



THE AMFI CODE OF ETHICS

One of the objects of the Association of Mutual Funds in India (AMFI) is to promote the investors' interest by defining and maintaining high ethical and professional standards in the mutual fund industry. In pursuance of this objective, AMFI had constituted a Committee under the Chairmanship of Shri A. P. Pradhan with Shri S. V. Joshi, Shri C. G. Parekh and Shri M. Laxman Kumar as members. This Committee, working in close co-operation with Price Waterhouse–LLP under the FIRE Project of USAID, has drafted the Code, which has been approved and recommended by the Board of AMFI for implementation by its members. I take opportunity to thank all of them for their efforts.

The AMFI Code of Ethics, "The ACE" for short, sets out the standards of good practices to be followed by the Asset Management Companies in their operations and in their dealings with investors, intermediaries and the public. SEBI (Mutual Funds) Regulation 1996 requires all Asset Management Companies and Trustees to abide by the Code of conduct as specified in the Fifth Schedule to the Regulation. The AMFI Code has been drawn up to supplement that schedule, to encourage standards higher than those prescribed by the Regulations for the benefit of investors in the mutual fund industry.

This is the first edition of the Code and it may be supplemented further as may be necessary. I hope members of AMFI would implement the code and ensure that their employees are made fully aware of the Code.

Place : Mumbai.
Date : 11th September, 1997

A P KURIAN
CHAIRMAN



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Association of Mutual Funds in India

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1.0 INTEGRITY

- 1.1 Members and their key personnel, in the conduct of their business shall observe high standards of integrity and fairness in all dealings with investors, issuers, market intermediaries, other members and regulatory and other government authorities.
- 1.2 Mutual Fund Schemes shall be organized, operated, managed and their portfolios of securities selected, in the interest of all classes of unit holders and not in the interest of
- sponsors
 - directors of Members
 - members of Board of Trustees or directors of the Trustee company
 - brokers and other market intermediaries
 - associates of the Members
 - a special class selected from out of unitholders

2.0 DUE DILIGENCE

- 2.1 Members in the conduct of their Asset Management business shall at all times
- render high standards of service.
 - exercise due diligence.
 - exercise independent professional judgement.
- 2.2 Members shall have and employ effectively adequate resources and procedures which are needed for the conduct of Asset Management activities.

3.0 DISCLOSURES

- 3.1 Members shall ensure timely dissemination to all unitholders of adequate, accurate, and explicit information presented in a simple language about the investment objectives, investment policies, financial position and general affairs of the scheme.
- 3.2 Members shall disclose to unitholders investment pattern, portfolio details, ratios of expenses to net assets and total income and portfolio turnover wherever applicable in respect of schemes on annual basis.
- 3.3 Members shall in respect of transactions of purchase and sale of securities entered into with any of their associates or any significant unitholder.
- submit to the Board of Trustees details of such transactions, justifying its fairness to the scheme.
 - disclose to the unitholders details of the transaction in brief through annual and half yearly reports.
- 3.4 **All transactions of purchase and sale of securities by key personnel who are directly involved in investment operations shall be disclosed to the compliance officer of the member at least on half yearly basis and subsequently reported to the Board of Trustees if found having conflict of interest with the transactions of the fund.**

4.0 PROFESSIONAL SELLING PRACTICES

- 4.1 Members shall not use any unethical means to sell, market or induce any investor to buy their products and schemes

4.2 Members shall not make any exaggerated statement regarding performance of any product or scheme.

4.3 Members shall endeavor to ensure that at all times

- investors are provided with true and adequate information without any misleading or exaggerated claims to investors about their capability to render certain services or their achievements in regard to services rendered to other clients,
- investors are made aware of attendant risks in members' schemes before any investment decision is made by the investors,
- copies of prospectus, memoranda and related literature is made available to investors on request,
- adequate steps are taken for fair allotment of mutual fund units and refund of application moneys without delay and within the prescribed time limits and,
- complaints from investors are fairly and expeditiously dealt with.

4.4 Members in all their communications to investors and selling agents shall

- not present a mutual fund scheme as if it were a new share issue
- not create unrealistic expectations
- not guarantee returns except as stated in the Offer Document of the scheme approved by SEBI, and in such case, the Members shall ensure that adequate resources will be made available and maintained to meet the guaranteed returns.
- convey in clear terms the market risk and the investment risks of any scheme being offered by the Members.
- not induce investors by offering benefits which are extraneous to the scheme.
- not misrepresent either by stating information in a manner calculated to mislead or by omitting to state information which is material to making an informed investment decision.

5.0 INVESTMENT PRACTICES

5.1 Members shall manage all the schemes in accordance with the fundamental investment objectives and investment policies stated in the offer documents and take investment decisions solely in the interest of the unitholders.

5.2 Members shall not knowingly buy or sell securities for any of their schemes from or to

- any director, officer, or employee of the member
- any trustee or any director, officer, or employee of the Trustee Company

6.0 OPERATIONS

6.1 Members shall avoid conflicts of interest in managing the affairs of the schemes and shall keep the interest of all unitholders paramount in all matters relating to the scheme.

6.2 Members or any of their directors, officers or employees shall not indulge in front running (buying or selling of any securities ahead of transaction of the fund, with access to information regarding the transaction which is not public and which is material to making an investment decision, so as to derive unfair advantage).

6.3 Members or any of their directors, officers or employees shall not indulge in self dealing (using their position to engage in transactions with the fund by which they benefit unfairly at the expense of the fund and the unitholders).

- 6.4 Members shall not engage in any act, practice or course of business in connection with the purchase or sale, directly or indirectly, of any security held or to be acquired by any scheme managed by the Members, and in purchase, sale and redemption of units of schemes managed by the Members, which is fraudulent, deceptive or manipulative.
- 6.5 Members shall not, in respect of any securities, be party to-
- creating a false market,
 - price rigging or manipulation
 - passing of price sensitive information to brokers, Members of stock exchanges and other players in the capital markets or take action which is unethical or unfair to investors.
- 6.6 Employees, officers and directors of the Members shall not work as agents/ brokers for selling of the schemes of the Members, except in their capacity as employees of the Member or the Trustee Company.
- 6.7 Members shall not make any change in the fundamental attributes of a scheme, without the prior approval of unitholders except when such change is consequent on changes in the regulations.
- 6.8 Members shall avoid excessive concentration of business with any broking firm, and excessive holding of units in a scheme by few persons or entities.

7.0 REPORTING PRACTICES

- 7.1 Members shall follow comparable and standardized valuation policies in accordance with the SEBI Mutual Fund Regulations.
- 7.2 Members shall follow uniform performance reporting on the basis of total return.
- 7.3 Members shall ensure schemewise segregation of cash and securities accounts.

8.0 UNFAIR COMPETITION

Members shall not make any statement or become privy to any act, practice or competition, which is likely to be harmful to the interests of other Members or is likely to place other Members in a disadvantageous position in relation to a market player or investors, while competing for investible funds.

9.0 OBSERVANCE OF STATUTES, RULES AND REGULATIONS

Members shall abide by the letter and spirit of the provisions of the Statutes, Rules and Regulations which may be applicable and relevant to the activities carried on by the Members.

10.0 ENFORCEMENT

Members shall:

- widely disseminate the AMFI Code to all persons and entities covered by it
- make observance of the Code a condition of employment
- make violation of the provisions of the code, a ground for revocation of contractual arrangement without redress and a cause for disciplinary action
- require that each officer and employee of the Member sign a statement that he/ she has received and read a copy of the Code
- establish internal controls and compliance mechanisms, including assigning supervisory responsibility

- designate one person with primary responsibility for exercising compliance with power to fully investigate all possible violations and report to competent authority
- file regular reports to the Trustees on a half yearly and annual basis regarding observance of the Code and special reports as circumstances require
- maintain records of all activities and transactions for at least three years, which records shall be subject to review by the Trustees
- dedicate adequate resources to carrying out the provisions of the Code

11.0 DEFINITIONS

When used in this code, unless the context otherwise requires

(a) **AMFI**

“AMFI” means the Association of Mutual Funds in India

(b) **Associate**

“Associate” means and includes an ‘associate’ as defined in regulation 2(c) of SEBI (Mutual Fund) Regulations 1996.

(c) **Fundamental investment policies**

The “fundamental investment policies” of a scheme managed by a member means the investment objectives, policies, and terms of the scheme, that are considered fundamental attributes of the scheme and on the basis of which unitholders have invested in the scheme.

(d) **Member**

A “member” means the member of the Association of Mutual Funds in India.

(e) **SEBI**

“SEBI” means Securities and Exchange Board of India.

(f) **Significant Unitholder**

A “Significant Unitholder” means any entity holding 5% or more of the total corpus of any scheme managed by the member and includes all entities directly or indirectly controlled by such a unitholder.

(g) **Trustee**

A “trustee” means a member of the Board of Trustees or a director of the Trustee Company.

(h) **Trustee Company**

A “Trustee Company” is a company incorporated as a Trustee Company and set up for the purpose of managing a mutual fund.

