



CIRCULAR

SEBI/HO/IMD/IMD-I DOF1/P/CIR/2022/132

September 30, 2022

All Mutual Funds

All Asset Management Companies ('AMCs')

All Recognized Stock Exchanges

All Depositories

Association of Mutual Funds in India ('AMFI')

All Trustee Companies/ Boards of Trustees of Mutual Funds

All Registrar to an Issue and Share Transfer Agents ('RTAs')

Sir / Madam,

Subject: Two-Factor Authentication for transactions in units of Mutual Funds

1. SEBI Circular No. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/634 dated October 04, 2021 introduced various measures to prevent third-party payments and to safeguard the interest of unitholders. The Circular, *inter-alia*, required all AMCs to authenticate redemption transactions using Two-factor Authentication (for online transactions) and signature method (for offline transactions). Two-Factor Authentication for redemption of Mutual Fund units has been implemented with effect from June 01, 2022 for transactions outside stock exchange platforms and from July 01, 2022 for transactions on stock exchange platforms.
2. In order to further safeguard interest of investors, it has now been decided to extend the Two-Factor Authentication for subscription transactions in the units of Mutual Funds as well. Accordingly, Clause 4.4 of the SEBI Circular no. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/634 dated October 4, 2021, as modified *vide* the SEBI Circular No. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2022/29 dated March 15, 2022, stands further modified as under:

"4.4. In case of subscription and redemption of units, Two-Factor Authentication (for online transactions) and signature method (for offline transactions) shall be used for authentication. One of the Factors for such Two-Factor Authentication for non-demat transaction shall be a One-Time Password sent to the unit holder at his/her email/ phone number registered with the AMC/RTA. In case of demat transaction, process of Two-Factor authentication as laid down by the Depositories shall be followed. It is also clarified that in case of mandates/systematic transactions the requirement of Two-

Factor Authentication shall be applicable only at the time of registration of mandate/systematic transactions.”

3. AMFI's best practice guidelines issued for AMCs with regard to Two-Factor authentication for redemption transactions of Mutual Funds shall be revised suitably to include subscription transactions of Mutual Funds. It shall be mandatory for all AMCs to follow such guidelines.
4. All other requirements of the Circular No. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2021/634 dated October 04, 2021 and SEBI Circular No. SEBI/HO/IMD/IMD-I DOF5/P/CIR/2022/29 dated March 15, 2022 shall remain unchanged.
5. **Implementation Schedule:**
 - 5.1. Based on discussions with stakeholders, it has been decided that the provisions of this Circular shall be applicable with effect from **April 01, 2023**.
 - 5.2. The AMCs, AMFI, recognized Stock Exchanges, Depositories, recognized Clearing Corporations and Registrar to an Issue and Share Transfer Agents shall take necessary steps for implementing the circular, including putting required processes and systems in place to ensure compliance with the provisions of this circular.
 - 5.3. AMFI shall furnish by October 14, 2022, the activity wise schedule for implementation so as to ensure compliance with para 2 above. AMFI shall also furnish progress report on implementation of provisions of this circular to SEBI on a bi-monthly basis, starting from December 01, 2022.
6. This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996, to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,
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