

RBI/2005-06/388

RPCD.No.RRB.BC.82 /03.05.33/2005-06

May 17, 2006

**The Chairmen
All Regional Rural Banks**

Dear Sir,

Marketing of Mutual Fund Units - RRBs

With a view to expanding the scope of business of RRBs and considering that marketing of Mutual Fund (MF) units provides a profitable avenue for banks, it has been decided to allow Regional Rural Banks (RRBs) to undertake marketing of units of Mutual Funds, as agents. Accordingly, RRBs may, with approval of their Board of Directors, enter into agreements with Mutual Funds for marketing their units subject to the following terms and conditions:

- (i) The bank should only act as an agent of the customers, forwarding applications of the investors for purchase / sale of MF units to the Mutual Fund / Registrar / Transfer Agents.
- (ii) The purchase of MF units should be at the risk of customers and without the bank guaranteeing any assured return.
- (iii) The bank should not acquire such units of Mutual Fund from the secondary market.
- (iv) The bank should not buy back units of Mutual Funds from their customers.
- (v) The bank holding custody of MF units on behalf of their customers should ensure that its own investment and investments belonging to their customers are kept distinct from each other.
- (vi) Retailing of units of Mutual Funds may be confined to some select branches of the bank to ensure better control.

- (vii) The bank should comply with the extant KYC/ AML guidelines in respect of the applicants.
- (viii) The RRBs should put in place adequate and effective control mechanisms in consultation with their sponsor banks.

2. RRBs may report the details of the tie-up, together with a copy of the agreement entered into with the Mutual Fund, to our respective Regional Office within a period of ten days from the date of entering into the arrangement.

3. Please acknowledge receipt to our concerned Regional Offices.

Yours faithfully,

(G.Srinivasan)
Chief General Manager