

CONSULTATION PAPER ON STANDARDISATION OF PROCESS FOR OPENING OF MUTUAL FUND FOLIOS AND EXECUTION OF FIRST INVESTMENT

1. Objective

- 1.1 The objective of this consultation paper is to solicit comments on the proposed standardization of process for opening of Mutual Fund Folios and execution of first investment. It is proposed that first new folios be ascertained to be fully Know Your Client (KYC) compliant both at the Asset Management Company (AMC) level as well as in the KYC Registration Agency (KRA) system. Investors may commence transactions or investments once the KYC verification is successfully completed by the KRA and the folio is accordingly marked as KYC compliant.
- 1.2 As per SEBI Master Circular on Know Your Client (KYC) norms for the securities market (SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169) dated October 12, 2023, KRAs are mandated to send a letter to the client within 2 working days of the receipt of the initial/updated KYC documents from intermediary, confirming the details thereof.

2. Background

- 2.1 While SEBI mandates that new folios shall be opened only after completion of mandatory KYC verification, certain instances of KYC non-compliant folios seem to have arisen due to the sequential nature of the verification process followed in the mutual fund industry. At the time of folio creation, AMCs conduct comprehensive internal KYC checks and, upon being satisfied, process the investment while simultaneously forwarding the investor's documents to the KRA for final verification. In some cases, where the KRA identifies discrepancies or deficiencies during its review, the folio is marked as KYC non-compliant until such deficiencies are rectified and the investor's KYC status is updated to compliant in the KRA system.
- 2.2 Consequently, following impediments have been observed:
- (1) By investors:
 - i. At the time of new investment under a new folio of a different scheme, the investor is unable to execute any transaction until the KYC status of the investor is marked as compliant in the KRA system;
 - ii. Unable to receive redemption proceeds and dividends into the bank accounts where the bank account details are incorrect;
 - (2) By AMCs:
 - i. Unable to deliver physical/ email communication to the unitholders informing vital developments in the scheme and Mutual Fund where the address is incomplete/incorrect; and
 - ii. Unable to credit the redemption proceeds and dividends into the bank accounts where the bank account details are incorrect; resulting in increase in unclaimed redemptions and unclaimed dividends.

3. Proposal and Consultation

- 3.1 The consultation paper proposes to standardise the practice of execution of first transaction in newly created mutual fund folios to mitigate the issues being faced by investors and AMCs as stated above. In this regard, detailed procedure for opening of new Mutual fund folios is provided in the draft circular titled '*Process for opening of Mutual Fund Folios and Execution of First Investment*' (placed at [Annexure -1](#)).
- 3.2 In view of the above, public comments are invited on the procedure for opening of new Mutual fund folios as stated in the draft circular.

4. Public Comments on this Consultation Paper

4.1 Public Comments

Public comments are invited on the proposal of '*Process for opening of Mutual Fund Folios and Execution of First Investment*'. The comments/ suggestions should be submitted through the following mode latest by **November 14, 2025**.

- **Online web-based form**

- a) The comments may be submitted through the following link:
<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>
- b) The instructions to submit comments on the consultation paper are as under:
 - i. Before initiating the process, please read the instructions given on top left of the web form as "Instructions".
 - ii. Select the consultation paper you want to comment upon from the dropdown under the tab – "Consultation Paper" after entering the requisite information in the form.
 - iii. All fields in the form are mandatory;
 - iv. Email Id and phone number cannot be used more than once for providing comments on a particular consultation paper.
 - v. If you represent any organization other than the types mentioned under dropdown in "Organization Type", please select "Others" and mention the type, which suits you best. Similarly, if you do not represent any organization, you may select "Others" and mention "Not Applicable" in the text box.
 - vi. There will be a dropdown of Proposals in the form. Please select the proposals one- by-one and for each of the proposal, please record your level of agreement with the selected proposal. Please note that submission of agreement level is mandatory.

- vii. If you want to provide your comments for the selected proposal, please select “Yes” from the dropdown under “Do you want to comment on the proposal” and use the text boxes provided for the same.
 - viii. After recording your response to the proposal, click on “Submit” button. System will save your response to the selected proposal and prompt you to record your response for the next proposal. Please follow this procedure for all the proposals given in the dropdown.
 - ix. If you do not want to react on any proposal, please select that proposal from the dropdown and click on “Skip this proposal” and move to the next proposal.
 - x. After recording your response to all the proposals, you may see your draft response to all of proposals by clicking on “Check your response before submitting” just before submitting response to the last proposal in the dropdown. A pdf copy of the response can also be downloaded from the link given in right bottom of the web page.
 - xi. The final comments shall be submitted only after recording your response on all of the proposals in the consultation paper.
- c) In case of any technical issue in submitting your comments through web based public comments form, you may contact the following through email with a subject “*Process for opening of Mutual Fund Folios and Execution of First Investment*”:
- i. Ms. Anupma Chadha, GM (anupmac@sebi.gov.in)
 - ii. Ms. Khushbu Gupta, AM (khushbug@sebi.gov.in)

Issued on: October 23, 2025

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DRAFT CIRCULAR**SEBI/HO/IMD/IMD-RAC-1/P/CIR/2025/XXX****XXXX,2025**

**To All,
Mutual Funds (MFs)/
Asset Management Companies (AMCs)/
KYC Registration Agency (KRA)/
Trustee Companies/ Board of Trustees of Mutual Funds/
Association of Mutual Funds in India (AMFI)/
Registrars to an Issue and Share Transfer Agent (RTAs)**

Sir/Madam,

Subject: Process for Opening of Mutual Fund Folios and Execution of First Investment

- 1.** In order to standardise the practice of execution of first transaction in newly created mutual fund folios, it has been decided to mandate the following process for creation of new Mutual fund folios and the first investment in the same.
 - 1.1.** Folios shall be created by AMC upon receipt of account opening documents and verifications as per the Know Your Client (KYC) norms for the securities market (SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169) dated October 12,2023;
 - 1.2.** Upon satisfactory KYC compliance, KYC documents shall be sent to KYC Registration Agency (KRA) by AMC which shall complete the KYC verification;
 - 1.3.** First investment in a new folio shall be permitted only after KYC verification is completed by the KRA and the folio is marked as KYC compliant in the KRA system;
 - 1.4.** Investors shall be informed at each stage of the KYC process through their registered email and mobile number.
- 2.** AMCs and KRAs are advised to be guided by SEBI Master Circular on Know Your Client (KYC) norms for the securities market (SEBI/HO/MIRSD/SECFATF/P/CIR/2023/169) dated October 12,2023 w.r.t applicable guidelines for Intermediaries and guidelines for KRAs while carrying out the KYC verification of new folios.

3. AMCs, KRAs and intermediaries are directed to update their internal systems and workflows to ensure compliance with the above. Any queries or difficulties in implementation may be brought to the attention of SEBI for necessary clarification.
4. The provisions of this circular shall come into force from the date of this circular.
5. This circular is being issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, read with the relevant provisions of SEBI (Mutual Funds) Regulations, 1996 and SEBI (KYC Registration Agency) Regulations, 2011, to protect the interests of investors in securities and to promote the development of, and to regulate, the securities market.
6. This circular is available at www.sebi.gov.in under the link “Legal > Circulars”.

Yours faithfully,
