



ASSOCIATION OF MUTUAL FUNDS IN INDIA

135/BP/ 74 /2018-19

August 29, 2018

To,
All AMFI Members

Dear Members,

AMFI Best Practices Guidelines Circular No. 74 / 2018-19
Best Practice Guidelines on Electronic Transactions

Background:

With the advancement of technology and dependency on information technology for customer-centric processes, there have been several changes in the Information Technology laws in India. For instance, all Intermediaries are required to comply with the Information Technology (Intermediaries guidelines) Rules, 2011. Further, all intermediaries are required to take all reasonable measures to secure their computer resources and information contained therein following the reasonable security practices and procedures as prescribed in the Information Technology (Reasonable security practices and procedures and sensitive personal Information) Rules, 2011.

As per the Information Technology Act, 2000 [as amended by Information technology (Amendment) Act 2008], Mutual Funds (MFs) providing the facility of online purchase and sale of units are covered under the definition of "Intermediary".

Current Position in MF industry

With the emergence and increase in online transactions in the MF industry, the thrust on data security and cyber security have assumed critical importance for mutual funds.

While AMFI has issued Best Practice Guidelines on various operational matters, AMFI's Operations & Compliance Committee felt that it was expedient for AMFI to recommend minimum best practice guidelines for electronic transactions in mutual funds that would guide all members to comply with the applicable Information Technology (IT) laws for the following reasons –

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1. While the mandatory systems audit conducted by AMCs once every two years primarily focuses on IT security processes, there is no independent review of existing processes vis-à-vis requirements of the applicable IT laws, which have undergone several changes.
2. The best practice guidelines can help maintain a minimum quality across all AMCs and can be used by Members for self-assessment or benchmarking to minimize potential litigation risk.

In this regard, a sub-committee was constituted comprising of members from various AMCs with Legal & Compliance, Operations and IT back-ground. The sub-committee examined the existing practices followed by the Industry vis-à-vis requirements under Information Technology Act, 2000 as well as Information Technology (intermediate guidelines) Rules, 2011 and conducted an exhaustive analysis, in consultation with / guidance from a professional legal firm (viz., AZB Partners) and arrived at recommended Best Practice Guidelines for Electronic Transactions for mutual funds.

The sub-committee's recommendations were discussed and endorsed by the AMFI's Operations & Compliance Committee and approved by the Board of AMFI at the Board meeting held on August 13, 2018 as Best Practice Guidelines for being adopted by all AMFI Members uniformly effective immediately. Accordingly, the Best Practice Guidelines for Electronic Transactions for mutual funds are appended in the Annexure hereto.

Members are requested to confirm having noted the contents of this circular for compliance and to place the circular before their Trustees for information at their next meeting.

With best regards,

A handwritten signature in blue ink, reading "N. S. Venkatesh", is written over a horizontal line.

N. S. Venkatesh
Chief Executive

Encl. as above