



To,  
General Manager  
Investment Management Department  
Securities and Exchange Board of India  
SEBI Bhavan, Plot No. C4-A, G-Block,  
Bandra Kurla Complex, Bandra (East),  
Mumbai - 400 051

13<sup>th</sup> January, 2020

Via email to: mfcomments@sebi.gov.in

**Sub: Consultation Paper on Usage of Pool Accounts in Mutual Fund Transactions**

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute, appreciate the opportunity to submit our response to the **CONSULTATION PAPER ON USAGE OF POOL ACCOUNTS IN MUTUAL FUND TRANSACTIONS.**

IAIP is an association of over 2000 local investment professionals who are CFA charterholders and about 4000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals that promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 164,000 members in over 165 countries. In India, the community of CFA charterholders is represented by the Indian Association of Investment Professionals (CFA Society India).

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

With regards to the above-mentioned consultative paper, we would like to propose a few suggestions consistent with our objective to promote fair and transparent global capital markets and to advocate for investor protection.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

Our responses to the proposed initiatives by SEBI are mentioned below:

**A. Details of our Organisation:**

- 1. Name:** Indian Association of Investment Professionals (CFA Society India)
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**B. Key Contributors:**

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**C. Suggestions / Comments:**

Name of Organisation: Indian Association of Investment Professionals (CFA Society India)			
Sr. No.	Issues	Comments/Suggestions	Rationale
1.	<p><b>E. In case of Digital Platforms provided by MFDs and IAs (including Channel Partners) / Platforms covered under paragraph B(i)(d):</b></p> <p>i. AMCs lose the sight of the source of funds as they receive the funds from pool/escrow accounts (instead of investors' bank accounts).</p>	<p>To ensure better traceability of funds, each transaction should be supplemented with proper narration about the folio and scheme name. This will result in better sighting of both the source and destination of funds on the part of investors and AMCs</p>	<p>1. <b>Greater transparency for investor and clear traceability of funds</b> – In addition to AMCs losing sight of the funds, usage of pool accounts results in a common narration in the investor's bank statement. In case of multiple transactions in the same fund house or in case of rejection of a particular transaction, the investor is unable to identify the exact fund and exact transaction where his / her money was routed to.</p>
2.	<p>F. ...</p> <p><b>i. Pooling of funds/units by Stock Brokers, MFDs, IAs and other platforms may be discontinued for Mutual Fund Transactions.</b> For implementation of the same, following may be ensured:</p> <p>a. For <b>transactions on Exchange platforms through stock broker(s)</b>, Exchanges shall put necessary system in place to ensure that pay-in is directly received by recognized Clearing Corporation from investor's bank account and pay-out is directly made to investor's bank account from recognized Clearing</p>	<p>Agree with the suggestion that usage of pool account should be discontinued for MF transactions on exchange platforms.</p> <p>The investor funds should directly flow in /out from/of Clearing corporation i.e. NSCCL, ICCL etc. accounts to the customer account.</p>	<p>1. <b>Avoiding misuse of investor fund and Loss of traceability of transaction and funds</b>– These are two most important points in support of this proposal. Any case of misuse or misappropriation of investor funds by intermediaries will be detrimental for the industry and investor sentiment. Further, if there is a loss of traceability due to the use of pool accounts and the AMC liability is extinguished, that may become a major concern for investors.</p> <p>2. <b>Infrastructure availability for exchanges</b> -Exchange platforms are already offering this mechanism for MFDs/IFAs as explained in Section C.ii – "Transactions through MFD(s)</p>



	<p>Corporation's account. In the same manner, for subscription and redemption, units are directly credited into and debited from the investor account (Demat or Statement of Account) respectively.</p>		<p>or registered IAs on Exchange Platform" of the proposal. As the MF distributors were already not allowed by RBI to handle pay in and pay out of funds and units on behalf of customers, this proposal should be relatively easy to implement due to the readily available infrastructure with exchanges.</p> <p>3. <b>Increased transparency</b> – As the MF industry is still relatively under penetrated, it is important that all measures which increase transparency and investor safety are encouraged and implemented. This is important for increase in investor confidence and long-term health of the industry.</p>
<p>3.</p>	<p><b>F. Proposals</b> ... i. <b>Pooling of funds/units by Stock Brokers, MFDs, IAs and other platforms may be discontinued for Mutual Fund Transactions.</b> For implementation of the same, following may be ensured: ... b. For <b>transactions outside Exchange platforms</b>, as mentioned in paragraph B (i) (c) and B (i) (d) above, AMC at its end shall put necessary system in place to ensure both subscription and redemption (funds transferred and units transacted between investor and AMC) take place without use of pooling through escrow / nodal account etc.</p>	<p>This recommendation is highly welcome, but certain considerations have to be taken into account:</p> <ol style="list-style-type: none"> <li>1. Elimination of pool accounts outside exchanges might result in increased dependency on exchange platforms and clearing corporations - this could create an oligopolistic / monopolistic structure which can add to cost of transaction handling. Therefore, there may be a need to rationalize the cost implication. Even if the AMC would be covering the cost this would show up as a higher expense ratio on funds.</li> <li>2. In case of increased dependency on exchange platforms, the exchanges will need to establish strong customer grievance redressal mechanism.</li> </ol>	<p>The rationale in support of discontinuation of pool account is similar to the above-mentioned point.</p> <ol style="list-style-type: none"> <li>1. In the absence of pool accounts for MF transactions outside exchanges, MFDs/IFA will either have to migrate to exchange platforms or create an infrastructure to directly map the client bank account to AMC's bank account. The direct mapping of AMC bank accounts could lead to increase in operational risk. In order to avoid the above risk, MFDs/IFAs will be necessitated to migrate to exchange platform, thereby increasing dependency.</li> <li>2. Currently any issues or errors in client transactions are being handled by the MFDs/IFAs. The dependency on exchange platforms will extinguish this responsibility from the intermediaries and the responsibility will shift to exchange platforms. Therefore,</li> </ol>



		<p>3. We seek further clarity on the role of payment gateways in Mutual fund transactions in case direct mapping of client account to AMC's account has to be established.</p>	<p>exchanges will need to adopt a more client facing role.</p> <p>3. Currently, payment gateways are an integral part of the Mutual fund payment infrastructure. The payment gateways also use nodal/escrow account for facilitating transactions between investors and AMCs. The paper is silent about the role of payment gateways in the entire ecosystem.</p>
4.	<p>D. ...</p> <p>ii. <b>Inter scheme or inter AMC Switch</b> – In case of investments in Mutual funds through stock broker's pool account, inter scheme or inter AMC switch can be easily implemented, without the need of investor to make frequent fund transfers.</p> <p>iii. <b>Investment in SIP-</b> Through pool account, client can start/stop SIP very easily without reaching out to the bank or MF.</p>	<p>We have the following suggestions to mitigate few of the operational inconvenience that may be faced by mutual fund investors:</p> <p>1. We recommend that to improve ease of transactions in non-pool accounts, <b>inter AMC switch should be allowed</b>. This can be allowed at industry level, without the funds or units flowing in and out of broker pool accounts.</p> <p>2. <b>Easy customization of SIP transactions on exchange platform</b> – The exchange platforms can incorporate the feature for investors wherein SIPs can be increased / decreased / paused / modified</p>	<p>1. Currently, availability of pool accounts at broker / IFA level enables them to rebalance portfolios and conduct asset allocations easily. Enabling inter –AMC Switch at industry level will mitigate this inconvenience</p> <p>2. With pool accounts, the broker held the authority to make such switch transactions. But by enabling inter AMC Switch at industry level, there will be no human interference as exchange platforms can be used to facilitate the same</p> <p>1. By customizing SIP / STP features on exchanges, the inconvenience in SIP transactions through exchange platforms can be mitigated. Exchange platforms should be encouraged to build in more customized features to improve investor friendliness. Further, exchanges may need to simplify mandatory requirements around availability of funds at the</p>



	<p>iv. <b>Efficient and cost-effective Fund Transfers</b> - Usage of stock broker's pool account reduces the frequency of fund transfers among investors/ stock brokers/ clearing corporation etc. therefore becomes cost effective.</p>	<p>3. Similar to E-commerce platforms, cart mechanism of aggregating mutual fund purchases in different funds / folios can be implemented.</p>	<p>investor's end. For example, currently the X- SIP feature of the BSE's Star MF platform at times requires availability of funds a few days in advance of the SIP date in the investor's bank account. This is not required either in pool accounts or platforms outside exchanges.</p> <p>1. Availability of advanced technology can facilitate a front-end interface wherein the investor can create a cart for all transactions and place a single click transaction request. The back-end infrastructure of the platform should ensure direct pay in and pay out of funds and units</p>
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Thank you again for the opportunity to comment on this important regulatory framework. If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Rajendra Kalur, CFA at +91 98196 30042 or at [advocacy@iaipirc.org](mailto:advocacy@iaipirc.org)

Sincerely yours,

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Indian Association of Investment Professionals, Member Society of CFA Institute