

CIRCULAR

SEBI/HO/IMD/IMD-I/DOF5/P/CIR/2021/629

September 20, 2021

All Mutual Funds ('MFs')
All Asset Management Companies ('AMCs')
All Trustee Companies/ Board of Trustees of Mutual Funds
Association of Mutual Funds in India ('AMFI')

Sir/Madam,

Subject: Clarifications with respect to Circular dated April 28, 2021 on 'Alignment of interest of Key Employees ('Designated Employees') of Asset Management Companies (AMCs) with the Unitholders of the Mutual Fund Schemes'

1. SEBI, vide Circular no. SEBI/HO/IMD/IMD-I/DOF5/P/CIR/2021/553 dated April 28, 2021, has provided that a part of the compensation of Key Employees of the AMCs shall be paid in the form of units of the scheme(s) in which they have a role or oversight.
2. Based on the representations received from the Mutual Fund Industry and recommendations of Mutual Funds Advisory Committee ('MFAC'), it has been decided to provide clarity on certain provisions and on the applicability of the aforementioned circular. The said clarifications are given in Annexure to this circular.
3. All other provisions mentioned in the circular SEBI/HO/IMD/IMD-I/DOF5/P/CIR/2021/553 dated April 28, 2021 and circular SEBI/HO/IMD/IMD-I/DOF5/P/CIR/2021/582 dated June 25, 2021 shall remain unchanged.
4. This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

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Annexure

With regards to the SEBI circular no. SEBI/HO/IMD/IMD-I/DOF5/P/CIR/2021/553 dated April 28, 2021 (hereinafter referred to as “Alignment circular”), following are clarified:

1. The term ‘Key employees’ shall be read as ‘Designated Employees’.
2. The phrase ‘paid in the form of units’ shall be read as ‘mandatorily invested in units’.
3. a) For junior employees, the provision under para 2(i) of the Alignment Circular shall be implemented in a phased manner i.e. 10% in the 1st year and 15% in the 2nd year of implementation of the Alignment circular. In other words, junior employees shall be required to invest 10% during October 01, 2021 to September 30, 2022 and 15% during October 01, 2022 to September 30, 2023.

b) All junior employees shall be mandatorily required to invest 20% as specified under para 2(i) of the Alignment circular with effect from October 01, 2023 onwards. However, as prescribed in the circular SEBI/HO/IMD/IMD-I/DOF5/P/CIR/2021/582 dated June 25, 2021, other designated employees shall be mandatorily required to invest 20% as specified under para 2(i) of the Alignment circular with effect from October 01, 2021.

c) The phased implementation for junior employees shall cease to apply from the date such employee attains the age of 35 years.

For this purpose, a designated employee of the AMC below the age of 35 years (excluding CEO, head of any department and Fund Managers), shall be deemed as “junior employee”.

4. With regards to the provisions under para 2 of the Alignment circular, it is clarified that:
 - 4.1. Investment in units of the scheme, shall be made on the day of payment of salary.
 - 4.2. The previous month’s closing AUM shall be taken for apportioning the investment across eligible schemes.

- 4.3. All non-cash benefits and perks shall be accounted for in CTC at the perquisite value as per the Form 16 under Income Tax Act, 1961. However, superannuation benefits and Gratuity paid at the time of death/retirement, shall not be included in the CTC.
- 4.4. The perquisite value of interest on loan availed by the Designated Employees against the units from the AMC as specified in para 2(iv) of the Alignment circular shall not be included in the CTC.
- 4.5. Designated Employees may set off their existing investments as on date of the applicability of the Alignment circular, if any, against the fresh investments as required in the same schemes.
- 4.6. Designated Employees may set off their units, for which the required lock-in period of 3 years is expired, against the fresh investments required to be made in the same schemes as per the provisions of the Alignment circular. In such cases, AMC shall ensure that such units are locked in for the further period of 3 years or tenure of the scheme, whichever is less.
- 4.7. **Redemption of units:** Redemption of units locked in as per the provisions of the Alignment circular and this circular shall be as follows:
- 4.7.1. **Liquid Schemes:** Units of Designated Employee invested in terms of the Alignment circular would get automatically redeemed on expiry of the mandatory lock-in period.
- 4.7.2. **Open Ended Schemes:** After the expiry of the mandatory lock-in period, designated employee can redeem their units in open ended schemes twice in a financial year, with the prior approval of the Compliance Officer by following the procedure prescribed below:
- Any time after the expiry of the mandatory lock-in period, the designated employee may make application to the Compliance Officer for redemption of the units. The Compliance Officer shall decide on the said application within 5 days of receipt of such application;
 - If approved, the designated employee may submit request for redemption of such units within 10 trading days from the date of grant of such approval;
 - The unexecuted portion, if any, shall not be rolled over on the expiry of the period mentioned at (b) above. However, a second application can be made within the year as stated above. The Compliance

Officer shall maintain all other regulatory checks and obtain necessary confirmation from the concerned designated employee;

- d. Where the concerned Designated Employee is in possession of any material information, which is not yet communicated to investors and which could materially impact the NAV / interest of unitholders, such Designated Employee shall not make application for redemption or submit redemption request during such period; and
- e. Where the Asset Management Company is in possession of any material information, which is not yet communicated to investors and which could materially impact the NAV / interest of unitholders, Compliance Officer shall not grant approval for such application.

4.7.3. In case of request for redemptions made by the Compliance Officer, the competent person to approve the same shall be “Chief Executive Officer”.

4.8. The investment of the Designated Employees, shall be made in ‘Growth option’ of the mutual fund schemes. For schemes where growth option is not available, the investment shall be made in the ‘Reinvestment of Income Distribution cum capital withdrawal option’. For schemes where both the above options are not available, investment shall be made in the ‘Payout of Income Distribution cum capital withdrawal option’.

4.9. In the Fund of Funds schemes, only Fund Managers of such schemes shall be required to invest.

4.10. Fund of Funds schemes investing only in a single ETF shall also be covered in the exclusions mentioned in the para 2(ii)(a) of the Alignment circular.

4.11. In all cases of deferred compensation including Employee Stock Options, the AMC shall decide whether the deduction of 20% of such deferred compensation (perquisite value less taxes), should be on the date of grant or exercise. However, the policy should be same for all Designated Employees of the AMC, in a given financial year.

4.12. Any unconditional compensation in any form which was granted before the issuance of the Alignment circular but is unpaid as on the date of the Alignment circular i.e, April 28, 2021 shall not be included in the CTC.

4.13. Para 2(iii) of the Alignment circular allowing diversification of the unit holdings to dedicated fund managers managing only a single scheme/single category

of schemes, shall also be applicable to dedicated fund managers of overseas funds.

- 4.14. Units, allotted in terms of the Alignment circular, shall be released from the mandatory lock-in period in case of death of the Designated Employee.
- 4.15. AMC shall ensure that necessary audit trail is maintained to verify compliance with the provisions of the Alignment circular.
5. Units allotted to the Designated Employees shall be subject to clawback in the event of gross violation of Code of Conduct / fraud / gross negligence by them, as determined by SEBI.
6. Disclosure mandated under para 4(ii) of the Alignment circular shall be at monthly aggregate level showing the total investment across all relevant employees in that specific scheme.
7. The modalities with respect to contribution of the Designated Employees in close ended schemes as mentioned in para 7 of the Alignment circular shall be as follows:
The required investment in close ended schemes shall be made in the units of any open ended schemes having risk value equivalent to or higher than the mandated close ended schemes.
8. It is clarified that for interval schemes, schemes having restrictions on individual investments or lump-sum investments or having temporary suspensions on subscription or solution oriented schemes (retirement fund, children's fund etc.) or schemes having lock-in period of more than 3 years, investments required under the Alignment circular shall be made in the units of any open ended schemes having risk value equivalent to or higher than the aforesaid schemes.
9. For the purpose of para 2(iii) of the Alignment circular and para 7 and 8 of this Annexure, the risk value based on the risk-o-meter of the immediate preceding month shall be considered. Further, AMCs and Trustees shall have a policy in place to ensure that such open ended schemes are similar to the mandated scheme in terms of the nature of the underlying portfolio.
