



# Association of Mutual Funds in India

C-701 Naman Corporate Link, Plot Nos. C-31 / C-32, G Block, Bandra Kurla Complex, Bandra – East, Mumbai – 400 051

135/BP/ 98 /2021-22

March 28, 2022

To,  
**All AMFI Members**

Dear Members,

**AMFI Best Practice Guidelines Circular No.98 /2021-22**  
**Standardization of process for Mitigating Risks of Co-mingling of funds**  
**at the level of Payment Aggregator & Payment Gateways**

Dear Members,

SEBI Circular SEBI/HO/IMD/IMD-I DOF5/P/CIR/634 dated 4th October 2021 on discontinuation of usage of pool accounts by entities including online platforms other than stock exchanges for transactions in the units of Mutual Funds (the Circular), inter alia, vide para 3.4 prescribes that 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 and that it shall be mandatory for all AMCs to follow such guidelines.

A Working Group was formed by AMFI to deliberate on the process for mitigating risks of co-mingling of funds at the level of Payment Aggregators (PAs)/Payment Gateways (PGs). The Working Group's recommendations, arrived at after extensive deliberations, were duly endorsed by AMFI and submitted to SEBI for consideration. The final framework, based on the recommendations of the Working Group, finalised in consultation with SEBI, is appended hereto for being mandatorily adopted by all AMCs. AMCs shall ensure that these Guidelines are also communicated to the PAs/PGs with whom they have contracted for necessary compliance w.e.f. April 1, 2022.

Members are requested to confirm having noted the contents of this circular for due compliance and also to place this circular before their Trustees for information at the next meeting of the Trustees.

With regards,

  
**B. M. Kini**  
**Dy. Chief Executive**



**Guidelines for mitigating risks of co-mingling of funds at the level of Payment Aggregators (PA) /Payment Gateways ( PG) – (referred to as PA in this note for brevity)**

**1. Definitions:**

- a. **“Approved Account”** means any of the scheme/pool bank accounts maintained by mutual funds which are provided by the AMC to the PA in accordance with provisions of the Master Agreement;
- b. **“Master Agreement”** means a Master agreement, as prescribed by AMFI, between the AMCs and PAs in order to adhere to October 4 Circular and these guidelines
- c. **“October 4 Circular”** means SEBI Circular (SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/634) dated October 4, 2021, as amended by SEBI Circular (SEBI/HO/IMD/IMD-I DOF5/P/CIR/2022/29) dated March 15, 2022 and as may be further amended from time to time;
- d. **OTM** means the one-time mandate and/or direct debit payment instruction given by an individual in the name of the OTM Holder to debit his bank account(s) on his behalf , and identified by the OTM Holder to the PA as being towards subscription of units of mutual fund scheme(s);
- e. **“OTM Holder”** means any mutual fund distributors registered with AMFI, investment advisors registered with SEBI, MF Utilities India Private Limited, registrar & share transfer agents registered with SEBI, and other entities having a valid agreement with the AMC(s) and permitted to distribute/advice on/execute transactions in mutual fund units to the investors (including prospective investors), and having a valid OTM registered in their favour;
- f. **“Payment Aggregators”** or **“PA”** includes Payment Aggregators authorized / permitted by RBI and scheduled commercial banks acting in the capacity of Payment Aggregators.
- g. **“PA Agreement”** means the agreement executed between the PA and the OTM Holder/PI Holder;
- h. **“Payment Instruction”** or **“PI”** means any instrument, authorisation or order in any form, including electronic means, to effect a payment by a person for the purpose of mutual fund investment;



- i. **“PI Holder”** means any mutual fund distributors registered with AMFI, investment advisors registered with SEBI, MF Utilities India Private Limited, registrar & share transfer agents registered with SEBI, and other entities having a valid agreement with the AMC(s) and permitted to distribute/advice on/execute transactions in mutual fund units to the investors (including prospective investors) and having a valid Payment Instruction issued by the investors.
2. Asset Management Companies (AMC) shall have an agreement with PA for availing payment gateway and payment aggregation services to facilitate the transfer of money from the investors’ bank accounts to the designated account of the mutual fund for completion of the investors’ payment obligations for the purchase of units of schemes issued by the mutual fund.
3. While the OTM or the PI registered/issued by the investors for mutual fund transactions may continue in the name of the OTM Holders/PI Holders, AMCs shall ensure that the PA puts in place mechanisms wherein beneficiary of such mandates can only be an Approved Account and the amount collected through such OTM Holder/PI Holder shall be credited only to the Approved Account as designated by the respective AMC.
4. In order to ensure adherence to the October 4 Circular and these guidelines, inter alia including clause 3 above, AMCs shall execute a Master Agreement with each of the PAs on or before March 31, 2022.
5. AMC shall ensure that the PA execute or modify existing agreement/arrangement with the respective OTM Holders/PI Holders for facilitating mutual fund transactions to substantially cover the provisions set out in the Addendum contained in the Master Agreement (Addendum), while ensuring that the spirit of the clauses in the Addendum shall remain as is, on or before April 1, 2022 to ensure compliance with the terms and conditions mentioned in the Master Agreement.
6. AMC shall further ensure that all future agreements executed with the PA and by the PA with the OTM Holders/PI Holders in this regard shall be executed in strict compliance with the terms and conditions of the Master Agreement.
7. AMC and PA shall ensure that new OTM/PI taken from investors effective April 1, 2022 shall not be used for any purpose other than subscription of mutual fund units.



8. With effect from April 1, 2022, for all existing and new OTM/PI used for collection of money towards subscription of mutual fund units, AMC shall ensure that the PA shall only credit the monies collected from the account of the investors directly into an Approved Account and the same shall not be credited to the account of the OTM Holder/PI Holder. The PA shall ask the OTM Holder/PI Holder to identify the respective mutual fund or mutual fund scheme basis the subscription application received from the respective investors. Basis the information received from the OTM Holder/PI Holder, the PA shall identify the Approved Account of the mutual fund and transfer the money collected from the investors account to the Approved Account.
9. Effective April 1, 2022, for mandates covering mutual fund subscription transactions, AMC shall not accept credit from any PA where the AMC has not executed the Master Agreement with such PA.
10. The PA shall not process any debits or credit of any monies for any OTM mandate/PI where the PA has not executed the Addendum with the OTM Holder/PI Holder.
11. AMC shall ensure that List of Approved Accounts can be only modified by authorised persons of the AMC and that PA shall not act on instructions of the OTM Holder/PI Holder to alter or modify the Approved Accounts.
12. AMC shall make sure that the investment amount is accepted through only such modes where independent traceability of end investor can be ensured, and source account details are readily available.
  - a. For each of the amounts collected through OTM and transferred to an Approved Account, the PA shall provide the bank account number, remitter name, etc. to the respective AMC.
  - b. For other modes of PI, including Net Banking, AMC and PA shall permit payments only from banks which provide real time account validation or banks which provide source bank account information as a reverse feed not later than the day following the date of payment by investor.
  - c. In case funds are received from a bank account other than the bank account verified and registered in the investor folio as belonging to the investor, and if such bank account cannot be verified as belonging to the investor as available in AMC records or as updated in AMC records post validation prior to processing the subscription transaction, the subscription transaction shall be rejected and the amount collected against such subscription shall be refunded to the same bank account from where the PA had collected the funds.



13. AMC shall ensure that PA shall follow the following settlement timelines, to facilitate transfer of monies to the Approved Account:

- a. Amount received by the PA till 5 pm on T: the payment to the Approved Account shall be initiated by the PA not later than 3 hours of receipt of money from the investor's account; and
- b. Amount received by the PA after 5 PM on T: the payment to the Approved Account shall be initiated by the PA not later than 10.30 am on the following banking business day.

14. Other Responsibilities and obligations of the AMC:

- a. AMC shall comply with applicable laws inter alia, including the October 4 Circular and the guidelines issued by AMFI pursuant to the October 4 Circular in relation to monies collected through OTMs/PIs towards subscription of units of mutual fund schemes operated by it.
- b. AMC/AMFI shall prescribe adequate monitoring mechanism for monies collected through such OTMs/PIs
- c. AMC shall inform AMFI about any wilful default, fraud or non-co-operation by the OTM Holder/PI Holder.

15. Other Responsibilities and obligations of the PA:

- a. PA shall ensure that the process followed by them follows the applicable guidelines issued by RBI and AMFI. Further, PA shall adhere to applicable regulations, inter alia including the October 4 Circular and the guidelines issued by AMFI pursuant to the October 4 Circular.
- b. PA shall ensure timely and accurate generation of debit feeds.
- c. Prior to generation of debit feeds for collection of subscription money, PA shall ensure that:
  - i. the debit instruction has been issued by the OTM Holder / PI Holder in whose name the OTM/PI was originally registered.
  - ii. the debit instruction has been issued against the OTM / PI exclusively used for subscription of mutual fund units.



- d. PA shall ensure timely reconciliation and settlement of funds into Approved Account in accordance with the Master Agreement. PA shall ensure daily reconciliation for all transfer of funds made to Approved Accounts.
- e. If the OTM Holder/PI Holder fails to extend co-operation to resolve the dispute, or the enquiry made by AMFI or PA reasonably concludes wilful default, gross negligence, fraud by the OTM Holder/PI Holder, then at the instruction of AMFI or basis its own determination, the PA shall forthwith terminate the agreement with the OTM Holder/PI Holder and cease all further collections/debits from investor accounts with respect to such OTM Holder/PI Holder. AMFI/AMC shall also inform the investor {who provided the OTM) about such termination of the agreement and the fact that future collections/debits from investor account will not be processed through the concerned mandate holder so as to enable the investor to decide on the further course of action.
- f. Liability of any unauthorized transaction or transactions carried out without adhering to the process stipulated under the Master Agreement or any error on part of the PA, shall be borne by the PA.

16. Review, Audit, and Certification:

AMC shall have adequate mechanisms in place to ensure the following:

- a. PA shall maintain books, records and such other documents as may be required to demonstrate compliance with these guidelines (Relevant Documentation).
- b. PA shall have processes in place to identify and ring-fence monies received into their escrow account(s)[nodal account(s) till they have been authorised by the RBI] for mutual fund subscriptions from all other monies received in their account and such that these monies can only be paid to an Approved Account
- c. PA shall provide half yearly certificate to the AMC/AMFI from an independent audit firm confirming compliance with these guidelines, including maintenance of books and records and reconciliation process
- d. PA shall provide access to the Relevant Documentation to a third-party auditor appointed by AMC or AMFI to verify compliance with the provisions of these guidelines, including crediting of the Approved Accounts. AMFI may require such audits to be carried out at least on an annual basis or at such other frequencies as may be specified by the AMFI Board.

\*\*\*\*\*