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The Securities and Exchange Board of India (SEBI) has placed restrictions on the mutual funds industry from issuing new fund offers (NFO) to give the industry time to comply with the new norms.

SEBI has directed all the stakeholders like mutual fund distributors, investor advisors, and other such online platforms to refrain from pooling accounts to transfer the funds to any assets management company for purchasing schemes of these investors. This is being done to make sure that the money remains safe.

The regulator wrote a letter to the Association of mutual funds in India (AMFI). It asked the industry to comply with the circular, which directed the agencies to use two-factor authentication to retrieve mutual funds and verify the source accounts when the investments are made.

For fund houses to launch new schemes in future, adherence to the abovementioned circular is a must. This circular was issued on October 2021 and afterwards on March 2022, but the compliance has been weary.

AMFI has asked SEBI to extend the time for compliance. Considering the situation, the regulator extended the deadline till 1 July 2022. However, to ensure that the companies adhere to the guidelines, it has suspended new fund offer as of now.

The circular, which addresses the issue of pooled accounts, was to caution about the broker transferring the money meant for mutual funds into his account and then defaulting. This risk is ring-fenced if the money is sent straight to the fund house or stock exchange.

The two-factor authentication will add a layer of security for the customer at the time of mutual fund redemption. In the same way, verifying source accounts will help prevent crimes such as money laundering.