Request form, duly filled and containing details like name of major, folio numbers, etc.
 - 3.5.2. New Bank mandate where account changed from minor to major,
 - 3.5.3. Signature attestation of the major by a manager of a scheduled bank / Bank Certificate / Letter,
 - 3.5.4. KYC acknowledgement of the major.
 - 3.6. In case of existing folios where date of birth may not be available, AMCs shall obtain this information and update their records at the earliest.
 - 3.7. In case of existing standing instructions like SIP, SWP, STP which are registered for a period beyond the minor's date of majority, AMCs shall intimate such investors that the standing instructions will be executed only till the date of the minor attaining majority.
4. **Change in Guardian:** When there is a change in guardian either due to mutual consent or demise of existing guardian, mutual funds shall seek the following documents prior to registering the new guardian:
- 4.1. Request letter from the new guardian,
 - 4.2. No Objection Letter (NoC) or Consent Letter from existing guardian or Court Order for new guardian, in case the existing guardian is alive.



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- 4.3. Notarized copy or attested copy of the Death Certificate of the deceased guardian, where applicable. The attestation may also be done by a special executive magistrate, AMC authorised official or manager of a scheduled bank.
- 4.4. The new guardian must be a natural guardian (i.e. father or mother) or a court appointed legal guardian.
 - 4.4.1. AMCs shall mandatorily obtain information on the relationship/status of the guardian as father, mother or legal guardian in the application form.
 - 4.4.2. In case of natural guardian, AMC shall obtain a document evidencing the relationship if the same is not available as part of the documents submitted as per 2.3 below.
 - 4.4.3. In case of court appointed legal guardian, supporting documentary evidence shall be obtained
- 4.5. Bank attestation attesting the signature of the new guardian in a bank account of the minor where the new guardian is registered as the guardian.
- 4.6. KYC of the new guardian.

5. Nomination facility

- 5.1. Mutual Funds should actively create awareness amongst investors regarding nomination facility through various information channels like application forms, letters, emails and sms to investors. Mutual funds should highlight the benefits of nomination.
- 5.2. Where the existing investments are without a nomination, a request to register a nominee shall be sent to investors through various modes i.e. letters, emails or sms.
- 5.3. The statement of account should highlight the need to nominate if the account does not have nomination.
- 5.4. Nomination should be maintained at the folio or account level and should be applicable for investments in all schemes in the folio or account.
- 5.5. Where a folio has joint holders, all joint holders should sign the request for nomination/cancellation of nomination, even if the mode of holding is not "joint". Nomination form cannot be signed by Power of attorney (PoA) holders.
- 5.6. Every new nomination for a folio/account will overwrite the existing nomination.



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- 5.7. Nomination shall be mandatory for new folios/accounts opened by individual especially with sole holding and no new folios/accounts for individuals in single holding should be opened without nomination.
- 5.7.1. Even those investors who do not wish to nominate **must sign** separately confirming their non-intention to nominate.
- 5.7.2. Nomination form/section in the application form should also have a provision for the signature of the nominee (or guardian of the nominee), though this may not be mandatory.
- 5.8. Nomination should be not allowed in a folio held on behalf of a minor.
6. **Transmission:** The following paragraphs list the documents required for transmission under various situations:
- 6.1. **Transmission to surviving unit holders in case of death of one or more unitholders:**
- 6.1.1. Letter from surviving unitholders to the Fund / AMC / RTA requesting for transmission of units,
- 6.1.2. Death Certificate in original or photocopy duly notarized or attested by gazette officer or a bank manager,
- 6.1.3. Bank Account Details of the new first unit holder as per [Annexure 1](#) along with attestation by a bank branch manager or cancelled cheque bearing the account details and account holders name.
- 6.1.4. KYC of the surviving unit holders, if not already available.
- 6.2. **Transmission to registered nominee/s in case of death of Sole or All unit holders:**
- 6.2.1. Letter from claimant nominee/s to the Fund / AMC / RTA requesting for transmission of units,
- 6.2.2. Death Certificate/s in original or photocopy duly notarized or attested by gazette officer or a bank manager,
- 6.2.3. Bank Account Details of the new first unit holder as per [Annexure 1](#) along with attestation by a bank branch manager or cancelled cheque bearing the account details and account holders name.



6.2.4. KYC of the claimant/s,

6.2.5. If the transmission amount is Rs One Lakh or more:

a. Indemnity duly signed and executed by the nominee/s - [Annexure II](#).

6.3. Transmission to claimant/s, where nominee is not registered, in case of death of Sole or All unit holders:

6.3.1. Letter from claimant/s to the Fund / AMC / RTA requesting for transmission of units,

6.3.2. Death Certificate/s in original or photocopy duly notarized or attested by gazette officer or a bank manager,

6.3.3. Bank Account Details of the new first unit holder as per [Annexure 1](#) along with attestation by a bank branch manager or cancelled cheque bearing the account details and account holders name.

6.3.4. KYC of the claimant/s,

6.3.5. Indemnity Bond from legal heir/s - [Annexure III](#).

6.3.6. Individual affidavits from legal heir/s - [Annexure IV](#).

6.3.7. If the transmission amount is below Rs One Lakh: any appropriate document evidencing relationship of the claimant/s with the deceased unitholder/s.

6.3.8. If the transmission amount is Rs One Lakh or more: Any one of the documents mentioned below:

a. Notarised copy of Probated Will, or

b. Legal Heir Certificate or Succession Certificate or Claimant's Certificate issued by a competent court, or

c. Letter of Administration, in case of Intestate Succession.

6.4. Transmission in case of HUF, due to death of Karta: HUF, being a Hindu Undivided Family, the property of the family is managed by the Karta and HUF does not come to an end in the event of death of the Karta. In such a case, the members of the HUF will appoint the new Karta who needs to submit following documents for transmission:

6.4.1. Letter Requesting for change of Karta,

6.4.2. Death Certificate in original or photocopy duly notarized or attested by gazette officer or a bank manager,



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- 6.4.3. Duly certified Bank certificate stating that the signature and details of new Karta have been appended in the bank account of the HUF - [Annexure I](#)
- 6.4.4. KYC of the new Karta and KYC of HUF, if not already available.
- 6.4.5. Indemnity bond signed by all the surviving coparceners and new Karta - [Annexure V](#).
- 6.4.6. In case of no surviving co-parceners OR the transmission amount is Rs One Lakh or more OR where there is an objection from any surviving members of the HUF, transmission should be effected only on the basis of any of the following mandatory documents:
 - a. Notarized copy of Settlement Deed, or
 - b. Notarized copy of Deed of Partition, or
 - c. Notarized copy of Decree of the relevant competent Court

6.5. Clarifications

- 6.5.1. It is clarified that PAN card copy or another proof of identity of claimant/s is not required separately if KYC acknowledgement issued by CVL is made available.
- 6.5.2. Where the units are to be transmitted to a claimant who is a minor, various documents like KYC, PAN, Bank details, indemnity should be of the guardian of the nominee.
- 6.5.3. With a view to implement common standard documentation, suggested common formats for various documents is attached as annexures for easy reference.
- 6.5.4. A ready reckoner matrix of various documents required under different situations is provided for convenience as [Annexure VI](#).

6.6. Additional risk mitigation measures:

While the list of documents mentioned in section 6.1 to 6.4 above should be taken in all cases, AMCs may consider seeking additional documents if the amount involved in transmission exceeds Rs One Lakh on a case to case basis.

In specific cases and situations related to transmission that are not enumerated in section 6.1 to 6.4 above, AMCs should adopt proper due diligence and request for appropriate documents depending on the circumstances of each case and apply the general principles enumerated in sections above before transmitting the units in favour of the claimant/s.



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7. Implementation timeline:

AMCs should modify their SID, SAI, KIM, application form, transaction form, website to incorporate these guidelines and are directed to put in place systems and processes with RTAs to implement the above mentioned guidelines and processes latest by **April 01, 2011**.