



CIRCULAR

SEBI/HO/IMD/IMD-I/DOF5/P/CIR/2021/553

April 28, 2021

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

Sir/Madam,

**Subject: Alignment of interest of Key Employees of Asset Management Companies (AMCs) with the Unitholders of the Mutual Fund Schemes**

1. While SEBI has taken steps to standardize the scheme categories and characteristics of each category, the management of risk return profile of the schemes rests with the AMCs and the Key Employees.
2. In order to align the interest of the Key Employees of the AMCs with the unitholders of the mutual fund schemes, it has been decided that a part of compensation of the Key Employees of the AMCs shall be paid in the form of units of the scheme(s), as under:
  - i. 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.
  - ii. The compensation paid in the form of units, as mentioned in 2(i), shall be:
    - a. proportionate to the AUM of the schemes in which the Key Employee has a role/oversight. For this purpose, Exchange Traded Funds (ETFs), Index Funds, Overnight Funds and existing close ended schemes shall be excluded.
    - b. paid proportionately over 12 months on the date of payment of such salary/ perks/ bonus/ non-cash compensation. In case of

compensation paid in the form of employee stock options, the date of exercising such option shall be considered as the date of such payment.

- c. locked-in for a minimum period of 3 years or tenure of the scheme whichever is less.
- iii. 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.
- iv. No redemptions of the said units shall be allowed during the lock-in period. However, AMC may decide to have a provision of borrowing from the AMC by Key Employees against such units in exigencies such as medical emergencies or on humanitarian grounds, as per the policy laid down by the AMC.
- v. No redemption of such units shall be allowed within the lock-in period in case of resignation or retirement before attaining the age of superannuation as defined in the AMC service rules. However, in case of retirement on attaining the superannuation age, such units shall be released from the lock-in and the Key Employee shall be free to redeem the units, except for the units in close ended schemes where the units shall remain locked in till the tenure of the scheme is over.

### **3. Clawback:**

- i. Units allotted to the Key Employees shall be subject to clawback in the event of violation of Code of Conduct, fraud, gross negligence by them, as determined by SEBI. Upon clawback, the units shall be redeemed and amount shall be credited to the scheme.

### **4. Oversight:**

- i. The compliance of the provisions of this circular shall be ensured by the AMCs and monitored by the Trustees. Any non-compliance in this regard, shall be reported in the quarterly CTR and half yearly trustee report.
- ii. Every scheme shall disclose the 'compensation, in aggregate, paid in the form of units to the Key Employees', under the provisions of this Circular, on the website of the AMC.

**5. Key Employees:**

Key Employees of the AMCs shall include:

- i. Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Risk Officer (CRO), Chief Information Security Officer (CISO), Chief Operation Officer (COO), Fund Manager(s), Compliance Officer, Sales Head, Investor Relation Officer(s) (IRO), heads of other departments, Dealer(s) of the AMC;
  - ii. Direct reportees to the CEO (excluding Personal Assistant/Secretary);
  - iii. Fund Management Team and Research team;
  - iv. Other employees as identified & included by AMCs and Trustees.
6. The provisions of this circular shall not be applicable to Key Employees having role/ oversight only over ETFs, Index Funds, Overnight Funds and existing close ended schemes.
7. Modalities with respect to contribution of the Key Employees in close ended schemes and its applicability shall be provided in due course.

**8. Applicability:**

The provisions of this circular shall be applicable with effect from July 01, 2021.

9. 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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