

**Synopsis of Roles and Responsibilities of Trustees &  
Board of Directors of Asset Management Companies  
(AMCs) of Mutual Funds issued by  
SEBI on 7<sup>th</sup> July,2023**

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**9<sup>th</sup> Aug'23  
Mumbai**

This circular shall come into force with effect from January 01, 2024.



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Clause No.: 4.1  
Trustees Roles &  
Responsibilities

# Roles & Responsibilities of the Trustees

- The Trustees hold the property of the Mutual Fund in trust for the benefit of the unitholders and their primary role is to ensure that AMC's appointed by them act in the best interests of the unitholders.
- An AMC is responsible for managing the funds of the schemes, the Board of Directors of the AMC is also accountable to ensure that the interests of the unit holders are protected.
- The Trustees shall exercise due diligence on such matters as may be specified by the SEBI from time to time.



Roles and Responsibilities

- The Trustees shall exercise due diligence on certain “**core responsibilities**”, which are specified as under:
- a) **Fairness of the fees & expenses charged** by the AMCs.
  - b) Review the **performance of AMC in its scheme's vis-s-vis performance of peers** or the **appropriate benchmarks**.
  - c) Adequate systems to installed to prevent **mis-selling, to increase assets under their management & valuation of the AMCs**.
  - d) Operations of AMCs **are not unduly influenced**, to its associates & other stakeholders of AMCs.
  - e) **Undue or unfair advantage** is not given to any of their **associates/group entities**.
  - f) **Conflicts of interest** should be addressed, if any, between the **shareholders/stakeholders/associates of the AMCs & unitholders**.
  - g) **Prevent misconduct including market abuse/misuse of information by the employees**.

- Ensure that there are system level checks in place at AMCs' end to prevent fraudulent transactions including **front running by employees, form splitting/mis-selling** by distributors etc. Required periodical checks.
- They should **independently evaluate** the extent of compliance by AMCs vis-à-vis the identified key areas and **not merely** rely on **AMCs submissions /external assurances**.
- AMCs shall put in place suitable **mechanisms/systems** to generate system-based **information/data/reports** for evaluation and effective due diligence by the Trustees. AMCs shall provide alerts based **automated reports** to the Trustees as may be required by them.
- Suitable mechanisms/systems should be placed to generate system-based information/data/reports for evaluation & effective **due diligence**. The Trustees shall also ensure that the AMCs **periodically review** such systems.

# Clause No.: 4.2

## Third Party Assurance

# Availing Professional Services of Third-Party Service Providers

The Trustees may rely on professional firms such as **Audit Firms, Legal Firms, Merchant Bankers**, etc. (collectively referred to as “**third party fiduciaries**”) for carrying out due diligence on behalf of the Trustees.

The responsibilities other than core responsibilities, for which the Trustees may avail services of third-party fiduciaries, include the following:

- **AMC Operational Oversight**
- **Custodial Trustee Duties**
- **AMC Net Worth Monitoring**
- **Mutual Fund Transaction Compliance**



Clause No.: 4.3  
Unit Holder Protection  
Committee

# UHPC

- Unit Holder Protection Committee (UHPC) ensures unitholder interests in all AMC services.
- Responsibilities of UHPC:
  - 1.promotes market best practices,
  - 2.oversees compliance,
  - 3.resolves grievances, &
  - 4.informs investors.
- It reviews compliance matters, educates investors, and reports findings and recommendations to the AMC board.



# Clause No.: 4.4 & 4.5

## Appointments & Meetings

# Appointment of the Trustee Company

Regulation Requirement	Compliance Deadline	Regulation 16 (7) of MF Regulations	
Chairperson of Trustee Board Appointment	Within 6 months from the date of circular's implementation	Trustee Company already Appointed as Mutual Fund Trustee	Comply within period specified by SEBI

Note: Trustee company appointed as Mutual Fund (MF) Trustee must appoint an independent director as Chairperson within 6 months from the date of circular implementation, as per Regulation 16 (7) of MF Regulations. If already appointed as Trustee, comply with the requirement as specified by SEBI within the given timeframe.

# Meetings between the Trustee Company and the AMC

- Regulation 25A of MF Regulations mandates **Trustee company** and **AMC boards**, along with their committees, to **meet** as specified by SEBI.
- AMC & Trustee boards must meet at **least once a year** to discuss **Mutual Fund matters** and **future actions**.
- **Transparency** is essential in their meetings, with **recorded** and **preserved minutes**.
- Discussions cover **Fund performance, risks**, and **matters** concerning unit holders, ensuring unit holders are informed about **Fund activities**.
- **This circular shall come into force with effect from January 01,2024.**

# SUMMARY OF ANNEXURE -1

## **1. Membership / Constitution:**

- Chairperson shall be an independent director.
- UHPC of AMC, minimum three directors as members.
- UHPC shall invite expert/representative of unit holders, an invite for matters if necessary.

## **2. Meetings:**

- Four Meetings shall be held in a financial year.

## **3. Reporting:**

- The AMC shall present agenda of the UHPC to its members. This shall also include reports on findings / observations w.r.t. matters relating to protection of unit holders' interest, arising from audits / reviews etc. undertaken by the AMC, Internal Auditors etc.

# SUMMARY OF ANNEXURE -1

## **4. Powers & responsibilities:**

### ➤ **4.1. Unit Holder Complaints & Redressal:**

- Review of unit holder complaints and grievances with ageing of outstanding complaints on a periodical basis.
- Analyze the root cause of investor complaints, identify market conduct, issues and advise the management appropriately about rectifying systemic issues, if any.

### ➤ **4.2. Investor education and awareness:**

- Recommendation of policy on utilization of investor education and awareness funds.

# SUMMARY OF ANNEXURE -1

## ➤ 4.3. Regulatory and other functions:

- Ensure that the AMC adopts a standard operating procedure for its processes including timeframe for processing and confirmation of financial and non-financial transactions, treats unit holders fairly and equally and there is no preferential treatment given to different classes of investors.
- Review of unclaimed amounts of dividend and redemptions and measures taken by AMC to reduce the quantum of such unclaimed amounts.
- Ensure timeliness and adequacy of disclosures of material information to the investors.
- Ensure that all conflicts are adequately managed and/or disclosed as per the conflict-of-interest policy.
- Review instances of market abuse by employees of AMC

## ➤ 4.4. Review of Unitholder Protection (UP) metrics:

- Put in place a mechanism for reporting of the UP metrics to the Committee.
- Review the reports generated with respect to the UP metrics at least once in a half year.



# KEY INSIGHTS

1. This is a truly unique governance intervention by SEBI to protect investors & Unit holders.
2. Generally, the internal control environment comprises of the traditional 3 lines of defense. This circular has added a 4<sup>th</sup> line of defense to protect the interests of investors, trustees and unit holders. This 4<sup>th</sup> line of defense is expected to exercise independent due diligence on core and other key responsibilities of the Trustees, examples: -
  - Fairness of the fees & expenses charged
  - Performance Review
  - Prevent mis-selling
  - Undue or Unfair advantage, etc.
3. The Trustees & Unit Holders will have to look at developing independent layers of assurance in addition to the existing mechanisms.
4. Readiness assessment and preparatory checks on immediate basis are advisable prior to the effective date of 1st January 2024 as the subject matter of this circular touches upon potential amendments to entity wide aspects such as policies, processes and application/ technology.

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