

Trustees of mutual funds

February 16, 2023

In news— Securities and Exchange Board of India (SEBI) recently proposed to review the role and accountability of trustees of mutual funds with an aim to protect unitholders' interests.

Recommendations of SEBI-

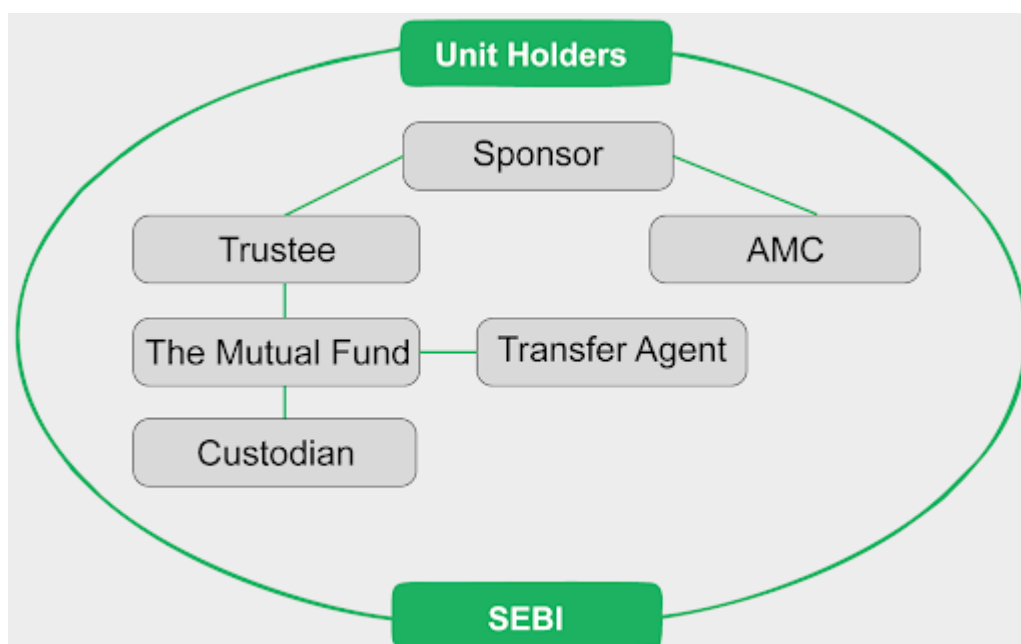
- SEBI has recommended that the **trustees will be responsible for taking steps** so that there are **system-level checks in place to prevent fraudulent transactions**.
- To ensure that they focus on their core responsibilities, SEBI has proposed that the **trustees should take help of audit, legal firms and merchant bankers** for carrying out due diligence on their behalf.
- It has also recommended **amending certain regulations for asset management companies (AMC)** and also include additional clauses to enhance the role, responsibility and accountability of the board of AMC.
- The markets regulator also proposed the **constitution of a 'Unit Holder Protection Committee' (UHPC) by board of AMC**.
- This will help in an independent review mechanism for the decisions of AMC from the perspective of the unit holders' interest, across all products and services.
- In order to strengthen governance and for financial independence, Sebi also suggested that all the **existing trustees with board of trustees structure should convert into a trustee company in the next one year**.
- According to Sebi, though mutual fund regulations provide for some restrictions to address few conflicts of interest, there are some areas where the Trustees need to pay attention.
- Some of the potential conflicts include investment by mutual fund (MF) schemes in public issues of its

sponsor, its associates and/or group companies; investment by MF schemes for fund raising activates by such companies where its sponsor, associates or group companies are appointed as merchant banker; sponsor influencing voting by MF schemes in companies in which it has interest and MF availing services of its sponsor, associates and group companies at terms which are not at arm's length.

- Besides, the regulators also put forward some recommendations to enhance the accountability of the board of asset management companies (AMC).

About Mutual Fund Trustees-

- **Mutual funds in India have a three-tiered structure** – mutual fund, the trustees and the AMC.
- Board of trustees or trustee company holds the property of the mutual fund in trust for the benefit of the unit holders.
- They appoint an AMC to float schemes for the mutual fund and manage the funds mobilised under various schemes.
- They are also expected to exercise supervisory oversight over AMC and its activities so as to ensure that AMC acts in the interest of the unitholders.



- Once these recommendation are finalised, the trustees will ensure that the AMCs act in a manner which is not skewed in favour of AMC's stakeholders.
- The key areas of their focus will be fairness of fees and expenses charged by the AMC and misconduct including market abuse / misuse of information by the AMC or AMC employees or distributors.
- The trustees will ensure that there is no mis-selling of mutual fund schemes to increase asset under management (AUM) and valuation of the AMC.