



CIRCULAR

SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/634

October 4, 2021

All Mutual Funds

All Asset Management Companies

Association of Mutual Funds in India

All Trustee Companies/ Boards of Trustees of Mutual Funds

All Registrar and Share Transfer Agents

Sir / Madam,

Subject: Circular on Mutual Funds

A. Discontinuation of usage of pool accounts by entities including online platforms other than stock exchanges for transactions in the units of Mutual Funds

1. SEBI, *vide* circulars dated October 04, 2013 and October 19, 2016, allowed Mutual Fund Distributors ('MFDs') and SEBI registered Investment Advisers ('IAs') to use the infrastructure of recognized stock exchanges to purchase and redeem Mutual Fund ('MF') units on behalf of their clients.
2. MFDs, IAs, Mutual Fund Utilities ('MFU'), channel partners and other entities including online platforms ('service providers'/ 'platforms') are providing services to investors to transact in mutual fund units. It is observed that based on bilateral understanding with AMCs, a few platforms pool the clients' funds into a nodal account and subsequently transfer to AMCs either on per transaction basis or lump sum basis.
3. Based on the discussions with stakeholders and recommendations of the Mutual Fund Advisory Committee of SEBI, the following has been decided with respect to transactions in the units of Mutual Funds undertaken through service providers/platforms other than stock exchanges:
 - 3.1. AMCs shall ensure that the transactions (financial/ non-financial) can be executed only if there is a service agreement between the AMC and the service provider / platform.
 - 3.2. AMCs shall ensure that intermediate pooling of funds and/or units in any manner by MFDs, IAs, MFU, channel partners or any other service providers/ platforms, by

whatsoever name called, are discontinued for MF transactions. However, this requirement shall not apply to the SEBI registered Portfolio Managers subject to compliance with SEBI (Portfolio Managers) Regulations, 2020 and circulars issued thereunder.

3.3. AMCs shall put necessary systems in place to ensure the following:

- 3.3.1. For subscription, funds should be credited directly from the investors' account into the MF scheme account without any intermediate pooling. For ease of transactions, funds can be routed through payment aggregators authorized by RBI or SEBI recognized clearing corporations, as the case may be.
- 3.3.2. For redemption, funds should be directly credited to the investor's registered bank account from the MF scheme account without any intermediate pooling.
- 3.3.3. For subscription, units should be directly credited into the investor's account by the mutual fund for both demat and non-demat modes without any intermediate pooling.
- 3.3.4. For redemption, units should be directly transferred from investor's account to the mutual fund without any intermediate pooling, in both demat and non-demat modes.
- 3.3.5. MFDs / IAs, MFU, channel partners and other entities (including online platforms) facilitating MF transactions shall not accept payment through one-time mandate or issuance of mandates/ instruments in their name for mutual fund transactions.
- 3.3.6. Cheque payments from investor shall be made in favor of the respective MF Schemes only.
- 3.3.7. For better investor experience and faster transfer of funds, AMCs shall provide different methods of payment through RBI recognized modes of payment.

3.4. AMFI, in consultation with SEBI, shall issue guidelines for AMCs with regard to mitigating risks of co-mingling of funds at the level of Payment Aggregators/Payment Gateways involved in mutual fund transactions. It shall be mandatory for all AMCs to follow such guidelines.



3.5. AMCs shall ensure that for the purpose of investor servicing:

- 3.5.1. Detailed information at each stage of the relevant transaction, including rejection, shall be made available at the same time to all the stakeholders involved in the transactions, as applicable, including investors, Registrar and Transfer Agents ('RTAs'), MFDs, IAs, etc. Only payment related information required to ensure reconciliation and traceability shall be made available to the Payment Aggregators.
- 3.5.2. Information sharing shall be system generated and adequately secured.
- 3.5.3. The information sharing with respect to direct plans of mutual fund schemes shall be in line with the clarifications issued by SEBI to AMFI *vide* letter dated September 6, 2021 (can be accessed from AMFI website at <https://www.amfiindia.com/Themes/Theme1/downloads/circulars/SEBIClarificationw.r.t.transactionsunderDirectPlan.PDF>)
- 3.5.4. Cost towards system development / improvement in this regard, if any, shall not be passed on to the investors.

B. Other measures to prevent third-party payments and to safeguard the interest of unitholders

4. For mitigation of the risk of third party payments:

- 4.1. The onus of compliance with PMLA provisions and not permitting usage of third party bank account payments continues to lie with the AMCs.
- 4.2. In order to ensure that the folio and source bank account belong to the same person, AMCs shall make sure that payment for MF transactions are accepted through only such modes where independent traceability of end investor can be ensured and source account details are available as audit trail without relying on any other intermediary's records. However, the investment in MF by way of cash/ through e-wallets (Prepaid Payment Instruments) shall be in compliance with SEBI Circulars dated September 13, 2012 and May 22, 2014 (for cash) and May 8, 2017 (for e-wallets), respectively.
- 4.3. AMCs shall ensure that payment is credited directly to the registered and verified bank account of the investor mapped with the concerned folio, after due verification. The process carried out by AMCs to verify bank account details i.e.



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investor name, bank account number, bank name, etc. shall be available as audit trail.

- 4.4. In case of redemption of units, Two-Factor Authentication (for online transactions) and signature method (for offline transactions) shall be used to authenticate transactions. One of the Factors for such Two-Factor Authentication (for online transactions) shall be a One-Time Password sent to the unit holder at his/her email/ phone number registered with the AMC.
5. AMC would be liable to compensate for losses, if any, occurred to a unit holder, where unauthorised transaction(s) occur(s) in unit holder's folio due to fraud/ negligence/ deficiency on the part of the AMC, employee of AMC or persons/ entities whose services have been availed by the AMC including the platform providers, MFDs, RTAs, MFU, and channel partners, irrespective of whether or not the fraud is reported by the unit holder. For this purpose, it is clarified that any unauthorised transaction(s) performed by the Investment Advisors while providing services to the unit holder(s) would not be considered as a liability of the AMC.
6. To strengthen control with respect to verification of key details of investors like Bank account details, email id, mobile number and address etc., AMFI shall, in consultation with SEBI, issue guidelines. It shall be mandatory for all AMCs to follow such guidelines.
7. The provisions of this Circular shall be applicable with effect from April 1, 2022.
8. This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996, to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

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