Sebi tweaks MF compensation circular ahead of implementation on Oct 1

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The Securities and Exchange Board of India (Sebi) on Monday tweaked the circular that mandated paying a fifth of compensation to key employees of asset management companies (AMCs) in the form of mutual fund (MF) units, ahead of its implementation date of October 1.

The regulator said "junior employees"— those below 35 years — would have to invest only 10 per cent of their compensation in MF units of the fund house in the first year, and 15 per cent in the second year (from October 1, 2022), as against 20 per cent for the other employees. However, chief executive officer (CEO), head of department, and fund managers, even if below 35 years of age, will not get this benefit.

The move comes amid concerns raised by the industry about retaining talent in the wake of the new compensation norms, which are being introduced to realign the interests of MF executives with their unitholders.

Sebi has also replaced the nomenclature 'key employees' — used in the original circular — with 'designated employees'. Industry players said it remained to be seen if this would impact a wider range of employees or whether it would give fund houses some discretion to decide the applicability of the new norms.

Earlier, Sebi had listed who should be categorised as 'key employees'. However, the industry had complained that the list included staffers who had nothing to do with managing funds.

The regulator had also stated that all non-cash benefits and perks would be accounted for in the cost to company (CTC) for arriving at the 20 per cent figure. Now, it has clarified that superannuation benefits and gratuity paid at the time of death/retirement will not be included in the CTC. Also, the value of interest on loan availed of by the designated employees against the units from the AMC will not be included in the CTC.

"While there have been some concessions given by the regulator, there are too many complexities in this circular," said a senior executive from the industry.

In the earlier circular, Sebi had stated that a minimum 20 per cent 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 key employees of AMCs will be paid in the form of units of MF schemes in which they have a role/oversight.

"Principally, the concept of 'skin in the game' is a very good one, especially where it involves managing other people's money. Even so, I would feel more comfortable if such decisions are taken voluntarily and independently by fund houses rather than being enforced through regulation. In an ideal situation, one or two fund houses could have done so, and the rest would be forced to follow the example. However, that's not the real world we live in," said Dhirendra Kumar, CEO at Value Research.

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Sebi also provided fund houses some relief by allowing them to set off their existing investments against the fresh investments as required in the same schemes.

At present, some MF officials already invest in their own schemes. These investments will qualify, provided that they are locked in for three years.

Sebi has clarified that in the case of liquid schemes, the units would get automatically redeemed on expiry of the mandatory three-year lock-in period. While in open-ended schemes, employees can redeem their units in open-ended schemes twice in a financial year after the expiry of the mandatory lock-in period. They will, however, need prior approval of the compliance officer for such redemptions.

Sebi also clarified that the investment will be 'growth' of the MF schemes, and where this option is not available, they will invest in 'reinvestment of income distribution cum capital withdrawal option.'

What changes

The term 'key employees' changed to 'designated employees.'

Initial investment threshold only 10% for those below 35 years of age

Investment in units of the scheme shall be made on the day of payment of salary

Superannuation benefits and gratuity paid at the time of death/retirement, shall not be included in the CTC

Existing investments allowed to set off against fresh investments

The investment shall be made in the 'growth option'

The compensation norms come into effect from Oct 1.

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