



CIRCULAR

SEBI/HO/IMD/IMD-I DOF5/P/CIR/2022/29

March 15, 2022

To

All Recognized Stock Exchanges and Clearing Corporations
All Depositories
All Mutual Funds
All Asset Management Companies ('AMCs')
All Trustee Companies/ Boards of Trustees of Mutual Funds
All Registrar to an Issue and Share Transfer Agents ('RTAs')
Association of Mutual Funds in India ('AMFI')

Dear Sir / Madam,

Subject: Discontinuation of usage of pool accounts for transactions in the units of Mutual Funds: Clarifications with respect to Circulars dated October 4, 2021

1. SEBI, *vide* circular no. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/634 dated October 4, 2021, discontinued intermediate pooling of funds and/or units in Mutual Fund transactions by Mutual Fund Distributors ('MFDs'), Investment Advisers ('IAs'), Mutual Fund Utilities ('MFU'), Channel Partners or any other service providers/ platforms, by whatsoever name called. Similarly, SEBI, *vide* circular no. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/635 dated October 4, 2021, discontinued the pooling of funds and/ or units by stock brokers / clearing members in any manner for Mutual Fund transactions on Stock Exchange platforms, permitted *vide* SEBI circulars dated November 13, 2009 and dated November 9, 2010. Various other requirements related to the modalities of discontinuation of the pooling, measures to prevent third-party payments and to safeguard the interest of unitholders were also prescribed in the aforesaid Circulars. Both the said circulars come into effect from April 01, 2022.
2. On examination of various representations received from stakeholders and recommendations of the Mutual Fund Advisory Committee, for smooth implementation of the aforesaid circulars, following has been decided:



2.1. Regarding transactions in units of Mutual Funds on Stock Exchange Platforms:

2.1.1. SEBI Circular SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/635 dated October 4, 2021, *inter alia*, required that stock brokers / clearing members facilitating mutual fund transactions shall not accept payment through one-time mandate or issuance of mandates/ instruments in their name for mutual fund transactions. However, one-time mandates in favour of SEBI recognized Clearing Corporations may be accepted.

2.1.2. In this regard, it is clarified that:

- (i) Existing mandates being used for Mutual Fund transactions can continue to remain in the name of the stock brokers / clearing members, subject to Stock Exchanges/ Clearing Corporations ensuring that Payment Aggregators ("PA") puts in place mechanisms wherein beneficiary of the mandate can only be an Approved Account (which shall only be the bank account of the Clearing Corporation) such that:
 - a. PA shall directly credit the monies collected from the bank account of the investor only into an Approved Account; and
 - b. PA shall not act on instructions of the stock brokers / clearing members to alter or modify the list of Approved Accounts and in no case the monies shall be credited to the bank account of the stock brokers / clearing members.
- (ii) With respect to processing mutual fund transactions under the above mentioned mandates, Stock Exchanges/ Clearing Corporations shall:
 - a. ensure that PA has put in place adequate checks and balances, *inter alia*, to ensure such Approved Account is that of a Clearing Corporation;
 - b. enter into an agreement with the concerned PA to ensure that only those mutual fund transactions are processed through them which are in compliance with this Circular read with the aforementioned Circular no. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/635 dated October 4, 2021; and
 - c. have adequate checks and balances to monitor and govern the receipt of payments through the PA, including by way of third party audits (at least on an annual basis), to verify the compliance with these provisions which shall form part of the agreement with the PA.

2.1.3. Stock Exchanges/ Clearing Corporations shall provide investor grievance redressal / arbitration mechanism to clients against stock brokers/ clearing members (as is applicable for other segment of Stock Exchange transactions), in case of breach of these conditions or misuse of funds by the PA appointed by



the stock brokers/ clearing members or by the stock brokers/clearing members with respect to mandates accepted in respect of Mutual Fund transactions.

2.1.4. On or after April 01, 2022, new mandates shall be accepted only in favour of SEBI recognized Clearing Corporations and those mandates shall exclusively be for subscriptions to units of Mutual Fund schemes and not for any other purpose.

2.2. Regarding transactions in units of Mutual Funds facilitated by entities including online platforms other than stock exchanges

2.2.1. SEBI Circular SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/634 dated October 4, 2021, *inter alia*, required that MFDs / IAs, MFU, channel partners and other entities (including online platforms) (“OTM Holders”) facilitating MF transactions shall not accept payment through one-time mandate or issuance of mandates/ instruments in the name of the OTM holders for mutual fund transactions.

2.2.2. In this regard, it is clarified that:

- (i) Existing mandates being used for Mutual Fund transactions can continue to remain in the name of such OTM holders, subject to AMCs ensuring that the PA puts in place mechanisms wherein beneficiary of the mandate can only be an Approved Account (which shall only be the bank account of a mutual fund pool account or mutual fund scheme account) such that:
 - a. PA shall directly credit the monies collected from the bank account of the investor only into an Approved Account, with the credit being made as per the mandate/ instruction given to the OTM holder by the client; and
 - b. PA shall not act on instructions of the OTM holder to alter or modify the list of Approved Accounts and in no case the monies shall be credited to the bank account of the OTM Holder.
- (ii) With respect to processing mutual fund transactions under the above mentioned mandates, AMCs shall:
 - a. ensure that PA has put in place adequate checks and balances, *inter alia*, such that Approved Account is that of a mutual fund scheme or mutual fund registered with SEBI;
 - b. enter into an agreement with the concerned PA to ensure that only those mutual fund transactions are processed through them which are in compliance with this Circular read with the aforementioned Circular no. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/634 dated October 4, 2021; and
 - c. have adequate checks and balances to monitor and govern the receipt of payments through the PA, including by way of third party audits (at least



on an annual basis), to verify the compliance with these provisions which shall form part of the agreement with the PA.

2.2.3. AMCs shall be liable to the unit holders for breach of these conditions or misuse of funds by PA or OTM holder with respect to mandates covering Mutual Fund transactions.

2.2.4. On or after April 01, 2022, new Mandates may be accepted in the name of the OTM holders, subject to compliance with conditions mentioned in Para 2.2.2 above and those mandates shall exclusively be for subscriptions to units of Mutual Fund schemes and not for any other purpose.

2.3. For the purpose of this Circular, the term:

- (i) "mandate" includes instrument, authorisation or order in any form, including electronic means, to effect a payment by a person for the purpose of mutual fund investment; and
- (ii) "Payment Aggregators" includes Payment Aggregators authorized / permitted by RBI and scheduled commercial banks acting in the capacity of Payment Aggregators.

2.4. Clause 4.4 of the SEBI Circular no. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/634 dated October 4, 2021 stands modified as under:

"4.4. In case of redemption of units, Two-Factor Authentication (for online transactions) and signature method (for offline transactions) shall be used for authentication. One of the Factors for such Two-Factor Authentication for non demat redemption shall be a One-Time Password sent to the unit holder at his/her email/ phone number registered with the AMC. In case of demat redemption, process of authentication as laid down by the Depositories shall be followed."

3. All other requirements of the Circulars dated October 4, 2021 shall remain unchanged.
4. Stock Exchanges and Depositories are directed to bring the provisions of this circular to the notice of their members / participants and also disseminate the same on their websites.
5. The AMCs, recognised Stock Exchanges, Depositories, recognised Clearing Corporations and Registrar to an Issue and Share Transfer Agents shall take necessary steps for implementing the circular including putting in required processes and systems in place to ensure compliance with the provisions of this circular.



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

6. The provisions of this Circular shall be applicable with effect from April 01, 2022 except the requirement at clause 2.4 above which shall be applicable with effect from April 15, 2022.
7. 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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