



Dear All,

Certain important changes have been notified by SEBI related to the mutual fund industry. Additionally, SEBI has also provided relaxations for compliances due to the second COVID-19 wave. To deal with evolving questions, SEBI has issued FAQs on insider trading laws, while ICSI has issued FAQs on CSR.

1. **Skin in the game for AMCs and its key employees:** In an important change for the mutual fund industry, its managers and key employees, SEBI has notified certain norms requiring skin in the game for key employees of asset management companies (AMCs). These changes are scheduled to come into effect from July 1, 2021. SEBI having recognized that the management of risk return profile of the schemes rests with the AMCs and the key employees, has – in order to align the interest of the key employees of the AMCs with the unitholders of the mutual fund schemes – announced certain changes which are required to be made related to compensation and clawback mechanism of key employees.
2. **Mutual Funds - Specified disclosures (such as risk-o-meter) to unitholders of the scheme:** To enhance the quality of disclosures without creating information overload on the investors, SEBI has decided that certain disclosures such as those with respect to risk and performance and details of scheme portfolio will be shared with the investors only for the schemes in which the unitholder are invested as on the date of the disclosure.
3. **Second Covid-wave resulting in relaxation from compliance under LODR Regulations and other applicable circulars:** Considering the ongoing second wave of COVID-19 in the country, SEBI has granted relaxations from compliances with certain provisions of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) and other applicable circulars.
4. **Comprehensive FAQs by SEBI on SEBI (Prohibition of Insider Trading) Regulations, 2015:** SEBI has released a set of FAQs answering various evolving issues pertaining to trading, structured digital database, disclosures, pledge, trading plan, pre-clearance, trading window closure, contra-trade, etc. The FAQs are available [here](#).
5. **FAQs on CSR by ICSI:** The Ministry of Corporate Affairs (MCA) on January 22, 2021 notified certain changes to corporate social responsibility regime including the Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021. The said amendments have introduced significant changes in carrying out the CSR activities by India Inc. The FAQs have been framed to aid the stakeholders in understanding the new concepts and substantial changes introduced in CSR. The FAQs are available [here](#).

Afore-mentioned changes have been analyzed below:

A. Alignment of interest of key employees of AMCs with the unitholders of the mutual fund schemes ([available here](#))

<p>Who are key employees?</p>	<p>Key Employees of the AMCs shall include:</p> <ul style="list-style-type: none"> ▪ 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; ▪ Direct reportees to the CEO (excluding Personal Assistant/Secretary); ▪ Fund Management Team and Research team; ▪ Other employees as identified & included by AMCs and Trustees. <p>However, the changes are not applicable to key employees having role/ oversight only over Exchange Traded Funds (ETFs), Index Funds, Overnight Funds and existing close-ended schemes. Modalities with respect to contribution of the key employees in close ended schemes and its applicability will be provided in due course by SEBI.</p>
<p>Compensation of key employees of the AMCs to be in the form of units of schemes</p>	<p>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. Such compensation shall be subject to the following:</p>

	<p>(a) proportionate to the AUM of the schemes in which the Key Employee has a role/oversight. For this purpose, ETFs, Index Funds, Overnight Funds and existing close ended schemes shall be excluded.</p> <p>(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.</p> <p>(c) <u>locked-in for a minimum period of 3 years or tenure of the scheme whichever is less.</u></p> <p>Further, with a view to allow 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.</p>
Redemption of units – Lock-in restrictions, medical emergency exception, etc.	<ul style="list-style-type: none"> ▪ 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. ▪ No redemption of such units to 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 will 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.
Clawback	<ul style="list-style-type: none"> ▪ Units allotted to the Key Employees will 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 will be redeemed and amount shall be credited to the scheme.
Compliance obligation on AMCs Disclosure on AMCs website	<ul style="list-style-type: none"> ▪ 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. ▪ Every scheme shall disclose the ‘compensation, in aggregate, paid in the form of units to the Key Employees’ on the website of the AMC.

B. Mutual Funds - Specified disclosures (such as risk-o-meter) to unitholders of the scheme

SEBI has decided that the following disclosures will be required to be made by mutual funds/ AMCs to the investors only for the schemes in which the unitholders are invested as on the date on which the disclosures are stipulated:

- Mutual Fund/AMCs to disclose risk-o-meter of the scheme and benchmark while disclosing the performance of scheme vis-à-vis benchmark and
- Mutual Funds/ AMCs to send the details of the scheme portfolio while communicating the fortnightly, monthly and half-yearly statement of scheme portfolio via email.

The aforesaid changes have been made by SEBI Circular dated April 29, 2021 ([available here](#)), effective from June 1, 2021.

C. Relaxation from compliance under LODR Regulations and other applicable circulars

Summary of relaxations granted:

Sr. No.	Regulation	Requirement	Due Date	Extended Date
1.	Regulation 24A read with circular No.CIR/CFD/CMD1/27/2019 dated February 8, 2019 relating to Annual Secretarial Compliance report	60 days from end of the financial year	May 30, 2021	June 30, 2021
2.	Regulation 33 (3)-Quarterly financial results/ Annual audited financial results	45 days from end of the quarter / 60 days from end of the financial year	May 15, 2021/ May 30, 2021	June 30, 2021
3.	Regulation 32 (1) read with SEBI circular No. CIR/CFD/CMD1/162/2019dated December 24, 2019 on Statement of deviation or variation in use of funds	Along with the financial results (within 45 days of end of each quarter/ 60 days from end of the financial year)	May 15, 2021/ May 30, 2021	June 30, 2021
<i>For entities that have listed their debt securities under the SEBI (Issue and Listing of Debt Securities) Regulations, 2008, SEBI (Issue and Listing of Non-convertible Redeemable Preference Shares Regulations, 2013, and SEBI (Public Offer and Listing of Securitised Debt Instruments) Regulations, 2008</i>				
4.	Regulation 52(1)-Half-yearly financial results Regulation 52 (2) -Annual audited financial results	45 days from end of the quarter / 60 days from end of the financial year	May 15, 2021/ May 30, 2021	June 30, 2021
5.	Regulation 52(7) read with SEBI circular no. SEBI/HO/DDHS/08/2020dated January 17, 2020 on Statement of deviation or variation in use of funds	Along with the financial results (within 45 days of end of each quarter / 60 days from end of the financial year)	May 15, 2021/ May 30, 2021	June 30, 2021
<i>For entities that have listed their bonds under the SEBI (Issue and Listing of Municipal Bonds) Regulations, 2015</i>				
6.	Requirements as per circular no. SEBI/HO/DDHS/CIR/P/134/2019 dated November 13, 2019 Annual audited financial results	60 days from end of the financial year	May 30, 2021	June 30, 2021
<i>For entities that have listed Commercial Paper</i>				
7.	Requirements as per SEBI/HO/DDHS/DDHS/CIR/P/2019/115 dated October 22, 2019 Half Yearly financial results / Annual audited financial results	45 days from end of the Half Year/ 60 days from end of the financial year	May 15, 2021/ May 30, 2021	June 30, 2021

Use of digital signatures

8.	Listed entities are permitted to use digital signature certifications for authentication/ certification of filings/submissions made to the stock exchanges under the LODR Regulations for all filings until December 31, 2021.
9.	Entities that have listed their municipal bonds may also opt to use digitally signed documents for making filings with Stock Exchanges in terms of SEBI circulars CIR/IMD/DF1/60/2017 dated June 19, 2017 and SEBI/HO/DDHS/CIR/P/134/2019 dated November 13, 2019.
10.	Entities that have listed Commercial Paper may also opt to use digitally signed documents for making filings with Stock Exchanges in terms of SEBI circular no. SEBI/HO/DDHS/DDHS/CIR/P/2019/115 dated October 22, 2019.

The aforesaid relaxations have been granted vide SEBI Circular dated April 29, 2021 (available [here](#) and [here](#)).

We trust you will find this an interesting read. For any queries or comments on this update, please feel free to contact us at insights@elp-in.com

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