

Annexure 1

Operating Guidelines post discontinuation of pool accounts for transactions in units of Mutual Funds on the Stock Exchange Platforms

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. Further SEBI vide its circular SEBI/HO/IMD/IMD-I DOF5/P/CIR/2022/29 dated March 15, 2022 has issued clarification regarding the one time mandates in name of stock brokers/clearing members.

Further, it was decided that 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.

Accordingly, the operating guidelines in respect of the various aspects described in the aforesaid SEBI circular are as follows:

Client Registration:

Stock Brokers / Clearing Members (SB / CM) and Mutual Fund Distributors (MFDs) shall provide all demographic details of their client as a part of client registration on Exchange platform.

In case of demat transactions, requirements shall as below:

- ☐ SB / CM shall be primarily responsible for the below details while client registration on Exchange platform
 - KYC compliance, FATCA, UBO
 - Provision of Bank account and Demat account details with Third Party Validation (TPV)
 - Email id and mobile number
- ☐ The above points should be covered under the scope of inspection / audit done by the exchanges for SB/CM
- ☐ Exchanges shall be responsible for the above-mentioned points for demat transactions by MFDs.

In case of non-demat transactions, requirements shall be as below:

- ☐ SB / CM and MFDs shall be required to upload an Account Opening Form (AOF) on Exchange platform.
- ☐ If the client onboarding is done through physical mode, then the AOF shall be duly signed by the client.
- ☐ If the client onboarding process is done in a digital manner, then IP address of the equipment used by the client for authentication can be captured in place of wet signature by the client.

Further, AMCs & RTAs shall allow the provision of Electronic Log (ELOG) facility to Exchange platforms for Individual mode of holding for digitally onboarded clients. In case of any disputes raised by investor on transaction routed through Exchange platform with ELOG facility, the onus of providing logs / supporting documents / details shall rest with the Exchange

In addition to the above, Stock Exchanges (SEs) / Clearing Corporation (CCs) shall validate the details including PAN, KYC, FATCA, UBO, bank mandate entered by the MFDs. SB/CM shall be primarily responsible for validating the details including PAN, KYC, FATCA, UBO, bank mandate, email id and mobile for non-demat transactions. Accordingly, as mentioned in point no. 5 of the aforesaid SEBI circular 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.

Payment Modes:

One Time Mandate (OTM)

In partial modification of point 4 (1) of the aforesaid SEBI circular, it is further clarified that stock brokers / clearing members facilitating mutual fund transactions shall:

1. continue to hold the existing mandates for Mutual Fund Transactions (SIPs or Lumpsum transactions) in their name, however the payment through the mandates shall be directly credited to the bank account of the Clearing Corporation. Stock Brokers/Clearing Members shall provide clear identification of only mutual fund mandates to their payment aggregator along with the designated Clearing Corporation to which monies collected from investor account shall be credited. Clearing Corporation shall provide the details of Approved Account to Payment Aggregator.
2. In respect of mutual fund transactions on stock exchanges, 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
3. Rest all the sub-points under point 4 shall remain unchanged.

Other Payment Modes

For other payment modes, stock brokers / clearing members shall:

1. accept cheque drawn in favour of the respective clearing corporation from investors
2. not accept or handle funds or units of investors in their proprietary accounts or pool accounts in any form or manner
3. 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 and provide information / proof on the source account from which money is transferred
4. instruct the Payment Aggregators/Banks to directly credit the funds received from the investors using Payment Gateway, UPI, direct debit facility, etc. for investment in MF, to the bank account of the Clearing Corporation

Reporting of Transactions

Purchase Transactions

1. Exchanges shall report purchase transactions in the uniform feed file format shared by RTAs, along with the Funds in AMC's bank account. RTA's shall, from time to time, share the mandatory fields required to be forwarded by the Exchanges for repetitive transactions, like Additional Purchase in the Existing Folios, SIP/XSIP/ISIP, Redemption and Switch transactions.
2. Exchange shall ensure that all purchase transactions reported are under DPC mode only and no transactions are reported under Non-DPC (Broker mode). RTAs will validate the orders reported and found to be reported under Non-DPC mode will reject the transaction.

3. Exchange / CC to ensure that the transaction feed for purchases mandatorily includes source account number, source bank name, source account type and source bank IFSC code in addition to all other mandatory information. RTAs will build system to validate for availability of these information and where not available will reject the transaction.
4. Clearing Corporations (CC) will collect the source account from the payment aggregator / Bank from which the funds are received and after verifying that it is from the Investor's bank account provided by SB / CM and MFD while client registration, incorporate the same in the purchase feed file shared with the RTA.
5. Source account details shared by exchange / CC as part of transaction feed to RTA will be used only for the purpose of storing the information and no validations on the same from the perspective of TPV will be done by RTA.
6. After transferring the funds, CC's will arrange to upload the Credit Confirmation file for the funds transferred to AMC as per the existing file format.
7. RTA's shall process and provide the reverse feed for transactions reported by the Exchange, where the corresponding funds were credited in the AMC bank account before the SEBI stipulated deadline time, within the agreed timelines, which shall be finalized between RTAs / Exchanges / Depositories in consultation with AMCs with the applicable NAV for the respective schemes.
8. RTA's shall arrange to provide the transaction level reverse feed in existing format for such posted transactions on the morning of T/T + 1 day depending on the type of scheme to the CC for passing on the information to their members.
9. Transaction level reverse feed will consist of details of units allotted, stamp duty deducted wherever applicable, transaction charges deducted wherever applicable.
10. The allotment details shall be provided in the existing formats by RTA to clearing corporation

Credit of Units (Demat and Non-demat)

1. RTA/AMC will do the corporate action to depositories and shall arrange to credit the order wise units in the Clearing Corporations Pool / Beneficiary account for investors who have invested in Demat mode in the same manner as is currently being done.
2. The units so received by the CC shall be credited directly to the investor demat account entered by the member while registering the client.
3. In the event of failure to credit the units, such units shall be returned to the RTA with the order level information through a separate channel, which could be email to begin with. RTAs shall reverse units for such failures and return the funds to CC for onward remittance to investor. Clearing Corporation shall inform the details of rejected transactions to RTA as per the format shared by CC to RTA.
4. Further, RTA's shall arrange to provide the SOA to the investors who have invested in Non-demat mode. For those in Demat mode, all communications including SOA except for transaction confirmation will be sent from DP
5. In respect of NFO, the unit settlement shall be done directly by the RTA to the end investor. RTA shall provide the details of allotment/rejection to clearing corporation. In respect of rejection, RTAs / AMCs shall arrange to credit the refund for such rejected transactions in the designated bank account of CC within T + 5 day (where T is the date of closure of NFO). In respect of partial allotment the refund shall be given within "T+5" business days after close of NFO.

Rejection of Purchase Transactions

1. RTAs shall arrange to provide the CCs the details of transactions rejected by them with reason for rejection, latest by the end of T + 2 day (where T is day of reporting the transaction to RTA or date of applicable NAV whichever is later).
2. RTAs / AMCs shall arrange to credit the refund for such rejected transactions in the designated bank account of CC by the end of T + 2 day (where T is the date of reporting the transaction to RTA or date of applicable NAV whichever is later).
3. RTA/AMC shall ensure to provide the CCs with the order level MIS in a standard format for such credits given immediately after having credited the CC's bank account with the refund amount by T + 2 day (where T is the date of reporting the transaction to RTA or date of applicable NAV whichever is later). RTA shall provide the details of refund on T+2 day in the format shared by clearing corporation to RTA. In the event of failure to credit the refund amount to the client's bank account by CC for whatever reasons, CC shall arrange to refund the amount back to the respective AMC bank account by R + 3 (R being the day of receipt of refund by the CC or receipt of MIS of such credit whichever is later). . Clearing Corporation shall provide details of such rejections to RTA in the format shared with RTA.

Redemption Transactions (Demat)

1. Exchange / CC shall report demat redemption transactions to RTAs as per the existing reporting process.
2. The client is required to issue the Delivery Instruction Slip (DIS) to transfer the units to the CC's pool account, for which redemption transaction is placed on Exchange platform. Therefore, a separate 2 factor authorization from the client shall not be required for redemption transactions in demat mode.
3. The DIS may be issued directly by the client or through the Power of Attorney holder to the depository participant.
4. CC, shall arrange to report the redemption transactions for which the units have been received in the CC's pool account and the same have been subsequently transferred to the AMC's beneficiary account for further processing.
5. While reporting such redemption transactions, CC shall report the details of bank account of the client which is registered in the demat account or which are provided to Exchange platform while client registration.
6. Exchange shall also report the mobile and email id of the client as provided by SB / CM and MFD while client registration as a part of the transaction feed.
7. Bank mandate and Mobile/Email (used for 2FA) reported as part of transaction feed will be used by RTA only for the purpose of storing and no validations will be done on these information.

Redemption Transactions (Non-Demat)

1. Two-factor authentication for redemption transactions (effective date: April15, 2022)

As per the clarificatory circular issued by SEBI, dated 15th March'22, for all redemptions which inter-alia includes switches reported under Demat, process of authentication as laid down by the Depositories shall be followed. Hence, no additional validation on 2FA will be carried out by exchange or RTA.

In the case of Non-demat redemption including switches reported by exchange / member, 2FA needs to be carried out by exchange / member on the contact details as registered with AMC / RTA. For this purpose, member to download mail back reports from RTA (WBR-9 for CAMS / MFSD 211 for KFin) and reconcile the email id/mobile contact details as per RTA with that in their records.

As part of one-time reconciliation, which is to be done before 1st April, where contact details are not matching, member could provide the details to RTA as per the formats defined by RTA, for updating their records post basic checks including validating that the contacts are not that of the distributor, contacts match with that in KRA with a communication to investor.

Post 1st April, member to use existing mail back reports of RTA, who will also review the possibility of providing a separate report only for folios undergoing change in static details and update their records so that validation of 2FA can be carried seamlessly from their end.

To support those members who may not be storing the contact details provided by RTAs through mail back reports, RTAs will also provide an API to member / exchange to check latest email/mobile in RTA records subject to basic validations like ensuring relationship of the investor with the member / exchange by review of availability of AOF. These APIs are to be used by member / exchange only for instances where a redemption / switch transaction is to be placed by member.

Exchange/CC should provide a flag indicating mobile / email / both, to which OTP was sent by the member / exchange as part of 2FA in column 149 of the transaction feed (new 168 column format) along with the email/mobile to which the OTP was sent to be shared in the existing columns mandatorily for redemption and switch-out transactions (at the time of registration for STP/SWP). RTAs will match this with the mobile/email registered in the folio and accordingly, allow/disallow the transactions.

Funds Pay-out for Redemption transactions (Demat and Non-demat)

1. AMC / RTA shall arrange to credit the bank account of the CC/ on the day as per settlement days specified in SID of the scheme for all demat and non-demat redemption transactions of the SB and CM and the demat transactions of the Mutual fund distributors. The RTAs/AMCs will continue to credit the account of the client for Non Demat transactions of the Mutual Fund Distributors as per the existing process
2. RTA / AMC shall arrange to provide the order wise MIS in the pre-defined format to the CC, containing the details of all transactions for which credit has been made in the CC's bank account.
3. CC shall ensure that the redemption payment is made only to the end client's registered bank account.
4. In the event of failure to credit the redemption proceeds to the client's bank account by CC for whatever reasons, CC shall arrange to refund the amount back to the respective AMC bank account by T + 3 day (T being the day when redemption settlement is due). Clearing Corporation shall provide details of such rejections to RTA in the format shared with RTA.

Communication with various stake holders

1. For demat transactions, the existing mechanism of communication will continue whereby the exchange / clearing corporation will provide the transaction status, allotment details and all other relevant information to the member who in turn will provide the relevant information to their respective investors. RTAs will have the transaction confirmation sent through email / SMS. SOA and all other communication including statement of account relating to a transaction will be handled from investor's DP
2. For any adhoc communication that needs to be sent to investors having holdings under DEMAT mode, RTAs will use the information available as part of BENPOS downloaded at that point of time and send communications as is being done for investors holding physical units.
3. For transactions under Non-demat mode, communications will be sent by RTA in line with the process followed for transactions through all other sources including exchange.