

CIRCULAR

SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/635

October 4, 2021

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')

Sir / Madam,

Subject: Discontinuation of usage of pool accounts for transactions in units of Mutual Funds on the Stock Exchange Platforms

1. SEBI, *vide* circular SEBI/IMD/CIR No.11/183204/2009 dated November 13, 2009 and circular CIR/IMD/DF/17/2010 dated November 9, 2010, permitted units of mutual fund schemes to be transacted through registered stock brokers and clearing members respectively, by using stock exchange infrastructure. Presently, funds and / or units of the mutual fund schemes move through stock brokers' / clearing members' pool accounts in an aggregate manner to client account or Clearing Corporation/ AMC account, as the case may be.
2. In addition to the above, SEBI, *vide* circular CIR/MRD/DSA/32/2013 dated October 04, 2013 and circular SEBI/HO/MRD/DSA/CIR/P/2016/113 dated October 19, 2016, allowed Mutual Fund Distributors ('MFDs') and Investment Advisers ('IAs') to use the infrastructure of the stock exchanges to purchase and redeem mutual fund units on behalf of their clients.
3. Based on discussions with stakeholders and recommendations of the Mutual Fund Advisory Committee, with respect to the transactions covered under circulars mentioned in para 1 above, following has been decided:
 - i. Pooling of funds and/ or units by stock brokers / clearing members in any form or manner shall be discontinued for mutual fund transactions.
 - ii. Similar to mechanisms for transactions in mutual fund units by MFDs and IAs, stock exchanges shall put necessary mechanisms in place for stock brokers / clearing members also, to ensure that funds pay-in is directly received by the clearing corporation from the investor account and funds pay-out is directly made to the investor account. Pay-in / pay-out of funds shall not be handled by the stock brokers / clearing members. In the same manner, for both demat

and non-demat mode transactions, the units shall be credited and debited directly to/ from the investors' demat account/ folio account without routing it through the pool account of the stock brokers / clearing members. However, for redemption of units held in dematerialised mode, the practice of issuance of Delivery Instruction Slip ('DIS') (physical or electronic) to the Depository Participant to debit the units for delivery to clearing corporation may continue.

4. It is further clarified that stock brokers / clearing members facilitating mutual fund transactions shall:
 - i. not accept mandates for SIPs or Lumpsum transactions in their name;
 - ii. accept cheque payments from investors issued in favor of the respective SEBI recognized Clearing Corporations or mutual fund scheme(s) only;
 - iii. not accept or handle funds or units of investors in their proprietary accounts or pool accounts in any form or manner; and
 - iv. 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.
5. The onus of compliance with PMLA provisions and not permitting transactions with third party bank account continues to lie with the AMCs. AMCs may avail the services of SEBI recognized Clearing Corporations to validate the investors' source bank account information. In such cases, Clearing Corporation shall make the necessary source account details available to AMCs.
6. Further, to facilitate investor servicing and parity in information dissemination, Stock Exchanges, Depositories, AMCs, RTAs, and other entities involved in mutual fund transactions, shall ensure the following:
 - i. Relevant information shall be made available to all the stakeholders involved in the transactions, including the investor, banks, payment aggregators, stock brokers, clearing members, clearing corporations, RTAs and AMCs in line with the Operating Guidelines issued by the Stock Exchanges in this regard.
 - ii. The information sharing as above, shall be system generated and adequately secured. Cost towards system development / improvement in this regard, if any, shall not be passed on to the investors.

7. Stock Exchanges and AMFI shall jointly, in consultation with SEBI, issue Operating Guidelines to stock brokers/ clearing members and AMCs respectively, to facilitate the mutual fund transactions on stock exchange platforms. The Operating Guidelines shall include, *inter-alia*, roles and responsibilities of various stakeholders, timelines with respect to activities specified in this circular, sharing of system generated information among various stakeholders at relevant stage of the transaction in a secured environment, sharing of relevant information with concerned entities to perform functional, tax and regulatory obligations, etc. All the concerned intermediaries shall comply with the aforesaid Operating Guidelines.
8. It is reiterated that in terms of Regulation 4 (g) of SEBI (Investment Advisers) Regulations, 2013, stock brokers are required to comply with general obligations and responsibilities specified in Chapter III of SEBI (Investment Advisers) Regulations, 2013, which, *inter-alia*, provide that client level segregation of advisory and distribution activities needs to be ensured at the entity and group level.
9. 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.
10. The AMCs, recognised Stock Exchanges, Depositories and recognised Clearing Corporations shall take necessary steps including putting the required systems in place to ensure compliance with the provisions of this circular.
11. The provisions of this Circular shall be applicable with effect from April 01, 2022.
12. 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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