



CIRCULAR

SEBI/HO/IMD/DF2/CIR/P/2017/125

November 30, 2017

**All Mutual Funds/ Asset Management Companies (AMCs)/
Trustee Companies/ Boards of Trustees of Mutual Funds**

Sir/Madam,

Sub: Enhancing fund governance for Mutual Funds

In order to strengthen the governance structure for Mutual Funds (MFs), it has been decided to implement the following:

A. Tenure of independent trustees and independent directors:

1. Regulation 16 (5) and Regulation 21 (1) (d) of SEBI (Mutual Funds) Regulations, 1996 mandate appointment of independent trustees of MFs (“independent trustees”) and independent directors of AMCs (“independent directors”) respectively. With respect to tenure of independent trustees and independent directors, it has been decided that:
 - i. An independent trustee and independent director shall hold office for a maximum of 2 terms with each term not exceeding a period of 5 consecutive years.
 - ii. No independent trustee or independent director shall hold office for more than two consecutive terms, however such individuals shall be eligible for re-appointment after a cooling-off period of 3 years. During the cooling-off period, such individuals should not be associated with the concerned MF, AMC & its subsidiaries and / or sponsor of AMC in any manner whatsoever.



- iii. Existing independent trustees and independent directors shall hold office for a maximum of 10 years (including all preceding years for which such individual has held office). In this respect, the following may be noted:
 - a. Individuals who have held office for less than 9 years (as on date of issuance of this circular) may continue for the residual period of service.
 - b. Individuals who have held office for 9 years or more (as on date of issuance of this circular) may continue for a maximum of 1 year from date of issuance of this circular.
 - c. Such individuals shall subsequently be eligible for re-appointment after a cooling-off period of 3 years, in terms of Para A (1) (i) and Para A (1) (ii) above.

B. Auditors of Mutual Funds:

1. The auditor of a MF, appointed in terms of Regulation 55 (1) of SEBI (MFs) Regulations shall be a firm, including a limited liability firm, constituted under the LLP Act, 2008.
2. Period of appointment:

With respect to appointment of auditors in terms of Regulation 55 (1) of SEBI (MFs) Regulation, 1996, it has been decided that:

- i. No MF shall appoint an auditor for more than 2 terms of maximum five consecutive years. Such auditor may be re-appointed after cooling off period of 5 years.
- ii. Further, during the cooling-off period of five years, the incoming auditor may not include:
 - a. Any firm that has common partner(s) with the outgoing audit firm



- b. Any associate / affiliate firm(s) of the outgoing audit firm which are under the same network of audit firms wherein the term “same network” includes the firms operating or functioning, hitherto or in future, under the same brand name, trade name or common control
- iii. Existing auditors may be appointed for a maximum of 10 years (including all preceding years for which an auditor has been appointed in terms of Regulation 55 (1) of SEBI (Mutual Funds) Regulation, 1996). In this respect, the following may be noted:
 - a. Auditors who have conducted audit of the Mutual Fund for less than 9 years (as on date of issuance of this circular) may continue for the residual period of service.
 - b. Auditors who have conducted audit of the Mutual Fund for 9 years or more (as on date of issuance of this circular) may continue for a maximum of 1 year from date of issuance of this circular.
 - c. Such auditors shall subsequently be eligible for re-appointment after a cooling-off period of 5 years, in terms of Para B (2) (i) and Para B (2) (ii) above.
- C. 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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