



## CIRCULAR

F. No 172/ IFSCA/Finance Company/Unit Regulations/2021-22/4

May 03, 2021

To,  
All Finance Company's / Finance Units in the International Financial Services Centre (IFSC)

**Subject: Guidelines on distribution of mutual funds and insurance products by Finance Company /Finance Unit**

Finance Company/Finance Unit(FC/FU) may draw reference to regulation 5 on permissible activities of the International Financial Services Centres Authority (Finance Company) Regulations, 2021 (herein referred to as 'Regulations') dated March 25, 2021 issued by the Authority.

2. The International Financial Services Centers Authority (herein referred to as 'Authority'), in order to facilitate the undertaking of non-core activities as mentioned in regulation (iii) g referring to distribution of mutual fund units and (iii) h referring to distribution of insurance products, of regulation 5 of the Regulations, by FC/FU in the International Financial Services Centers (herein referred to as 'IFSCs') in India, directs the FC/FU to follow the general and activity specific guidelines given below.

### **A. Applicability**

3. This circular shall apply to all FC/FU as the case may be, registered with the Authority under section 3 of IFSCA (Finance Company) Regulations, 2021 and who intends to undertake the above mentioned activities. Further, the circular shall remain applicable as amended by the Authority from time to time.

## **B. General Guidelines:**

4. The following guidelines shall be adhered to for undertaking activities as specified in the circular:

- (i) The activities shall be carried out on fee basis, without any risk participation.
- (ii) All employees dealing with mentioned activities shall possess the requisite qualification as per industry best practices. There shall be a system of continuous development and training (internal as well as external) of such employees so that they may understand the complexity of the product.
- (iii) There shall be standardized system of assessing the need/ suitability of products for a customer and the process of initiation/ transaction as well as the functions of the marketing and operational staff shall be segregated.
- (iv) There shall be a Board approved policy encompassing the model of distribution such investment products to be adopted, issues of customer appropriateness, suitability, customer compensation, grievance redressal arrangements and marketing and distribution of such products (which shall, inter alia specifically consider the issue of addressing mis-selling).
- (v) The FC/FU shall not follow any restrictive practices or link the sale of its investment products to any other products offered by it.
- (vi) It shall be prominently stated in all publicity material, if any, distributed by the FC/FU that the purchase by a FC/FU's customer of any investment products is purely voluntary, and is not linked to avilment of any other facility from the FC/FU.
- (vii) The third party product issuer shall be a regulated financial entity.
- (viii) There shall be a Code of Conduct for the sales personnel who shall adhere to the same.
- (ix) The fact that the FC/FU is only acting as an agent shall be clearly brought to the notice of the customer.
- (x) No incentive (cash or non-cash) shall be linked directly or indirectly to the sale/income received from marketing/distribution services of such investment products. The staff of the FC/FU shall not be permitted to receive any incentive (cash or non-cash) directly from the third party issuer. FC/FU must ensure that there is no violation of the above in the incentive structure to staff.

(xi) FC/FUs shall disclose in the 'Notes to Accounts' to their Balance Sheet, the details of fees/remuneration received in respect of marketing and distribution function undertaken by them.

### **C. Guidelines on distribution of mutual funds units**

5. In addition to the general guidelines as above, an FC/FU shall also adhere to the following guidelines while undertaking distribution of mutual fund products:

- (i) The investors' applications for purchase/sale of mutual fund units shall be forwarded to the mutual funds/registrars/transfer agents.
- (ii) The purchase of units shall be at the customers' risk without the FC/FU guaranteeing any assured return.
- (iii) No mutual fund units shall be acquired from the secondary market or bought back from a customer for selling it to other customers.
- (iv) Extension of credit facility to individuals against the security of mutual fund units shall be in accordance with the extant instructions on advances against shares/debentures and units of mutual funds.
- (v) A FC/FU holding custody of mutual fund units on behalf of its customers shall keep the investments of the customers distinct from its own investments. FC/FUs shall put in place adequate and effective control mechanisms in this regard.

### **D. Guidelines on distribution of insurance products**

6. In addition to the general guidelines as above, an FC/FU shall also adhere to the following guidelines while undertaking distribution of insurance products:

- (i) FC/FU shall necessarily undertake a customer need assessment prior to sale of insurance products.
- (ii) The FC/FU shall comply with provisions of IRDAI (International Financial Services Centre Insurance Intermediary Offices) Guidelines, 2019 No. IRDA/RI/GDL/MISC/012/01/2019, dated January 16,2019 and any other Regulation/Circular/Guidelines issued by the Authority from time to time.
- (iii) It shall be ensured that performance assessment and incentive structure for staff is not violative of IRDAI (Payment of Commission or Remuneration or Reward to Insurance Agents and Insurance Intermediaries) Regulations ,2016 as amended from

time to time.

7. All FC/FUs on which this circular is applicable, are directed to ensure compliance with this circular.

Yours faithfully,

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