

Broad Guidelines to Stock brokers/ Clearing members in respect of mutual fund transactions on stock exchange platforms.

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.

SEBI vide circular SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/635 dated October 4, 2021, had directed for Discontinuation of usage of pool accounts for transactions in units of Mutual Funds on the Stock Exchange Platforms. Various other requirements related to the modalities of discontinuation of the pooling, measures to prevent third-party payments, etc. were also prescribed in the said circular.

SEBI vide circular SEBI/HO/IMD/IMD-I DOF5/P/CIR/2022/29 dated March 15, 2022, has issued clarifications with respect to circular dated October 4, 2021.

Accordingly, the following has been decided with respect to the transactions covered under circulars mentioned in para 1 above:

1. Pooling of funds and/ or units by stock brokers / clearing members in any form or manner shall be discontinued for mutual fund transactions.
2. Pay-in / pay-out of funds shall not be handled by the stock brokers / clearing members.
3. 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.
4. It is further clarified that:
 - i. existing mandates being used for mutual fund transactions can continue to remain in the name of stock brokers / clearing members, subject to Stock Exchanges / Clearing Corporations ensuring that Payment Aggregators (PA) put in place mechanisms wherein beneficiary of the mandate can only be the bank account of the Clearing Corporation.
 - ii. PA shall directly credit the monies collected from the bank account of the investor only into the bank account of the Clearing Corporation.
 - iii. PA shall not act on the instructions of the stock brokers / clearing members to alter or modify the list of approved bank account and in no case the monies shall be credited to the bank account of the stock brokers / clearing members.
 - iv. on or after April 1, 2022, new mandates shall be accepted only in favour of SEBI recognised Clearing Corporations and those mandates shall exclusively be used for subscriptions to units of Mutual Fund schemes and not for any other purpose.
 - v. cheque payments from investors issued in favour of the respective SEBI recognized Clearing Corporation only shall be accepted
 - vi. Stock Brokers / Clearing members shall not accept or handle funds or units of investors in their proprietary accounts or pool accounts in any form or manner

- vii. Stock Brokers / Clearing members shall instruct clients/ investors using NEFT / RTGS / Direct Debit facilities for investment in MF, to directly transfer the funds to the bank account of the Clearing Corporation
 - viii. Stock Brokers / Clearing members shall instruct the Payment Aggregators/Banks to directly credit the funds received from the investors using Payment Gateway, UPI, Mandate, direct debit facility, etc. for investment in MF, to the bank account of the Clearing Corporation
5. Stock Brokers / Clearing Members to ensure compliance with the PMLA provisions and provide details of valid bank account/s and demat account/s of the client.
 6. 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.
 7. Stock Brokers / Clearing Members (SB / CM) and Mutual Fund Distributors (MFDs) shall provide all demographic details including valid email id and mobile number of their client as a part of client registration on Exchange platform.
 - i. In case of demat transactions, requirements shall as below:
 - Stock Brokers / Clearing Members shall be primarily responsible for the below details while client registration on Exchange platform-
 - PAN, KYC compliance, FATCA, UBO, Bank Mandate (in OTM holder's name)
 - Provision of Bank account and Demat account details with Third Party Validation (TPV)
 - Email ID and Mobile Number
 - Exchanges shall be responsible for the above-mentioned points for demat transactions by MFDs.
 - ii. In case of non-demat transactions, requirements shall be as below:
 - Stock Brokers / Clearing Members and MFDs shall be required to upload an Account Opening Form (AOF) on Exchange platform as per the existing practice.
 - If the client onboarding is done through physical mode, then the AOF shall be duly signed by the client.
 - Stock Brokers / Clearing Members shall be primarily responsible for validating the details including PAN, KYC, FATCA, UBO, bank mandate, email id and mobile for non-demat transactions.
 - Stock Exchanges / Clearing Corporation shall validate the details including PAN, KYC, FATCA, UBO, bank mandate entered by the MFDs.
 8. For Two-factor authentication for redemption/switch transactions in non-demat mode Mobile number and Email id of the client as registered with AMC shall be considered.
 9. In case of demat redemption/switch, process of authentication as laid down by the Depositories shall be followed.
 10. Stock Exchange / Clearing Corporations shall extend investor grievance redressal / arbitration mechanism to clients against stock brokers / clearing members (as is applicable for other segments of Stock Exchange), in case of breach of these conditions or misuse of funds by the

PA appointed by the Stock Brokers / Clearing Members with respect to mandates accepted in respect of Mutual Fund transactions.

11. Stock Brokers and Clearing Members are directed to bring the provisions of this circular to the notice of their clients / investors and also disseminate the same on their websites.
12. Stock Brokers and Clearing Members shall take necessary measures including putting the required systems and processes in place to ensure compliance with the provisions of this circular.
13. All other requirements of the circular dated October 4, 2021, shall remain unchanged.
14. The provisions of this Circular shall be applicable with effect from April 01, 2022.
