AMFI

Association of Mutual Funds in India

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135/ BP/94/ 2021-22 October 28, 2021

To,
All AMFI Members

Dear Members,

AMFI Best Practices Guidelines Circular No.94/ 2021-22

Sub: Uniform implementation of SEBI circulars/letter on Alignment of interest of Designated Employees of AMCs with the unit holders of mutual fund schemes

Please refer to the SEBI circulars [1]SEBI/HO/IMD/IMD-I/DOF5/P/CIR/2021/553 dated April 28, 2021, [2]SEBI/HO/IMD/IMD-I/DOF5/P/CIR/2021/629 dated September 20, 2021, and letter [3]SEBI/HO/IMD/DFS/OW/P/2021/24745/1 dated September 20, 2021 on the above subject (hereinafter referred to as "SEBI Alignment of Interest Guidelines").

The SEBI Alignment of Interest Guidelines were discussed in detail by the AMFI Operations and Compliance Committee. Further, AMFI office bearers discussed AMFI's interpretation on certain clauses with senior officials in the Investment Management Department at SEBI.

Based on clarifications/ guidance received from SEBI during the meeting, a Working group led by Mr. Sanjay Sapre, Director of AMFI & Chairman of AMFI Operations & Compliance Committee have finalised the AMFI Best Practices Guidelines (BPG) with respect to certain clauses of SEBI Alignment of Interest Guidelines as given in the **Annexure-1** hereto, which has been duly endorsed by the AMFI Board, for uniform implementation of SEBI Alignment of Interest Guidelines by all members, and also the draft Addendum that can be issued by all AMCs (as per copy attached).

It is imperative for every AMC/Mutual Fund to follow this BPG, to ensure uniform implementation of SEBI Alignment of Interest Guidelines by all AMFI members.

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

With regards,

B. M. Kini
Dy. Chief Executive

Annexure-1

AMFI Best Practices Guidelines circular no. 94 w.r.t. SEBI Alignment of Interest Guidelines

Clause Ref.	Clause	Uniform Best Practices Guideline
2.i Apr 28[1]	A minimum of 20% of the salary/ perks/ bonus/ non-cash compensation (gross annual CTC) net of income tax and any statutory contributions (i.e. PF and NPS) of the Key Employees of the AMCs shall be paid in the form of units of Mutual Fund schemes in which they have a role/ oversight.	Deduction shall be only for employee contributions that are mandatory as per government laws. Therefore, employee's contribution to NPS, if voluntary and not mandatory based on any law, shall not be excluded. As regards employers' contribution to NPS, paragraph 4.3 of Sep 20[3] clarifies that "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".
2.iii Apr 28[1]	Further, with a view to allow the Key Employees to diversify their unit holdings, in case of dedicated fund managers managing only a single scheme / single category of schemes, 50% of the aforementioned compensation shall be by way of units of the scheme/category managed by the fund manager and the remaining 50% can, if they so desire, be by way of units of those schemes whose risk value as per the risk-o-meter is equivalent or higher than the scheme managed by the fund manager.	Categories shall be as per column 2 ("Category of Schemes") of the SEBI circular SEBI/ HO/ IMD/ DF3/ CIR/P/2017/114 dated October 06, 2017 and subsequent related circulars. Employee who has no role or responsibility other than managing a single scheme/category shall be treated as a "dedicated fund manager" <u>Some examples:</u> 1. An employee who is a fund manager (FM) of a single scheme/category and also a research analyst will not be treated as a 'dedicated fund manager" and cannot avail of the 50% discretionary diversification. 2. An employee who is a FM for the category of Overseas Fund of Funds (FoF) and also named as a dedicated FM for overseas investments in other schemes shall not be treated as a "dedicated fund manager".

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Clause Ref.	Clause	Uniform Best Practices Guideline
3 (a) Sep 20[2]	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.	Following uniform rate shall be applicable to all junior employees (irrespective of their tenure or date of joining in the industry/AMC): October 1, 2021-September 30, 2022 : 10% October 1, 2022-September 30, 2023 : 15% October 1, 2023 onwards : 20% It may be noted that he lower deduction shall cease to apply from the month when the employee attains the age of 35 years.
4.3 Sep 20[2]	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.	Payment of gratuity at the time of resignation to the extent not included as a taxable income in Form 16 would be exempt even at the time of resignation.
4.5 Sep 20[2]	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.	Set off shall be available for existing investments held in joint folios where the employee is the first holder, subject to following conditions: • A declaration from the employee and joint holder that the funds invested belong to the employee • Joint holder to consent and agree to all restrictions by way of a signed confirmation • Joint holder can only be immediate relative (spouse, children & parents) per SEBI regulations Existing investments in minor folios cannot be set off even though the employee is registered as the guardian. It may be noted that set off is restricted to units allotted on or before September 30, 2021. New folios for fresh ongoing investments under this circular can be held in joint names with employee as the primary holder and fulfilling all the above three conditions specified against set off of existing investments in jointly held folios.

Clause Ref.	Clause	Uniform Best Practices Guideline
4.7.1 Sep 20[2]	**Liquid Schemes** Units of Designated Employee invested in terms of the Alignment circular would get automatically redeemed on expiry of themandatory lock-in period.	Investments in liquid schemes, post expiry of lock-in, shall be mandatorily redeemed and are not available for set off against fresh investments required under the SEBI Alignment of interest Guidelines. Auto redemption, post expiry of the mandatory lock-in period, shall be done on completion of 36 months and 1 day for the units to be eligible for long term capital gains taxation.
4.7.2 Sep 20[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	Employee is permitted to make only two redemption requests in totality during a financial year with respect to investments made under the SEBI Alignment of interest Guidelines.
4.8 Sep 20[2]	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'.	Existing investments in Regular Plan can be used for set off against fresh investments to be made under the SEBI Alignment of interest Guidelines. However, future investments shall be permitted only in Direct Plan as they would be executed by the AMC based on the regulatory framework.
4.9 Sep 20[2]	In the Fund of Funds schemes, only Fund Managers of such schemes shall be required to invest.	Regardless of the nature of the FoF scheme (whether domestic or overseas, including open architecture) only FM(s) shall be required to invest. FM named for the debt portion of such schemes shall also be required to invest. To further clarify, no other Designated Person will be required to invest in any FoF scheme.

Clause Ref.	Clause	Uniform Best Practices Guideline
4.12 Sep 20[2]	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.	In order to qualify for exclusion at the time of payment post October 1, 2021, there cannot be any condition upon which such grant is conditional. It is clarified that the requirement of merely continuing in employment would not be treated as a conditional grant provided that: • this clarification is made part of the policy, duly approved by the Boards of AMC/ Trustee • AMCs can demonstrate that this does not lead to any misuse of the exemption granted
4.13 Sep 20[2]	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.	SEBI circular on categorization (referred to in 2.iii of Apr 28 circular) does not have a separate category for overseas FoF. The relevant category currently reads as "FoFs (Overseas/ Domestic)". Therefore, an employee acting as FM of Overseas FoF and not having any other role can avail the benefit of discretionary diversification as per Para 2(iii) of the SEBI circular dated Apr 28[1]. Please refer to example 2 under clause 2(iii) above for a scenario where an employee acts as a FM for overseas FoF and other schemes having the ability to invest in overseas securities whereby the employee shall not be treated as a dedicated fund manager for the purpose of Para iii of the SEBI circular dated Apr 28[1].
9 Sep 20[2]	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.	Nature of the underlying portfolio shall be deemed to be similar if the schemes belong to the same group as defined in the SEBI circular SEBI/ HO/ IMD/ DF3/ CIR/P/2017/114 dated October 06, 2017 on categorization of schemes viz. i. Equity Schemes ii. Debt Schemes iii. Hybrid Schemes iv. Solution Oriented Schemes v. Other Schemes AMCs are advised to include this clarification as a part of their policy to be duly approved by the Boards of AMC and Trustee Company/ Trustees
1.a Sep 20[3] 1.b Sep 20[3]	Debt research analyst shall invest across debt schemes and hybrid schemes. Equity research analyst shall invest across equity schemes and hybrid schemes.	Investments shall be across debt and hybrid schemes irrespective of any negative sectors specified in SID. Similarly, investments shall be across equity and hybrid schemes irrespective of any negative sectors specified in SID

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Clause Ref.	Clause	Uniform Best Practices Guideline
2 Sep 20[3]	In case of analysts performing the role of fund manager, they shall be treated as fund managers for the purpose of this circular.	As stated in example 1 under Para 2.iii in Apr 28 circular[1], analyst performing the role of a FM in a single scheme/category, by virtue of having a research role in multiple schemes, will not be classified as a "dedicated fund manager" and therefore not be eligible for the 50% discretionary diversification. Therefore, to align with the principles of aligning interest of employees and to recognize the dual role played by such Analyst cum Fund Manager, it is clarified that: 1. 50% of the eligible net CTC shall be invested in scheme(s) in which he/she is a named FM in proportion to the AUM of such schemes 2. Balance 50% of the eligible net CTC shall be invested across all other equity/hybrid schemes in proportion to AUM for an equity analyst or other debt/hybrid schemes in proportion to their AUM for a debt analyst. "Other scheme" means schemes within the category (Equity / Hybrid or Debt / Hybrid as the case may be), other than the ones where the analyst is a named FM in which 50% is invested under clause (1) above.
3 Sep 20[3]	Dealers placing TREPS deals for equity funds shall invest only in debt schemes.	It is clarified that Debt Dealers shall also invest in hybrid schemes if they are also placing deals for debt and money market instruments for such schemes. Reverse Repo, being an instrument like TREPS, shall also be given the same treatment as TREPS and therefore Debt Dealers placing deals only in TREPS and Reverse Repo for equity funds shall be required to invest only in debt and hybrid schemes. Debt FM named as a FM in non-debt schemes shall be required to invest in such non-debt schemes. However, CIO Debt, Debt Dealer, and Debt Analyst shall not be required to invest in such non-debt schemes and shall invest only in debt and hybrid schemes.

Clause Ref.	Clause	Uniform Best Practices Guideline
4 Sep 20[3]	In case of ELSS schemes, the nearest multiple amount of INR 500 shall be invested.	If the investible amount is < ₹500, the investment shall be ₹500. If the investible amount is >₹ 500, the investment shall be to the nearest multiple of ₹500. As an example, if the investible amount is ₹750, the investment shall be ₹1000 and if the investible amount is ₹749, the investment shall be ₹500. As regards non-ELSS schemes, respective SID shall be enabled to accept investments below the minimum subscription amount.

Note:

A separate representation is being made to SEBI to relax / exempt certain provisions with regard to contra trades, trade reporting, etc. and an update on the same shall be provided in due course.