

KYC REQUIREMENT

KYC is an acronym for "Know Your Customer", a term commonly used for Customer Identification Process. Know Your Customer (KYC) norms are now mandatory for ALL applicants/investors (including existing investors and joint holders) to make investments in mutual fund irrespective of the amount of investment.

Know Your Client (KYC) requirement under Prevention of Money Laundering Act, 2002

SEBI had vide its circular dated October 5, 2011 notified Uniform KYC Form and supporting documents required to be used by all SEBI registered intermediaries (including Mutual Funds) for new client accounts. The uniform KYC requirement is effective from January 1, 2012.

In view of the above, the KYC form to be used by new investors for obtaining KYC compliance was modified. Accordingly, all new investors irrespective of their investment amount are required to adhere to the new KYC norms.

With a view to bringing about an uniformity in the KYC requirement and a mechanism for centralization of the KYC records in the securities market, SEBI has vide its various circulars viz. MIRSD/SE/Cir-21/2011 dated October 5, 2011, MIRSD/Cir-23/2011 dated December 2, 2011 and the SEBI (KYC Registration Agency) Regulations, 2011 mandated that an investor who deals with any of the SEBI registered entities, viz. Depository Participants (DPs), Mutual Funds, Portfolio Managers, etc. shall be required to fill the common KYC form and submit the same along with the specified documents at the account opening stage with any of the SEBI registered intermediaries ('Intermediary').

KYC is applicable for which type of transactions

- New / Additional Purchases.
- Switch Transactions.
- New SIP/MICRO SIP Registrations (including SIP related products) received from effective date.
- New STP Registrations (including STP related products like trigger facilities) received from effective date.
- New DTP Registrations (including DTP related products) received from effective date.

It is clarified that KYC norms are applicable on a prospective basis. For existing SIP / STP / DTP registrations (and similar facilities), KYC norms as applicable on the date of acceptance of the request are applicable, unless specifically mentioned.

With effect from January 01, 2012 (KRA guidelines by SEBI):

To bring uniformity in securities markets, SEBI vide its circular MIRS D/SE/Cir-21/2011 dated 05th October 2011 has prescribed uniform KYC form and supporting documents to be used by SEBI registered intermediaries such as DPs, MFs, AMFI, PMs, Collective Income Schemes and Venture Capital Funds.

For this purpose, KYC registration is centralized through KYC Registration Agencies (KRAs) registered with SEBI. Thus each investor has to undergo a uniform KYC process only once in the securities market and the details would be shared with other intermediaries by the KRAs.

Key changes in the KYC norms, effective January 01, 2012

- **In-Person Verification (IPV)** – Information provided in the KYC form has to be verified in person by the AMC, its Registrar and Transfer Agent (RTA) or distributors who are AMFI / NISM certified and compliant with Know Your Distributor (KYD) guidelines.
- **KYC Application Forms** – Some changes have been made in the KYC application form and are listed below for ready reference.

Individual investors:

- Marital status to be provided.
- Proof to be submitted for PAN exempt investors has been listed.
- Income details – the slabs have been modified and an option of providing net worth as on a recent date in lieu of gross annual income has been provided.
- Proof of Address and Identity – there are some changes in the list of acceptable documents.

Non-individual investors:

- Place of incorporation, date of commencement of business have been added.
- Income details – the slabs have been modified, and additional information on the net worth as on a recent date has been sought. Proof to be submitted for PAN exempt investors has been listed.
- Following details of Promoters / Partners / Karta / Trustees / Whole time directors are required: Name, PAN with proof, DIN (for directors) / UID, if any (for others), address proof and photographs.
- Photograph of any one of the authorized signatories on the KYC application form.
- Copy of the balance sheets for the last 2 financial years and thereafter to be submitted every year.
- Copy of latest share holding pattern.

- Exemptions/Clarifications to PAN

For the following set of customers/transactions, while PAN is not mandatory, KYC requirements are necessary.

- Investors residing in the state of Sikkim.
- Lump sum investment (fresh purchase & additional purchase) and SIP installments by an investor in rolling 12 months period or financial year i.e. April to March does not exceed Rs. 50,000/-.
- Transactions undertaken on behalf of Central Government and/or State Government and by officials appointed by Courts e.g. Official liquidator, Court receiver etc.

Such customers also need to get their KYC done by filling up the KYC forms and all necessary details, in lieu of PAN. The application form from such customer should be accompanied with duly filled KYC form or an acknowledgement of KYC.

- In-Person Verification (IPV) and Document Verification/Attestation:

1. 1. IPV and Document Verification shall be conducted only by the following:

1. Employees of AMC
2. RTA appointed by the AMC
3. KYD Compliant Distributors, with valid ARN
4. Authorized official of a scheduled commercial bank, only in case of Direct applications

2. The following needs be recorded on the KYC form:

1. Name of the person doing attestation of documents/IPV, his designation, organization, his signatures and date of IPV
2. ARN code and name of the distributor in case of attestation/IPV done by a valid ARN holder

3. Where IPV/Document verification is done by a sub-broker:

1. The sub broker ARN code should be KYD compliant, with valid ARN
2. The sub broker should additionally affix the following three details on the KYC application form
3. Sub-broker's ARN code,
4. ARN code of the main distributor
5. Sub broker code allotted to the sub-broker by the main distributor

4. Attested copies of the KYC documents can be accepted, if the same are attested by the list of people authorized to attest the documents, as mentioned on the KYC forms.

5. Special note for distributors:

1. In case of attestation/IPV done by a sub broker, the main distributor under whose code the folio is opened shall also be responsible for the KYC process, including the IPV, conducted by the sub broker
2. Distributors undertaking verification of documents and the IPV shall exercise due care and diligence while validating the documents and verifying the identity of the client in-person
3. Various due diligences to be exercised by the distributors (including sub-brokers who are registered with AMFI) while conducting the KYC process will form part of Code of Conduct prescribed for distributors

What is 'missing KYC information' that needs to be provided

Pursuant to SEBI Circular issued on April 13, 2012, all intermediaries are required to obtain 'certain missing KYC information' afresh as and when new clients intend to invest/trade/deal with the intermediary.

This is the KYC information that has been prescribed by SEBI as part of minimum KYC requirements vide SEBI circular dated 5th October 2011, but was not prescribed earlier for any intermediary including Mutual Funds.

In case of Individuals are, details to be taken afresh are:

- Father's/Spouse Name,
- Marital Status,
- Nationality,
- Gross Annual Income Or Net worth as on recent date
- In-Person Verification (IPV)

In case of Non Individuals, full KYC needs to be done afresh due to significant and major changes in KYC requirements

FAQ to Assist

- Will the new KYC requirement effective 01st Jan 2012 be applicable to both New & Existing investors

The KYC requirement which is effective from 01st Jan 2012 will be applicable to New investors only. However, if the existing KYC compliant investor would like to deal with any SEBI registered intermediary other than mutual funds, they will have to follow the new KYC compliance procedure.

What will be the steps followed by an investor to be KYC compliant starting 01st Jan 2012

The investor has to follow the below steps for being KYC Compliant starting 01st Jan 2012

- Fill up the new KYC Application form as available on any of the KRA's web site.
- The investor has to submit the application form in person at any of the offices designated as Intermediaries by the KYC Registration Agency (KRA).
- Obtain a temporary acknowledgement for submission of all the documents and completion of IPV; Once all the documents are verified by a KRA, they will send the investor a letter within 10 working days from the date of receipt of necessary documents by them from the Fund or its Registrar and Transfer Agent informing the investor either about compliance by the investor of the new KYC compliance procedure ("**final acknowledgement**") or any deficiency in submission of details or documents.

Who can do IPV?

- In case of Stock brokers, their sub-brokers or Authorized Persons (appointed by the stock brokers after getting approval from the concerned Stock Exchanges in terms of SEBI Circular No. MIRSD/DR-1/Cir-16/09 dated November 06, 2009) can perform the IPV.
- In case of Mutual Funds, their Asset Management Companies (AMCs) and the distributors who comply with the certification process of National Institute of Securities Market (NISM) or Association of Mutual Funds (AMFI) and have undergone the process of 'Know Your Distributor' (KYD) can perform the IPV. However, in case of applications received by the mutual funds directly from the clients (i.e. not through any distributor), they may also rely upon the IPV performed by the scheduled commercial banks.
- Distributors who are NISM /AMFI certified and have done their KYD
- For direct applications received, IPV may be done by Scheduled Commercial Banks

Which are the Intermediaries as per the SEBI Circular

KYC Registration Agencies (KRAs)
Stock Brokers through Stock Exchanges.
Depository Participants (DPs) through Depositories.
Mutual Funds (MFs)
Portfolio Managers (PMs)
Venture Capital Funds (VCFs)
Collective Investment Schemes (CIS)

What is the new KRA regulation issued by SEBI and what is the effective date

Presently for a client to invest with different intermediaries in the security market, he / she had to undergo the process of KYC separately with each of them. To create standardization and avoid duplication, SEBI has mandated uniform KYC for the securities market effective Jan 1st, 2012 thru the KYC Registration Agency(s) (KRA).

How long does the KYC formalities take for the investor to invest

The KYC acknowledgement letter will be generated immediately by the intermediary, if the requisite documentation is in place. The communication from the KRA will take 10 working days from the date of receipt of the original documents from the intermediary.

Will KYC be applicable for Micro SIP Investor

Yes. Micro SIP application needs to be accepted with the required Proof of Identity and Proof of Address along with the IPV formalities as defined in the KYC application form.

Who are the List of people authorized to attest the KYC documents

Notary Public, Gazetted Officer / Manager of a Scheduled Commercial / Co-operative bank or Multinational Foreign Banks (name, Designation & Seal should be affixed on the copy).

Who are the List of people authorized to attest the NRI related KYC documents

In case of NRIs, authorized officials of overseas branches of Scheduled Commercial Banks registered in India, Notary Public, Court Magistrate, Judge, Indian Embassy / Consulate General in the country where the client resides are permitted to attest the documents

Can the investor use the old KYC Application forms starting 01st Jan 2012

No the investor has to use the new KYC Application form as available on the Fund's, AMFI's as well as any of the KRA's web site.

Which agency will act as a KRA for processing the KYC Application forms effective 01st Jan 2012

As of now CDSL Ventures Limited (CVL), NDML, CAMS and DOTEX will act as the KRA for processing the KYC Application forms effective 01st Jan 2012.

Is "In Person Verification" mandatory (IPV) for all the KYC Applications received effective 01st Jan 2012?

Yes.

How does the investor transact in Mutual Fund after completing the KYC process

Investors must attach their KYC Acknowledgement along with the Investment Application Form(s) / Transaction Slip(s) while investing for the first time in a mutual fund. Applications Forms / Transaction Slips investors not accompanied by KYC Acknowledgement are liable to be rejected by the Mutual Fund.

Does the KYC Acknowledgement have an expiry date

No. Once the KYC Acknowledgement is obtained and informed to a Mutual Fund, it will be registered against the folio and quoted in all future account statements. The same will exist in perpetuity, unless cancelled by KRA.

Are there any special requirements for an NRI

Yes. Such applicants must furnish a certified copy of proof of their identity (their PAN). PAN is the sole identification number for KYC compliance. Also a copy of their overseas / local address proof (as applicable) certified by a local authority / Indian embassy / consulate is required. If documents are not in the English language, they must be translated into English.

What about Minor becoming Major

Upon a Minor attaining the age of majority (i.e. on completing 18 years of age), he/she must be KYC Compliant and have KYC Acknowledgement of their own. The same should be informed to the Mutual Fund where he/she holds an investment, along with other details such as the Bank Details, Signature, etc as per the present requirements of such Mutual Fund.

Is the Aadhaar card accepted as proof of address

In reference to SEBI circular CIR/MIRSD/ 09 /2012 dated 13 August 2012 the Aadhaar card can be submitted as proof of address.