

DRAFT CIRCULAR FOR PUBLIC COMMENTS

Enabling third party payments in Mutual Funds in certain scenarios

A. Objective

The objective of this consultation paper is to seek comments / views from the public on the draft circular proposing to permit third party payment in Mutual Funds in certain scenarios with adequate safeguards in place.

B. Background

1. The current regulatory framework mandates that all payments for investments in Mutual Funds must originate directly from the investor's own bank account and be routed exclusively through RBI-authorized payment aggregators or SEBI-recognized clearing corporations.
2. The aforesaid framework is stipulated under clause 17.4 of the Master Circular for Mutual Funds dated March 20, 2026 in which it is *inter-alia* stated that in order to mitigate the third party payment risks, Asset Management Companies (AMCs) must ensure compliance with Prevention of Money Laundering Act (PMLA), verify that source bank account belongs to the unitholder and use payment modes with independent traceability. Further, all pay-outs are required to be credited to the investors' verified bank accounts, thereby ensuring maintenance of a full audit trail.
3. Pursuant to the issuance of the above framework, requests have been made by the Mutual Fund industry to relax the extant conditions for third party payments in certain cases such as payment of salaries by employers, payment of commissions by AMCs etc with adequate safeguards in place.

C. Issues for Public Consultation

1. In view of the above, the issue was discussed in the Mutual Fund Advisory Committee (MFAC) and based on the committee's recommendations and internal deliberations, it is proposed to enable third-party payments in the following scenarios:
 - 1.1. **Payment for Investment in Mutual Fund units by an Employer on behalf of its Employees through Payroll Deduction.**
 - 1.1.1. The proposed scenario acknowledges the established practice of employers offering various benefits and savings avenues to their employees. This mechanism would allow AMCs to accept consolidated payments for mutual fund investments through salary deduction.
 - 1.1.2. Such facility would be available to all listed and EPFO registered companies and the AMCs themselves and only interested employees may opt for such an arrangement and agree for salary deduction for MF schemes of their choice.

1.2. Payment of commission to empanelled mutual fund distributors (MFDs) by AMCs in the form of Mutual Fund units.

1.2.1. As in case of payroll deduction in respect of employees, the proposed scenario for allotment of MF units in lieu of trail commission or part thereof as agreed between the AMC and MFD shall provide a convenient, seamless and disciplined way of investing in MF units for the MFD and encourages the MFDs to save and invest for the long term. The units would be allotted to the legitimate beneficiary namely MFD himself/herself.

1.2.2. Only those MFDs which are registered with AMFI and selling AMCs scheme shall be provided an option to receive MF units in lieu of trail commission.

2. In this regard, the AMCs while facilitating payments from other than beneficiaries in the abovementioned scenarios may be guided by certain core principles, such as:

2.1. Validation of relationship between the payee and the beneficiary.

2.2. Coverage of all Listed and EPFO registered companies for payment for investment in Mutual Fund units by an employer on behalf of its employee.

2.3. Clearly defined responsibilities for AMC's and RTA's for third party KYC verification and ensuring due diligence to comply with PMLA provisions.

2.4. Credit of any eligible payment proceeds including dividend only to the beneficiary's account

2.5. Any other relevant aspects as may be decided.

3. Proposal for facilitating contribution/donation towards a social cause through Mutual Funds.

3.1. In order to facilitate investors in contributing/ donating to a social cause through a regulated, transparent and investor-protected framework, it is proposed to permit investor to contribute a part of the subscription amount or a scheme's return, towards a social cause.

3.2. Enabling donations through Mutual Funds will eliminate the operational difficulties and the burden on investors to independently identify credible Non-Governmental Organisations (NGOs). Further, donations through Zero Coupon Zero Principal (ZCZP) instruments by Not for Profit Organisations (NPOs) registered on Social Stock Exchange (SSE) establishes a strong layer of transparency, thereby providing investors with an assurance that their contributions are being directed to verified organizations.

3.3. The aforementioned contribution/ donation may be facilitated in one of the two options:

3.3.1. Option A: A dedicated mutual fund scheme may be permitted in which investors can mandate a specified portion of their dividend/redemption pay

out to be contributed/ donated by way of subscription towards ZCZP in the name of the investor or the contribution/donation may be made directly to any NGO specified in the scheme's SID. The contributions made to the NPO through ZCZP by the scheme or directly to specified NGO may be exempted from third party payment norms.

3.3.2. Option B: Permitting all existing mutual fund schemes to offer a facility wherein investors can mandate a specified portion of subscription/redemption to be contributed/ donated by way of subscription towards ZCZP in the name of the investor or the contribution/donation may be made directly to any specified NGO. The contributions made to the NPO through ZCZP by the scheme or directly to specified NGO may be exempted from third party payment norms.

3.4. To ensure security and transparency, the framework shall mandate strict disclosure requirements, periodic reporting of end use of fund, and explicit and prior consent from the investor. The obligation to confirm with PMLA guidelines and perform necessary due diligence rests with the AMCs.

3.5. Detailed guidelines shall be specified by AMFI in consultation with SEBI.

4. Safeguards to be put in place by AMCs:

In order to manage PMLA risks in third-party payments, stringent precautions are necessary. These safeguards may *inter-alia* include, but not limited to, robust KYC for both the payee and beneficiary, a clear written mandate, and an auditable, non-cash electronic fund trail via segregated accounts with regular reconciliation. AMCs must perform due diligence and ensure transparency, guaranteeing beneficiaries full redemption liquidity. The final guidelines and modalities for these precautions may be specified by AMFI, in consultation with SEBI.

Consultation No. 1:

(a) Do you agree with the proposal to enable third party payment in mutual funds as enumerated at paragraph C.1.1 above. Please provide comments/ suggestion with appropriate rationale.

(b) If agreed, whether the employer be restricted from facilitating investment in units of Mutual Fund of those AMCs which are its group companies? If not, what safeguards should be implemented to mitigate potential conflicts.

Consultation No. 2:

(a) Do you agree with the proposal to enable third party payment in mutual funds as enumerated at paragraph C.1.2 above. Please provide comments/ suggestion with appropriate rationale.

(b) If agreed, whether permitting AMCs to pay Mutual Fund (MF) units in lieu of commissions to Mutual Fund Distributors (MFDs) for their own schemes create a



conflict of interest, potentially leading to mis-selling. If allowed, what measures should be taken to address this risk?

Consultation No. 3:

Whether it would be appropriate to enable third party payments in scenario wherein corporate entities would be permitted to pay commissions to their dealers/distributors (under principal-agent relationship) in form of mutual fund units (in lieu of cash). If permitted, what safeguards and rationale would be necessary to ensure transparency and protect investors interest in the mutual fund industry?

Consultation No. 4:

(a) Do you agree with the proposal to enable third party payment in mutual funds as enumerated at paragraph C.3 above. Please provide comments/ suggestion with appropriate rationale.

(b) If agreed, which framework is considered more appropriate to implement: Option A or Option B as outlined at paragraph C.3.3. Please provide comments with appropriate rationale and recommend any additional safeguards that should be implemented under your preferred option to ensure robust investor protection.

(c) Whether direct contribution/donation from investor shall be permitted to be made in any NGO or only those NPO that are registered with SSE. Please provide comments/ suggestion with appropriate rationale.

Consultation No. 5:

Whether safeguards as enumerated at paragraph C.4 above are appropriate. Please provide comments/ suggestion with appropriate rationale.

5. The above scenarios are proposed so as to balance the need for ease of investment and legitimate financial transactions with the paramount objective of preventing money laundering and fraudulent activities.

D. Public Comments

1. Considering the implications of the aforementioned matter on the market participants, public comments are invited on the above-detailed proposals. The Draft Circular in this regard is placed at **Annexure A**.
2. The comments/ suggestions should be submitted latest by June 10, 2026, through the online web-based form which can be accessed using **the link- Click Here**
3. Kindly go through the instructions mentioned on the above link before submitting comments on the consultation paper.
4. In case of any technical issue in submitting your comment through web based public comments form, you may send an email to priyankam@sebi.gov.in and kritika@sebi.gov.in with the subject " Enabling third party payments in Mutual Funds in certain scenarios".

Issued on: May 20, 2026

DRAFT CIRCULAR

SEBI/HO/IMD/PoD2/CIR/P/2026/

June XX, 2026

To,
All Mutual Funds (MFs)/
All Asset Management Companies (AMCs)/
All Trustee Companies/ Board of Trustees of Mutual Funds/
All Registrar to an Issue and Share Transfer Agents ('RTAs')/
Association of Mutual Funds in India (AMFI)/

Sir / Madam,

Subject: Enabling third party payments in Mutual Funds in certain scenarios.

1. In view of strong regulatory framework for Indian mutual fund industry and based on representations received from the industry and AMFI, a need is felt to review the existing framework for third-party payments in Mutual Funds by permitting specific and well-defined scenarios where such payments may be allowed without compromising the overarching objectives of investor protection and compliance with the provisions of the Prevention of Money Laundering Act (PMLA). The intent is to strike a balanced approach that facilitates ease of investing in genuine cases while reinforcing robust safeguards against potential misuse.
2. Paragraph 17.4 of the Master Circular for Mutual Funds dated March 20, 2026 ("the Master Circular") prescribes the measures to prevent third party payment and to safeguard the interest of unitholders. In partial modification to the paragraph 17.4.3 of the Master Circular, it has been decided as under:

17.4.3 However, the investment in MF by way of cash/ through e-wallets (Prepaid Payment Instruments) shall be in compliance with Paragraph 17.6 (for cash) and Paragraph 15.12 (for e-wallets) of this Master Circular, respectively. Further, third-party payments may be permitted in following scenarios:

- (i) *Payment for investment in mutual fund units by an employer on behalf of its employees through deduction from salary;*

- (ii) Payment of commission to empaneled mutual fund distributors by AMCs in the form of Mutual Fund units;*
- (iii) Contribution/Donation towards a social cause through Mutual Funds.*

3. A new para 17.4.9 shall be inserted and read as under:

The AMCs while facilitating payments from other than beneficiaries as mentioned at paragraph 17.4.3(i) &(ii) above shall be guided by certain core principles, such as

- (i) Validation of relationship between payee and beneficiary.*
- (ii) Coverage of all Listed and EPFO registered companies for payment for investment in Mutual Fund units by an employer on behalf of its employee.*
- (iii) Clearly defined responsibilities for AMC's and RTA's for third party KYC verification and ensuring minimum due diligence to comply with PMLA provisions.*
- (iv) Credit of any eligible payment proceeds including dividend only to the beneficiary's account*
- (v) Any other relevant aspects as may be decided later.*

Further, AMFI in consultation with SEBI shall issue detailed guidelines for all the scenarios mentioned at paragraph 17.4.3 of the master circular and put in place appropriate safeguards. The guidelines shall define key principles and eligibility of entities for the exemption and establish clear boundaries to ensure full compliance with Anti Money Laundering (AML), Standards/ Combating Financing of Terrorism (CFT) / Obligations of Securities Market Intermediaries under Prevention of Money Laundering Act, 2002 and Rules framed there-under. However, the obligation to confirm with PMLA guidelines and perform necessary due diligence rests with the AMCs.

- 4. The provisions of this circular shall come into effect within 30 days from the issuance of the circular.
- 5. 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 22(7)(c)k. read with Regulation 84 of SEBI (Mutual Funds) Regulations, 2026, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.