

# Execution only Platforms

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## Introduction

Direct plans for the Mutual Funds were introduced by SEBI in January 2013. Since then, for any entity to provide services in execution for investments like investing, redeeming, switching and tracking the performance of the investments by getting the feeds from RTA, the entity had to register itself as an Investment Advisor or a stock-broker and comply with all the regulations applicable to them.

SEBI identified the challenges these entities were providing these services to investors who are not their clients and had to comply with all the regulations. SEBI also mentioned that.

“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.”

Thereby, SEBI issued the regulatory framework for Execution Only Platforms (EOP) for facilitating transactions in direct plans of schemes of Mutual Funds in June 2023.

***“The framework is effective from 1st September 2023 & the existing entities providing this service has to get registered within 3 months.”***

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## Who can be an EOP?

SEBI has defined what constitutes an EOP as follows;

*“Any digital or online platform which facilitates transactions such as subscription, redemption and switch transactions in direct plans of schemes of Mutual Funds”*

Only a body corporate such as Private Limited Companies, Public companies can be registered as an EOP. Individual and partnership firms are not eligible to get registered as EOPs. Also, the facilitation is to be made only for direct plans, not for regular plans of only mutual funds.

## Services that can be offered

EOPs can offer services to investors such as:

- a. Subscription to funds
- b. Redemption of funds
- c. Switch Transactions
- d. Change of Email ID
- e. Change of Contact numbers
- f. Change of bank account details

## Categories of EOP and Registration

SEBI has categorized EOPs into two as follows:

### 1. Category 1 EOP -

- a. Registration has to be obtained from AMFI
- b. To act as an agent of AMCs and integrate its systems with AMCs and/or RTAs authorized by such AMCs.
- c. May act as an aggregator of the transactions in direct plans and provide services to investors/ other intermediaries.

### 2. Category 2 EOP -

- a. Registration has to be obtained as a stock broker in terms of the SEBI (Stock Brokers) Regulations, 1992 under the EOP segment.
- b. To register as an agent of the investor and operate only through the platforms provided by Stock Exchanges.

- c. Shall not act as an aggregator of the transactions in direct plans and shall provide services directly to investor only.

## Comparison between the two Categories

Criteria	Category 1	Category 2
Registration	With AMFI	As a Stock Broker with SEBI
Providing services	To investors/ other intermediaries	Only to investors directly
<b>Eligibility Criteria</b>		
Compliance Officer	As specified by AMFI	Yes
Key Managerial Person	As specified by AMFI	Atleast two perons: a. Minimum experience of 3yrs in capital markets b. Professional Qualification finance, accounts, others areas as specified
Net worth	As specified by AMFI	Base network applicable for trading member
KYC Compliance	As specified by AMFI	Similar to Stock Broking regulation
Agreements	To be entered with each AMC defining the rights and obligations relating to EOP services.	To be entered with Stock exchanges defining the rights and obligations relating to EOP services.
Transaction Fees	Flat transaction fee to be borne by AMCs. Limit to be specified by AMFI	Flat transaction fee to be borne by investor. Limit to be specified by exchanges
Onboarding Fees	To be borne by AMCs	To be borne by AMCs
Operational Risk Management	Comprehensive Framework to be implemented	Comprehensive Framework to be implemented
Sharing of data with other departments/group entities and third parties	Allowed with prior approval of investors	Allowed with prior approval of investors

Cyber security and Cyber Resilience Framework	As prescribed by AMFI	As applicable to stockbrokers, prescribed from SEBI.
Grievance Redressal	Mechanism to be prescribed by AMFI	As prescribed for stockbrokers through SCORES, mediation and arbitration mechanism.
Execution of Transactions	Routed directly to AMCs and/or RTAs authorized by AMCs	Routed through the platforms provided by stock exchange.
Advertisement Code	To comply with the advertisement code issued by AMFI	To comply with the advertisement code prescribed by Stock exchange

## Segregation of Clients

Entities performing multiple activities, arms-length distance has to be maintained between activities of EOPs and others.

If an existing MFD wishes to offer EOP to its clients, then client level segregation of services at entities Group Level where an investor can either avail EOP services for direct plans or distribution services for regular plans to be maintained. The definition of Group has to be read as per the SEBI (Investment Advisors) Regulations, 2013 which defines as *an entity which is a holding, subsidiary, associate, subsidiary of a holding company to which it is also a subsidiary or an investing company or the venturer of the company as per the provisions of Companies Act, 2013 for non-individual investment adviser which is a company under the said Act and in any other case, an entity which has a controlling interest or is subject to the controlling interest.*

Also, segregation has to happen at the 'family of investor' level wherein the 'family of investor' would be considered as a single client. Individual investor, dependent spouse, dependent children and dependent parents constitute as 'family of investor'. Hence, an entity can't offer distribution services to investor and provide EOP services to his dependent spouse.

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## Applicability for RIAs and Stock Brokers

This circular is not applicable for RIAs and stock-brokers who are offering execution services to their existing clients where an RIA cannot charge fees for providing the execution services as availing the services is at the discretion of the client.

However, if any RIA offers the execution services to non-advisory clients wherein the client himself executes a transaction and avails no advisory services like a DIY (Do it Yourself). In these scenarios, RIAs are required to obtain EOP registration as required.

## Disclosures & Compliance

EOPs cannot recommend/ rank any of the schemes of mutual funds. However, criteria for the selection of funds based on the research reports or opinions issued by the SEBI registered intermediaries along with suitable disclosures on the source can be provided by way of an interactive tool. The said reports/ opinion has to mention the methodology used for such recommendations and the tool itself cannot provide any report/ opinion/ research/ investment advisory activity.

SEBI has also mentioned that EOPs cannot pool funds and has to be in compliance with the 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.

Necessary systems to be established and suitable policies to be framed 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.

Also, necessary compliances are to be followed in sharing the investor's data, cyber security and cyber resilience requirements and other areas as mentioned by SEBI and AMFI/Stock Exchange as applicable.

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## Our Comments

EOPs are a welcome move both for the investors and the intermediaries. Roles and responsibilities for each party is notified thereby the interest of the investors are safeguarded. This also enables platforms who are registered as an RIA who were merely facilitating execution for investments and to pull the transaction feeds in direct funds.

The framework is effective from 1<sup>st</sup> September 2023 and the existing entities providing this service has to get registered within 3months of the framework being effective.

### **Disclaimer:**

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