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CDSL/OPS/RTA/POLCY/2023/108

June 15, 2023

SEBI CIR - REGULATORY FRAMEWORK FOR EXECUTION ONLY PLATFORMS FOR FACILITATING TRANSACTIONS IN DIRECT PLANS

Issuer / RTAs are advised to refer SEBI Circular no. **SEBI/HO/IMD/IMD-PoD-1/P/CIR/2023/86** dated **June 13, 2023**, regarding **Regulatory framework for Execution Only Platforms for facilitating transactions in direct plans of schemes of Mutual Funds (refer Annexure)**.

Issuer / RTAs are advised to take note of the circular.

Queries regarding this communiqué may be addressed to: **CDSL – Helpdesk** Emails may be sent to: helpdesk@cdslindia.com and telephone number 08069144800.

sd/-

Nilesh Shah
Asst. Vice President – Operations

CIRCULAR

SEBI/HO/IMD/IMD-PoD-1/P/CIR/2023/86

June 13, 2023

To All,

Entities operating/desirous of operating as Execution Only Platforms/
Mutual Funds (MFs)/
Asset Management Companies (AMCs)/
Trustee Companies/ Board of Trustees of Mutual Funds/
Recognised Stock Exchanges/
Association of Mutual Funds in India (AMFI)/
Registered Stock Brokers/
Registrars to an issue and share Transfer Agents (RTAs)/

Madam/ Sir,

Sub: Regulatory framework for Execution Only Platforms for facilitating transactions in direct plans of schemes of Mutual Funds

1. It has been observed that various SEBI registered Investment Advisors/Stock Brokers provide execution services in direct plans of Mutual Fund schemes through their technology/digital platforms. Such platforms are often availed by investors who are not their clients in terms of SEBI (Investment Advisers) Regulations, 2013 or SEBI (Stock Brokers) Regulations, 1992.
2. There is no specific framework presently available for technology/digital platforms (including platforms provided by Investment Advisers/Stock Brokers to non-clients) to provide execution-only services in direct plans of Mutual Fund schemes and to obtain data feeds with respect to such transactions. Thus, while the investors may find it convenient to avail the services of such online platforms, investors who are not clients of such intermediaries under the above specified Regulations may not have recourse or protection for the risks associated with respect to such transactions. Therefore, a need was felt to strike a balance between investor convenience and investor protection.
3. Pursuant to public consultation and discussions in the Mutual Funds Advisory Committee, it has been decided to prescribe a framework for Execution Only Platforms for transacting in direct plans of schemes of Mutual Funds. In this regard, the SEBI (Stock Brokers) Regulations, 1992 ([link](#)) have been amended and notified on January 17, 2023.
4. The comprehensive framework for Execution Only Platforms ('EOPs') is specified at **Annexure A** to this circular.

5. The Stock Exchanges shall enact appropriate framework for EOP segment wherein the following requirements shall not be applicable for Category 2 EOP:
- a) trading rules applicable for equity, equity derivative and other segments
 - b) Investor Protection Fund.
 - c) rules applicable for clearing and settlement of trades relating to equity, equity derivative and other segments.
 - d) pooling of client's funds by Trading Member.
 - e) membership and other related requirements as a Self-Clearing Member (SCM) or requirement of Trading Member – Clearing Member agreement.
 - f) risk management framework and settlement related policies applicable for equity, equity derivative and other segments where the Clearing Corporation provides novation and guarantee for settlement of trades.
 - g) issuance of contract notes and issuance of funds & securities statement.
6. The Stock Exchanges desirous of providing an EOP segment are directed to:
- a) make necessary arrangements to their relevant bye-laws, rules and regulations for the implementation of the directions in this circular and provide status of implementation regarding the same to SEBI on a monthly basis; and
 - b) monitor the operations carried out by EOPs who have obtained membership under EOP segment.
7. The AMFI is directed to:
- a) make necessary amendments for the implementation of the directions in this circular and provide status of implementation regarding the same to SEBI on a monthly basis; and
 - b) issue necessary guidelines for Category 1 EOP before the date of this circular coming into force.
 - c) monitor the operations carried out by EOPs registered with AMFI.
8. This circular shall come into force with effect from September 01, 2023.
9. This circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.
10. This circular is available at www.sebi.gov.in under the link "Legal ->Circulars".

Yours faithfully,

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Annexure - A

1. Applicability and Scope

- 1.1. An EOP for facilitating transactions in direct plans of schemes of Mutual Funds, shall mean:
“Any digital or online platform which facilitates transactions such as subscription, redemption and switch transactions in direct plans of schemes of Mutual Funds.
- 1.2. The platforms provided by SEBI registered Investment Advisors and Stock Brokers to their advisory or broking clients shall not be covered under the EOP framework.
- 1.3. No entity shall operate as an EOP without obtaining registration from SEBI or the AMFI, as the case may be and in the manner specified herein.
- 1.4. The entity shall also facilitate non-financial transactions including change of email id or contact number or bank account details on its platform with respect to Mutual Funds.
- 1.5. The entity shall not provide services related to regular plans of schemes of Mutual Funds on its platform.
- 1.6. Any entity providing digital or online platform which facilitates transactions in direct plans of schemes of Mutual Funds, on or prior to this circular coming into force, shall apply for the relevant registration/membership, as the case may be, within 3 months from the date of this circular coming into force i.e., September 01, 2023.

2. Categories of EOP

Any entity desirous of operating as an EOP shall obtain registration under one of the following two categories:

2.1. Category 1 EOP

- a) The entity shall obtain registration from AMFI.
- b) The entity shall be a body corporate.
- c) The entity shall act as an agent of AMCs and integrate its systems with AMCs and/or RTAs authorized by such AMCs, to facilitate transactions in Mutual Funds.
- d) The entity may act as an aggregator of the transactions in direct plans of schemes of Mutual Funds and provide services to investors/other intermediaries.



2.2. Category 2 EOP

- a) The entity shall obtain registration as a Stock Broker in terms of the SEBI (Stock Brokers) Regulations, 1992 under the EOP segment of the Stock Exchanges.
- b) The entity shall be a body corporate.
- c) The entity shall operate as an agent of investor and operate only through the platforms provided by the Stock Exchanges.
- d) The entity shall not act as an aggregator of the transactions in direct plans of schemes of Mutual Funds and shall provide services to investors directly.

3. Eligibility Criteria

3.1. Any entity desirous of obtaining registration as a Category 2 EOP shall ensure compliance with the following requirements, on a continuous basis:

3.1.1. The entity has appointed a compliance officer.

3.1.2. The entity has appointed at least two qualified key managerial personnel with experience of at least three years each in the securities market;

Explanation I. – For the purposes of this circular, “Key managerial personnel” shall have the same meaning as assigned to it in the Companies Act, 2013.

Explanation II. – For the purposes of this circular, a person shall be said to be ‘qualified’ if he/she possesses a professional qualification in finance, accountancy, law, engineering, company secretaryship or management from a university or an institution recognized by the Central Government or any State Government or a foreign university or post-graduation in the Securities Market from National Institute of Securities Markets (NISM) of a duration not less than one year.

3.1.3. The entity shall fulfill the “fit and proper person” criteria as prescribed under Schedule II of the SEBI (Intermediaries) Regulations, 2008.

3.1.4. The entity shall comply with the requirement of base net-worth applicable for Trading Member, as specified under Schedule VI of SEBI (Stock Brokers) Regulations, 1992.

3.2. As Category 1 EOP, the entity shall fulfill the criteria, as specified by AMFI.

4. On-boarding and integration

4.1. On-boarding of investors

4.1.1. As Category 2 EOP, the entity shall:

- a) comply with *Know Your Client* (KYC) requirements at the time of on-boarding investors on its platform and take necessary steps including verifying the identity of its investors by requiring them to submit necessary documents.
- b) have access to the KYC data of the investors available with the KYC Registration Agencies (KRAs) for on-boarding of investors.
- c) carry out necessary due diligence and ensure that investor signs a “Rights and Obligation” document as specified by Stock Exchanges before availing its services.

4.1.2. For Category 1 EOPs, the requirements with respect to on-boarding of investors shall be as specified by AMFI.

4.1.3. The responsibility of ensuring compliance with KYC requirements, with respect to transactions executed through both categories of EOPs by investors in Mutual Funds, shall lie with the AMCs.

4.2. Rights and obligations

4.2.1. As Category 1 EOP, the entity shall enter into agreement(s) with the AMCs which should clearly define their rights and obligations relating to EOP services. Further the entity shall have an objective, fair and transparent policy for providing execution services for products of AMCs.

4.2.2. As Category 2 EOP, the entity shall enter into necessary arrangements with the Stock Exchanges which should clearly define their rights and obligations relating to the EOP services.

5. Transaction and on boarding fees

5.1. As Category 1 EOP, the entity may levy a flat transaction fee (not *ad-valorem*), if any, which shall be borne by AMCs, within the upper limit as specified by AMFI. On-boarding fees, if levied, shall be borne by the AMCs.

5.2. As Category 2 EOP, the entity may levy a flat transaction fee (not *ad-valorem*), if any, which shall be borne by the investors, within the upper limit as specified by the

Stock Exchanges. Further, On-boarding fees, if levied, shall be borne by the AMCs and/or investors.

- 5.3. AMCs shall not charge any fees/charges paid to the EOPs, to the schemes of the Mutual Funds.

6. Operational Risk Management

- 6.1. The entities under both categories of EOPs shall:

- 6.1.1. ensure that they have a comprehensive risk management framework covering all aspects of their operations and shall also ensure that risks associated with their operations are identified and managed.
- 6.1.2. ensure access control for their clients and prevent unauthorized access to their platform.
- 6.1.3. ensure that all transactions on their platform, without exception, are dealt with in a fair, non-discriminatory and orderly manner.
- 6.1.4. formulate data governance, protection and dissemination policy which is fair and non-discriminatory.
- 6.1.5. facilitate only such transactions that are in compliance with the prevailing legal or regulatory requirements and shall establish appropriate controls to reduce the likelihood of erroneous transactions.
- 6.1.6. maintain all data relating to their activities in an easily retrievable media. Also, maintain confidentiality and security of all data relating to their activities and strictly control access to such data.
- 6.1.7. ensure data integrity and privacy.
- 6.1.8. establish necessary systems and frame suitable policies, in writing, for onboarding of investors on their platform, execution of transactions, rights and obligations/terms and conditions for the investor and the EOP, risk management and control, liability framework for EOP in case of breach of the policies, restrictions or other requirements that may apply for accessing the platform.

- 6.2. The entities under both categories of EOPs may share investors' data with their other departments/divisions, their group entities and/or with any third party, only with the specific consent of the investors.

- 6.3. As Category 1 EOP, the entity shall ensure compliance with cyber security and cyber resilience requirements, as specified by AMFI. As Category 2 EOP, the entity shall ensure compliance with the cyber security and cyber resilience framework for Stock Brokers, as prescribed by SEBI from time to time.

7. Grievance Redressal

- 7.1. For Category 1 EOPs, the grievance redressal mechanism shall be as prescribed by AMFI.
- 7.2. For Category 2 EOPs, the grievance redressal mechanism shall be as prescribed for Stock Brokers from time to time i.e., through SCORES, mediation and arbitration mechanism.

8. Handling conflict of interest

The entities under both categories of EOPs shall ensure compliance with the following:

- 8.1. Maintain arm's length relationship, if performing multiple activities within the same entity, so as to avoid conflict of interest.
- 8.2. Maintain investor level segregation between EOP services and distribution services for Mutual Fund products, at the entity's group level. Thus, an investor at the EOP's group level may either avail EOP services for transacting in direct plans or distribution services for regular plans of Mutual Funds.
- 8.2.1. For this purpose, the family of the investor shall be reckoned as a single investor. The definition of "group" shall have the same meaning as defined under SEBI (Investment Advisers) Regulations, 2013.
- 8.2.2. The PAN of each investor shall be the control record for identification and investor level segregation at the entity's end. In case of an individual investor, "family of investor" shall be reckoned as a single investor and PAN of all members in "family of investor" shall jointly and severally be the control record.
- 8.2.3. "family of investor" shall include individual investor, dependent spouse, dependent children and dependent parents. The dependent family members shall be those members whose investments through EOP originates from income of a single entity i.e. earning individual investor in the family. The investor shall provide an annual declaration or periodic updation as the case maybe in respect of such dependent family members.

- 8.3. Use SEBI/AMFI registration as an EOP, as the case may be, only for the purpose of providing execution only services in direct plans of Mutual Fund schemes and not use the said registration for undertaking any unregulated activity.
- 8.4. Undertake services regulated or permitted by other sectoral regulators, only with specific disclosure regarding such services not being covered under the ambit of entity's registration as an EOP and also disclose the details of registration/permissions by other sectoral regulators in such cases.
- 8.5. Undertake to identify and disclose on their platform, possible conflict(s) of interest, if any, including those arising from their transactions or dealings with related parties.

9. Technology related requirements

9.1. Execution of transactions

- 9.1.1. The orders of investors placed through Category 1 EOPs shall be routed directly to the AMCs and/or RTAs authorized by such AMCs.
- 9.1.2. The orders of investors placed through Category 2 EOPs shall be routed through the platforms provided by the Stock Exchanges.
- 9.1.3. The order of the investors placed through both categories of EOPs shall be executed on immediate basis.

9.2. The entities under both categories of EOPs shall:

- 9.2.1. maintain robust technology infrastructure with a high degree of reliability, availability, scalability and security in respect of their systems, data and network, to appropriately support their operations and manage the associated risks.
- 9.2.2. have adequate and suitable systems in place to disseminate information to investors pertaining to orders placed on a real-time or a near real-time basis.
- 9.2.3. have the organizational capabilities, technology and systems and safeguards for maintaining data privacy and preventing unauthorized sharing of data.
- 9.2.4. establish appropriate safeguards and procedures to deal with exigencies including malfunctions or erroneous use of their systems, or other unforeseen situations.
- 9.2.5. make their platforms available for transactions at all times, on a continuous basis.

10. Disclosure related requirements

10.1. Display of advertisements

10.1.1. The entity under both categories of EOPs shall not display any advertisement regarding any Mutual Fund scheme on their platform. Further, they shall not display any proxy/surrogate/common brand related advertisement on their platform.

10.1.2. With respect to advertisements of the EOPs on other websites/applications/portals/media/channels, the entity registered as Category 1 EOP shall ensure compliance with the advertisement code prescribed by AMFI and the entity registered as Category 2 EOP shall ensure compliance with the advertisement code prescribed by the Stock Exchanges.

10.2. Issuance of transaction receipt and alerts to the clients

The entities under both categories of EOPs shall ensure the following:

10.2.1. On placement of transactions by investors, issue or display without delay, an electronic order receipt which shall include details such as date and time of order, quantity of units and/or amount proposed to be invested/redeemed.

10.2.2. The status of transactions is provided to the investors on a continuous basis.

10.3. Access to transaction data

The entities under both categories of EOPs shall have access to the investors' transaction data feeds from AMCs or RTAs authorized by AMCs for the transactions executed through their platforms.

10.4. Disclosures regarding Mutual Fund schemes

10.4.1. The entities under both categories of EOPs shall comply with the following:

- a. Display in a user-friendly manner, the factual information pertaining to Mutual Funds as available on public domain including past performance of Mutual Fund schemes and ensure compliance with the minimum disclosure requirements as specified at **Annexure – A1**.
- b. Provide an interactive tool for the investors to screen or filter various schemes based on the criteria selected by the investor including past performance, AUM,

etc. and ensure that there is no auto display of recommendation or ranking of any of the schemes. If the criteria for selection includes research reports or opinions, the same shall be only by SEBI registered intermediaries along with suitable disclosures regarding the source. Such research reports or opinions should disclose the methodology used for such recommendations. The aforesaid tool shall not itself provide any research reports or opinions or perform any research based or investment advisory activity.

10.4.2. As Category 1 EOPs, the entities shall submit information or reports as may be specified by AMFI.

10.4.3. As Category 2 EOPs, the entities shall submit information or reports as may be specified by SEBI or Stock Exchanges.

10.5. The entities under both categories shall keep the AMCs and Stock Exchanges or AMFI, as the case may be, informed of events resulting in disruption of activities or market abuse without undue delay.

10.6. The Stock Exchanges or AMFI and AMCs (directly or through AMFI) shall ensure periodic monitoring of the EOPs under their supervision with respect to compliance with the requirements mentioned in this circular and also bring to the notice of SEBI, any instances of non-compliance.

10.7. As Category 1 EOP, the entity shall follow the code of conduct as specified by AMFI.

11. Pooling of Funds

The entities under both categories of EOPs shall ensure compliance with relevant provisions including Chapter 16 of Master Circular for Mutual Funds dated May 20, 2023 regarding discontinuation of usage of pool accounts for transactions in units of Mutual Funds.

12. Maintenance of books of accounts, records, etc.

Regulation 17(1A) of the SEBI (Stock Brokers) Regulations, 1992 provides that a Stock Broker in the EOP segment shall keep and maintain the books of account, records and documents, as may be specified by SEBI. Accordingly, as Category 2 EOP, the entity shall keep and maintain records as specified at **Annexure – A2** for a minimum period of five years. As Category 1 EOP, the entity shall keep and maintain the books of account, records and documents, in the form and manner specified by AMFI.

13. Existing platforms

- 13.1. Existing platforms which are providing services similar to Category 1 EOPs such as platforms viz, MF Utilities India Pvt. Ltd., MF Central, platforms provided by RTAs etc., shall obtain suitable registration under one of the categories of EOPs within 3 months from the date of this circular coming into force.
- 13.2. As regards the platforms by Market Infrastructure Institutions such as the Stock Exchanges, which are mandated by SEBI, although registration as an EOP shall not be mandatory, such platforms shall ensure compliance with the applicable requirements under the framework for EOP, within 3 months from the date of this circular coming into force.

Annexure – A1

Minimum disclosure requirements for every scheme of Mutual Funds offered for execution on the EOP:

1. Name of the Mutual Fund. Link to Mutual Fund website whose products are offered.
2. Name of the scheme of the Mutual Fund. Type and category of the scheme of Mutual Fund.
3. Name of the Fund Manager.
4. Investment objective of scheme.
5. Scheme performance along with source.
6. Scheme details such as minimum investment, AUM, NAV, Exit Load, Expense Ratio.
7. Risk-o-Meter of the scheme and Potential Risk Matrix, wherever applicable.
8. Other mandatory disclosures regarding Mutual Fund scheme to the investors.
9. Any other details / documents as may be specified by SEBI from time to time.

Annexure – A2

The Category 2 EOP shall keep and maintain the following books of account, records and documents, namely: —

- (a) Details of investor wise transactions, including time of request for subscription and redemption.
- (b) Details of failed transactions, if any and the reasons thereof.
- (c) Documents pertaining to on-boarding of clients including KYC documents, client account opening forms and Rights and Obligation documents.