

Purchase of Mutual Fund on ONDC

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Version History

Revision Date	Version	Author	Description of Change
<mm/dd/yyyy>			PRD Freeze Date

1 Checklist

The following checklist ensures that no thought process is missed out. Do not delete any section.

SNo	Requirements Considered	Requirement Status (Final, In Progress, NA)
1	BRD	Done
2	Sequence + Workflow Diag.	Done
3	Taxonomy	Done
4	Error codes	TBS
5	TLC terms	TBS
6	Reporting and Analytics Requirements	In-progress
7	Mock seller/Sandbox requirement	In-progress
8	Enums for the order/fulfilment state	Done
9	NP approval on the PRD	Done
10	Backward Compatibility - Behavior with older Apps	NA

2 Project Charter

2.1 Scope Statement

2.2 Business Requirement Document

Use Cases

1. **Investors who are new to the mutual fund industry and are going to invest for the first time** - This is the desired target audience and for these investors - we will need to do a full KYC and collect bank information to create a folio for them to start investing in mutual funds
2. **Investors who have invested in mutual funds before but are new to the AMC** - In this case, KYC is not required, only a folio will need to be created with the respective AMC whose scheme has been selected. The fields are fairly standard across AMCs and we have received these from 3 AMCs which has been baked in the draft version of the protocol
3. **Investors who are existing customers of the AMC** - Here, the folio would already be created with an AMC and the investor just needs to give the consent to use the same folio (the folio details in a masked manner will be shared by the AMC (seller app) to the distributor (buyer app))

Schemes

1. We will be enabling all schemes that AMCs have to offer across the asset classes - equity, debt and hybrid. The scheme selection sheet is here -
https://docs.google.com/spreadsheets/d/185ZFY3rZr0h9MqeW56uB8X4cdWRoVLsqPfPigDYr_il/edit#gid=1921506663
2. The plans that will be offered via the protocol will be regular plans (because then only a commission can be paid to the buyer app). While the same protocol can be used for direct plans, the focus for us will be regular plans

SIP and Lump Sum

1. We will be enabling both SIP (recurring instalments - daily, weekly and monthly) as well as lump sum payments for the investors

Out of Scope / To be covered in version upgrades

1. Having the scheme of more than one AMC in a single transaction - (more than one scheme from same AMC will be supported but 2 schemes from 2 different AMCs will be added later)

2. Joint Account Mode of Holding - we will be starting off with single mode of holding (where in the investors' money will come from a bank account belonging to an individual and not a joint bank account)
3. NRI Mode of Holding - We will be starting off with domestic investors
4. Investments by minors (<18 years of age)
5. Features like systematic transfer plan and systematic withdrawal plans (This is used if investor wants to transfer schemes from one AMC to another or withdraw them at a certain periodicity)
6. Tax Statements - any tax implications pertaining to investments

2.3 Core Team

Team / role	Name
Product Owner	Sumit Kumar
Business spoc	Kapish Kaushal
Tech spoc	Shreyansh Shah

2.4 Stakeholders/NPs

Name	Responsibility	Discussed
X Fi Technologies	BAP	Yes
Appreciate Wealth	BAP	Yes
Asset Plus	BAP	Yes
Saventh	BAP	Yes
MFU	BPP	
Cybrilla	BPP	Yes
BSE Star	BPP	
HDFC	BPP	Yes
Birla	BPP	Yes
Edelweiss	BPP	Yes
DSP	BPP	Yes
Bajaj AMC	BPP	
Nippon	BPP	Yes
Quantum	BPP	Yes
ICICI Prudential	BPP	Yes

3 Final Product Requirements

HISTORY OF MUTUAL FUNDS IN INDIA

A strong financial market with broad participation is essential for a developed economy. With this broad objective India's first mutual fund was established in 1963, namely, Unit Trust of India (UTI), at the initiative of the Government of India and Reserve Bank of India 'with a view to encouraging saving and investment and participation in the income, profits and gains accruing to the Corporation from the acquisition, holding, management and disposal of securities'.

In the last few years the MF Industry has grown significantly. The history of Mutual Funds in India can be broadly divided into five distinct phases as follows:

1. FIRST PHASE - 1964-1987

- a. The Mutual Fund industry in India started in 1963 with formation of UTI in 1963 by an Act of Parliament and functioned under the Regulatory and administrative control of the Reserve Bank of India (RBI). In 1978, UTI was de-linked from the RBI and the Industrial Development Bank of India (IDBI) took over the regulatory and administrative control in place of RBI. Unit Scheme 1964 (US '64) was the first scheme launched by UTI. At the end of 1988, UTI had ₹ 6,700 crores of Assets Under Management (AUM).

2. SECOND PHASE - 1987-1993 - ENTRY OF PUBLIC SECTOR MUTUAL FUNDS

- a. The year 1987 marked the entry of public sector mutual funds set up by Public Sector banks and Life Insurance Corporation of India (LIC) and General Insurance Corporation of India (GIC). SBI Mutual Fund was the first 'non-UTI' mutual fund established in June 1987, followed by Canbank Mutual Fund (Dec. 1987), Punjab National Bank Mutual Fund (Aug. 1989), Indian Bank Mutual Fund (Nov 1989), Bank of India (Jun 1990), Bank of Baroda Mutual Fund (Oct. 1992). LIC established its mutual fund in June 1989, while GIC had set up its mutual fund in December 1990. At the end of 1993, the MF industry had assets under management of ₹47,004 crores.

3. THIRD PHASE - 1993-2003 - ENTRY OF PRIVATE SECTOR MUTUAL FUNDS

- a. The Indian securities market gained greater importance with the establishment of SEBI in April 1992 to protect the interests of the investors in securities market and to promote the development of, and to regulate, the securities market.
- b. In the year 1993, the first set of SEBI Mutual Fund Regulations came into being for all mutual funds, except UTI. The erstwhile Kothari Pioneer (now merged with Franklin Templeton MF) was the first private sector MF registered in July 1993.
- c. The number of MFs increased over the years, with many foreign sponsors setting up mutual funds in India. Also the MF industry witnessed several mergers and acquisitions during this phase. As at the end of January 2003, there were 33 MFs with total AUM of ₹1,21,805 crores, out of which UTI alone had AUM of ₹44,541 crores.

4. FOURTH PHASE - SINCE FEBRUARY 2003 – APRIL 2014

- a. In February 2003, following the repeal of the Unit Trust of India Act 1963, UTI was bifurcated into two separate entities, viz., the Specified Undertaking of the Unit Trust of India (SUUTI) and UTI Mutual Fund which functions under the SEBI MF Regulations. With the bifurcation of the erstwhile UTI and several mergers taking place among different private sector funds, the MF industry entered its fourth phase of consolidation.

5. FIFTH (CURRENT) PHASE – SINCE MAY 2014 - ENTER TIER II & TIER III

- a. Taking cognisance of the lack of penetration of MFs, especially in tier II and tier III cities, and the need for greater alignment of the interest of various stakeholders, SEBI introduced several progressive measures in September 2012 to "re-energize" the Indian Mutual Fund industry and increase MFs' penetration.

CURRENT MARKET SIZE & DYNAMICS

Since May 2014, the Industry has witnessed steady inflows and increase in the AUM as well as the number of investor folios (accounts).

The Industry's AUM crossed the milestone of ₹10 Trillion (₹10 Lakh Crore) for the first time as on 31st May 2014 and in a short span of about three years the AUM size had increased more than two folds and crossed ₹ 20 trillion (₹20 Lakh Crore) for the first time in August 2017. The AUM size crossed ₹ 30 trillion (₹30 Lakh Crore) for the first time in November 2020.

The overall size of the Indian MF Industry has grown from ₹ 8.25 trillion as on 31st March 2014 to ₹ 53.40 trillion as on 31st March 2024, more than 6 fold increase in a span of 10 years.

The MF Industry's AUM has grown from ₹ 23.80 trillion as on March 31, 2019 to ₹53.40 trillion as on March 31, 2024, more than 2 fold increase in a span of 5 years.

The no. of investor folios has gone up from 8.25 crore folios as on 31-Mar-2019 to 17.79 crore as on 31-Mar-2024, more than 2 fold increase in a span of 5 years.

On an average 15.90 lakh new folios have been added every month in the last 5 years since March 2019.

INTRODUCTION TO MUTUAL FUNDS - WHAT ARE MUTUAL FUNDS?

A mutual fund is a collective investment vehicle that collects & pools money from a number of investors and invests the same in equities, bonds, government securities, and money market instruments.

The money collected in a mutual fund scheme is invested by professional fund managers in stocks and bonds etc. in line with a scheme's investment objective. The income / gains generated from this collective investment scheme are distributed proportionately amongst the investors, after deducting applicable expenses and levies, by calculating a scheme's "Net Asset Value" or NAV. In return, mutual funds charge a small fee.

Mutual funds are ideal for investors who –

1. Lack the knowledge or skill / experience of investing in stock markets directly.
2. Want to grow their wealth, but do not have the inclination or time to research the stock market.
3. Wish to invest only small amounts.

MUTUAL FUND SCHEME CLASSIFICATION

Mutual funds come in many varieties, designed to meet different investor goals. Mutual funds can be broadly classified based on –

1. Organisation Structure – Open ended, Close ended, Interval
2. Management of Portfolio – Actively or Passively
3. Investment Objective – Growth, Income, Liquidity
4. Underlying Portfolio – Equity, Debt, Hybrid, Money market instruments, Multi Asset
5. Thematic / solution oriented – Tax saving, Retirement benefit, Child welfare, Arbitrage
6. Exchange Traded Funds
7. Overseas funds
8. Fund of funds

ADVANTAGES OF INVESTING IN MUTUAL FUNDS

1. Professional Management
2. Risk Diversification
3. Affordability & Convenience (Invest Small Amounts)
4. Liquidity
5. Low Cost
6. Well-Regulated
7. Tax Benefits

SEBI CATEGORIZATION OF MUTUAL FUND SCHEMES

As per SEBI guidelines on Categorization and Rationalization of schemes issued in October 2017, mutual fund schemes are classified as –

1. Equity Schemes
2. Debt Schemes

- a. A debt fund (also known as income fund) is a fund that invests primarily in bonds or other debt securities.
- b. Debt funds invest in short and long-term securities issued by government, public financial institutions, companies – Treasury bills, Government Securities, Debentures, Commercial paper, Certificates of Deposit and others

3. Hybrid Schemes

- a. Hybrid funds Invest in a mix of equities and debt securities.

4. Solution Oriented Schemes – For Retirement and Children

5. Other Schemes – Index Funds & ETFs and Fund of Funds

- Under the Equity category, Large, Mid and Small cap stocks have now been defined.
- Naming convention of the schemes, especially debt schemes, as per the risk level of underlying portfolio (e.g., the erstwhile ‘Credit Opportunity Fund’ is now called “Credit Risk Fund”)
- Balanced / Hybrid funds are further categorised into conservative hybrid fund, balanced hybrid fund and aggressive hybrid fund.

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3.1 In/Out of Scope

Status	Requirement #	Priority
In	<p>As an Investor, who is new to the mutual fund industry, I should be able to invest in any MF available on the network</p> <ol style="list-style-type: none"> 1. Perform KYC 2. Create Folio 3. Select Scheme 4. Select payment plan - SIP OR Lumpsum 5. Set up new E-mandate 	
In	<p>As an Investor, who is new to an AMC, I should be able to invest in that particular AMC available on the network</p> <ol style="list-style-type: none"> 1. Create Folio 2. Select Scheme 3. Select payment plan - SIP OR Lumpsum 4. Set up new E-mandate 	
In	<p>As an Investor, who is an existing investor to an AMC, I should be able to invest in that particular AMC available on the network</p> <ol style="list-style-type: none"> 1. Create New Folio OR Select Existing Folio 2. Select Scheme 3. Select payment plan - SIP OR Lumpsum 4. Set up new E-mandate OR Select existing E-Mandate with the AMC 	
Out	Joint Account Mode of Holding - we will be starting off with single mode of holding (where in the investors' money will come from a bank account belonging to an individual and not a joint bank account)	
Out	NRI mode of holding	
Out	Investments by minors (<18 years of age)	
Out	systematic transfer plan and systematic withdrawal plans (This is used if investor wants to transfer schemes from one AMC to another or withdraw them at a certain periodicity)	
Out	Tax Statements - any tax implications pertaining to investments	

3.2 Detailed Use Cases

Use Case 1	Buyer compares for various MF schemes → Selects one scheme → Makes a purchase → Manage schemes bought → Redeem available units
Actor	Investor Buyer App Seller App Seller
Main Path	<p>Initiate Buyer's Request</p> <ol style="list-style-type: none"> 1. Buyer initiates an interest to invest in a mutual fund 2. Buyer will be able to check and compare all the available schemes from various AMC's and invest appropriately <p>Broadcast to Sellers</p> <ol style="list-style-type: none"> 3. All the Seller on the network will be able to receive the intent <p>Sellers Respond</p> <ol style="list-style-type: none"> 4. Sellers will share their catalogue along with all the schemes that are available with them 5. The catalogue will contain details as per the defined schema, which is followed throughout the industry.  MF Catalog Design for ONDC 6. Sellers will be able to share only incremental changes on the catalogue with the buyer app <ol style="list-style-type: none"> a. Full Pull - Share the entire catalogue with the buyer b. Incremental Pull - Share the updates in the catalogue only <p>Buyer Selection</p> <ol style="list-style-type: none"> 7. When the buyer selects, Buyer app makes a select call with scheme, fulfilment and investor (Buyer) identifier (pan and dob) 8. Seller app checks the investor identifier to determine if the buyer is kyc compliant and if he already has existing folios and if it can accept orders from that investor for the chosen scheme, it responds with the possible options of existing/new folio. <ol style="list-style-type: none"> a. Existing folio - <ol style="list-style-type: none"> i. Existing Mandate <ol style="list-style-type: none"> 1. Seller checks for the folio and mandate validity 2. Responds with the existing folio number and mandate details

- 3. Buyer selects from the option available
- ii. New Mandate
 - 1. Seller checks for the folio and mandate validity
 - 2. Responds with the existing folio number and mandate details
 - 3. Buyer chooses to select the existing folio and creates a new mandate
- b. New folio
 - i. With KYC
 - 1. Seller app responds with the details needed to perform kyc (3-step x-input)
 - ii. Without KYC
 - 1. Seller responds with the details needed to open a new folio (1-step x-input)

Initiation of Purchase Order

- 9. Buyer chooses from the offered options - SIP and Lump Sum and the amount they want to invest
- 10. The seller responds with different payment options through which the investor can make the payment to complete this order. And the order is created in draft state. The terms and conditions to be accepted by the investor are also sent in the response.
 - a. New Mandate Registration
 - i. amount represents the mandate limit. It should be atleast the sip instalment amount. Distributors can propose a number, but AMC will have the final say on this.
 - b. Existing Mandate Selection
 - i. If the investor has an existing mandate, AMC will send that along with a masked bank a/c number against which the mandate is registered.
 - c. Netbanking
 - i. For one time payment, if netbanking is supported for the given investor's bank a/c, AMC will respond with this option.
 - d. UPI Collect
 - i. For one time payment, if upi collect is supported for the given investor's bank a/c, AMC will respond with this option.

	<p>11. Order in CREATED state marks the end of this stage.</p> <p>Confirming Purchase Order</p> <p>12. Buyer app sends all the details of the investor and the transaction and the selected payment option along with all the negotiated terms in the previous step. Buyer app takes a clickwrap consent from the investor on the TnC, performs 2fa and sends those details.</p> <p>13. Depending on the selected payment option, the seller app responds with either a payment URL or order in accepted state.</p> <p>14. Order in ACCEPTED or REJECTED state marks the end of this stage.</p>
Alternate Path 1	Buyer wants to redeem from the MF schemes invested on the network One time redemption allowed SWP not allowed
Alternate Path 2	Buyer wants to redeem from the MF schemes invested off the network One time redemption allowed SWP not allowed
Alternate Path 3	Payment mandate fails to transfer money to the AMC
Alternate Path 4	Buyer wants to stop/cancel the SIP
Alternate Path 5	Auto Cancellation of SIP on account of multiple mandate failures

3.3 Workflow/Sequence Diag.

1. Link to the workflow diag. is [HERE](#)

3.4 Industry Enumerations

1. Order Types

- a. PURCHASE - All one time (lumpsum) and recurring (sip) buy orders
- b. REDEMPTION - All one time

2. Order States

- a. CREATED: Draft order.
- b. ACCEPTED: Order is accepted by BPP. For purchase orders, this means a successful payment.
- c. REJECTED: Order is rejected by BPP. In most cases this is due to payment failures.

3. Fulfilment Types

- a. LUMPSUM
- b. SIP

- c. REDEMPTION
- d. SIP_INSTALMENT

4. Fulfilment States

- a. ONGOING: For recurring orders (sip), this means the instalments are ongoing as per the schedule
- b. COMPLETED: For recurring orders (sip), this means the instalments are completed as per the schedule and no new instalments will be generated
- c. CANCELLED: For recurring orders (sip), this means the order is cancelled by the seller app and no new instalments will be generated
- d. SUCCESSFUL: Order is successfully processed. For purchase orders, this means units have been allotted.
- e. FAILED: Order is not processed. Typically failed by the AMC/RTA due to invalid kyc/bank-account among other reasons.

5. Payment Types

- a. EXISTING_MANDATE
- b. NEW_MANDATE_REGISTRATION
- c. NETBANKING
- d. UPI_COLLECT
- e. MANDATE_DEBIT

6. Payment States

- a. PAID: Payment is successfully collected
- b. NOT_PAID: Payment is pending
- c. FAILED: Payment failed either due to incorrect user action or system issues

3.5 Taxonomy

https://docs.google.com/spreadsheets/d/185ZFY3rZr0h9MqeW56uB8X4cdWRoVLsqPfPigDYr_il/edit#gid=0