

AMFI - Frequently Asked Questions (“FAQ”) on income distributed under dividend option of Mutual Fund Schemes (hereinafter referred to as “Dividends”) on or after April 1, 2021

Ref: SEBI Circular no. SEBI/HO/IMD/DF3/CIR/P/2020/194 dated October 05, 2020 on Review of Dividend option/plans in Mutual Fund Schemes.

1. What changes are being introduced in respect of dividend option of Mutual Fund Schemes in the above SEBI Circular ?

Ans: As per the abovementioned SEBI Circular, whenever distributable surplus is distributed under Dividend Plan, the AMCs are required to clearly segregate and disclose (i) income distribution (appreciation in NAV) and (ii) capital distribution (Equalisation Reserve) in the Consolidated Account Statement (CAS) provided to the investors.

SEBI has also stipulated that all the existing and proposed Schemes of Mutual Funds shall name / rename the Dividend option(s) in the following manner:

Option / Plan (existing)	New nomenclature
Dividend Payout	Payout of Income Distribution cum capital withdrawal option
Dividend Re-investment	Reinvestment of Income Distribution cum capital withdrawal option
Dividend Transfer Plan	Transfer of Income Distribution cum capital withdrawal plan

2. What is the purpose of the above regulatory directive?

Ans: The regulatory intent of the regulatory directive is to clearly communicate to the investors that, under Dividend Option of a Mutual Fund Scheme, certain portion of the capital (Equalization Reserve) can be distributed as dividend. Accordingly, SEBI circular requires Mutual Funds to rename Dividend option(s) as per the above table.

3. What is the effective date for implementation of the above change?

Ans: The above provisions are effective from April 1, 2021 for income distributed under ‘Dividends Option/Plan’ of a mutual fund scheme wherein the Record Date falls on or after Apr 1, 2021.

4. How will the above naming convention be reflected in the CAS and MF Account statements?

Ans: Please refer to Table 1 below for details:

What gets changed	Existing value – Sample	Revised value - Sample	Where all this will reflect
Scheme name	ABC Mutual Fund - Regular - Dividend (Payout / Reinvestment)	ABC Mutual Fund - Regular - IDCW (Payout / Reinvestment)	CAS - both depository CAS and AMFI CAS
			Normal Account statement
			Capital Gain Statement
			AMC website
	ABC Mutual Fund - Regular - Daily Dividend (Payout / Reinvestment)	ABC Mutual Fund - Regular - Daily IDCW (Payout / Reinvestment)	RTA website
			All other communication to investors
	ABC Mutual Fund - Regular - Weekly Dividend (Payout / Reinvestment)	ABC Mutual Fund - Regular - Weekly IDCW (Payout / Reinvestment)	Data replication to SEBI / AMC
			Schem name in Master - NSE/BSE/CDSL/NSDL/MFU/NSE NMFII CP if required)
ABC Mutual Fund - Regular - Dividend Payout ABC Mutual Fund - Regular - Dividend Reinvestment	ABC Mutual Fund - Regular - Payout of Income Distribution cum capital withdrawal option ABC Mutual Fund - Regular - Reinvestment of Income Distribution cum capital withdrawal option	Trxn related communications sent by RTA	
		SID / SAI / KIM / Addendum	
			Fact Sheet / Abridged report and marketing reports

What gets changed	Existing value – Sample	Revised value - Sample	Where all this will reflect
Transaction description / Dividend Split	Dividend payout @ XXXXX	IDCW payout @ XXXXX - from Income Distribution - from Capital Distribution	CAS - both depository CAS and AMFI CAS Normal Account statement Capital gain statement Enquiry screens in RTA application Data replication to SEBI / AMC (Dividend Split will be available only in DPCAS/MFCAS)
	Dividend reinvest @ XXXXX	IDCW reinvest @ XXXXX - from Income Distribution - from Capital Distribution	
	Dividend transfer from XXX	IDCW transfer from XXXXX - from Income Distribution - from Capital Distribution	
	Dividend @ XXXXX transfer to XXXXXXX	IDCW @ XXXXX transfer to XXXXXXX - from Income Distribution - from Capital Distribution	

(*) Please note: TDS will be deducted @ dividend tax rates applicable both for Income distribution and Capital distribution "#" will be suffixed to IDCW and the expansion/full name will be provided below The revised scheme nomenclature would be applicable for all historic transactions as well

5. Please provide illustration as to how the break-up of dividend distribution as income distribution and capital distribution would be disclosed.

Ans : Please refer to the illustration given in Table 2 below. This break-up of income and capital distribution shall be provided in the monthly CAS sent to investors.

Record Date	30-Apr-21
Dividend Rate	7
Cum NAV on record Date	20
Total Units	1,823.67
Total Dividend	12,765.70
Dividend out of capital	5,821.26
Dividend out of appreciation	6,944.44

Investor 1:				Calculation for record date 30 April, 2021					
Date	Amount Invested	Subscription NAV (A)	Subscription Units	Movement in NAV from the date of investment to record date	Dividend declaration Rate	Capital utilised to pay dividend (per unit) (B)	Dividend paid out of appreciation in NAV (per unit)	Dividend amount paid out of capital (INR)	Dividend amount paid out of appreciation (INR)
23-Jan-21	10,000.00	12	833.33	8	7	0	7	0.00	5,833.33
05-Feb-21	10,000.00	18	555.56	2	7	5	2	2,777.78	1,111.11
25-Apr-21	10,000.00	23	434.78	0	7	7	0	3,043.48	0.00
1,823.67								5,821.26	6,944.44

PS: For the purpose of the above calculations, in case if capital is utilised to pay dividend, subscription NAV would be adjusted only for those dividends declared on or after Apr 1, 2021 and no such adjustments would be done for dividends declared prior to Apr 1, 2021

After each distribution, the capital amount at the unitholder level be adjusted (A-B) in order to arrive at a correct bifurcation for the next distribution as shown below:

Record Date	30-May-21
Dividend Rate	5
Cum NAV on record Date	15
Total Units	1,823.67
Total Dividend	11,137.82
Dividend out of capital	7,099.36
Dividend out of appreciation	4,038.46

Investor 1:				Calculation for record date 31 May, 2021					
Date	Amount Invested	Adjusted Subscription NAV	Subscription Units in the form of NFO purchase/Switch/Div Reinvestment/Dividend Transfer	Movement in NAV from the date of investment to record date	Dividend declaration Rate	Capital utilised to pay dividend (per unit) (B)	Dividend paid out of appreciation in NAV (per unit)	Dividend amount paid out of capital (INR)	Dividend amount paid out of appreciation (INR)
23-Jan-21	10,000.00	12 (12-0)	833.33	3	5	2	3	1,666.67	2,500.00
05-Feb-21	10,000.00	13 (18-5)	555.56	2	5	3	2	2,307.69	1,538.46
25-Apr-21	10,000.00	16 (23-7)	434.78	-1	5	5	0	3,125.00	0.00
1,823.67								7,099.36	4,038.46

- i. NAV at which the investor subscribes to the fund will be considered as his cost of capital for the purpose of this disclosure. In case of multiple purchases, subscription NAV for each transaction would be considered as Capital for that respective lot
- ii. At the time of each distribution, the ex- date cum dividend NAV would be compared with the capital contribution (as mentioned in point i) at each unitholder level and open lot level
- iii. The difference between the cum dividend NAV and the capital mentioned in point (i), if positive will be considered as income i.e. distributed from the appreciation in NAV. In case if the difference is negative, everything would be considered as capital distribution i.e. distributed from equalization reserve
- iv. Any balance amount distributed will be considered as capital i.e. distributed from equalization reserve
- v. After each distribution, the capital amount at the unitholder level be adjusted (i.e. reduced by the portion disclosed as distributed from the equalization reserve as mentioned in point iv) in order to arrive at a correct bifurcation for the next distribution

6. What about the break-up of dividend distribution made in the past ?

Ans: The aforesaid disclosure of break-up of dividend distribution shall be only for dividends declared on or after April 1, 2021 and not for dividends declared prior to Apr 1, 2021.

7. Are there any income-tax implications for the mutual fund investors due to the above regulatory provisions?

Ans: Currently, dividends distributed by a mutual fund are taxable in the hands of investors as per applicable tax rates. There is no further guidance available on the impact, if any, of the revised disclosures on taxation in the hands of investors. Investors should consult with their tax advisors for any further questions related to tax.

8. Would there be any changes in the calculations in the capital gains statement?

Ans: No. Please refer to response to Q # 6 above.

9. Would there be any changes with respect to TDS on dividends?

Ans: No. There will be no changes and TDS on dividends would continue to be deducted on the entire sum distributed, as done currently. Refer response to FAQ 6 above.

10. What should be the Scheme name on the cheque/DD for purchase transactions under the dividend option / plan?

Ans: In case the full name of the scheme including the option is written on the cheque / DD, then the new naming convention should be followed. i.e., ABC Mutual Fund - Regular - Weekly **IDCW**.

Investors are advised to refer to the instructions in this regard in respective Scheme Information Document (SID) or Key Information Memorandum (KIM) on the website of the concerned mutual fund or contact their investment adviser / MF distributor or the concerned AMC in case of any queries in this regard.

11. What is the implication on the cost in case of transmission/Scheme Merger/Segregated portfolio – What is considered as cost?

Ans: There will be no change in cost in case of transmission/Scheme Merger/Segregated portfolio.

Source: AMFI