

## RISK MANAGEMENT POLICY

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## TABLE OF CONTENTS

Sr No	Topics	Page Nos
I.	Background	3
II.	Scope	3
III.	Governance and Organisation	3
IV.	Roles and Responsibilities for Risk Management	5
V.	Risk Appetite	9
VI.	Triggers for review of Risk Management Policy	10
VII.	Measurement and management of Risk	10
VIII.	Reporting of Risks and Related Information	11
IX.	Managing Key Risks	11
1.	Investment Risk	13
2.	Credit Risk	13
3.	Liquidity Risk	14
4.	Governance Risk	14
5.	Operational Risk	14
6.	Compliance Risk	15
7.	Technology, Information Security and Cyber Risk	16
8.	Reputation and Conduct Risk	16
9.	Outsourcing Risk	16
10.	Sales and Distribution Risk	17
11.	Financial Reporting Risk	17
12.	Legal & Tax Risks	17
13.	Talent Risk	18
	Annexure – Report of Process followed by IIAML/IDF* vis-à-vis mandatory elements of SEBI’s Risk Management Framework	19

\*IDF – IL&FS Mutual Fund (Infrastructure Debt Fund)

## **I. Background**

- i) SEBI vide its circular SEBI/HO/IMD/IMD-1 DOF2/P/CIR/2021/630 dated September 27, 2021 (SEBI RMF) (which replaces circular no. MFD/CIR/15/19133/2002 dated September 30, 2002) prescribed guidelines on the subject of risk management framework of mutual funds in various areas of their operations and provided set of principles for governance, management and reporting of risks. The existing risk management policy of IDF/IIAML is being strengthened to align with the new risk management circular.
- ii) The Compliance with respect to the Risk Management Policy is proposed to be reviewed annually by the AMC and Trustee Board. Reports of such reviews shall be placed before the Board of AMC and Trustees for their consideration and appropriate directions, if any. Trustees may forward the findings and steps taken to mitigate the risk along with their comments to SEBI in the half-yearly trustee reports.

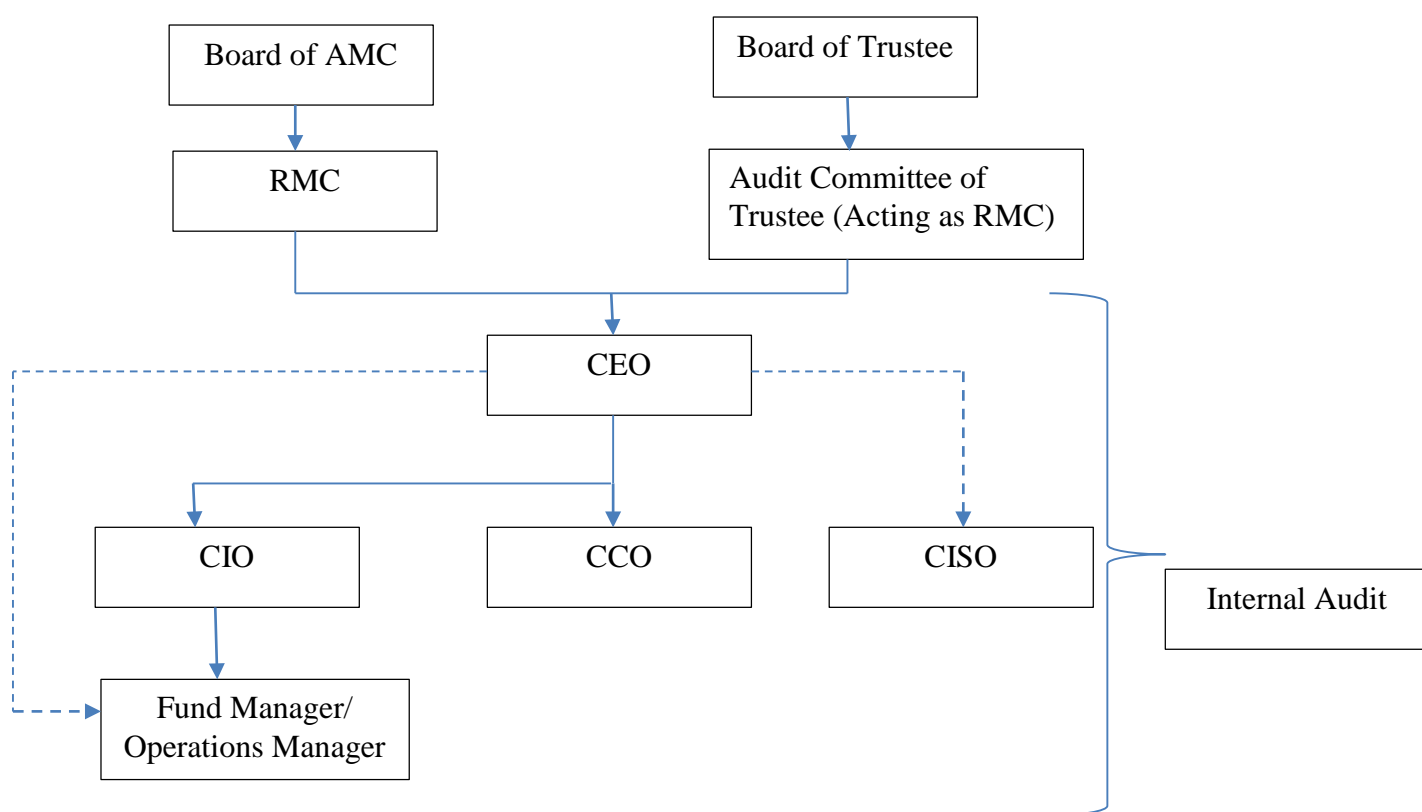
## **II. Scope**

- i) This document sets out IL&FS Infra Asset Management Ltd (IIAML) and IL&FS Infrastructure Debt Fund's approach to risk management. The requirements as per SEBI circular have been adopted keeping in view the nature of IL&FS Infrastructure Debt Fund (IDF) which has been formed under the SEBI (Mutual Funds) Regulations as distinct from a retail oriented Mutual Fund.
- ii) The objective of the Risk Management Policy is to assist the management and the Board of Directors of AMC and Trustee in:
  - a. Demonstrating high standards of due diligence in daily risk management.
  - b. Promoting proactive management and early identification of risk.
  - c. Assigning and increasing accountability and responsibility in the organization.
  - d. Managing risk within the tolerance limits defined.
- iii) The policy covers the following:
  - a. Governance and Organization.
  - b. Identification and Management of Risks.
  - c. Measurement and Management of Risks.
  - d. Reporting of Risks and related Information

## **III. Governance and Organisation**

- i) The Risk Management for IIAML and the Schemes of IDF will be supervised by the Board of AMC and Trustee.
- ii) Governance Structure for Risk Management is as given below:

### Risk Governance Structure



- iii) Given the size and nature of the fund, resource constraints and the current situation where IDF is not raising any fresh funds, separate risk management function is not required. However, the risk governance will be exercised by individual managers and Risk Management Committee.
- iv) The Risk Management Committee (RMC) of the AMC will report to the Board of AMC. For the Trustee, the Audit Committee of the Board of the Trustee will act as the Risk Management Committee of the Trustee.
- v) The RMCs will provide oversight on risk management and also recommend long term solutions regarding risk management. The RMCs shall meet once a quarter to review various risks and assist the Boards of AMC and Trustee in discharging their duties in this regard. The RMCs shall also undertake annual review of the Risk Management Policy.
- vi) The RMC of the AMC, which is headed by Board member of AMC, will perform the functions to be performed by the Chief Risk Officer (CRO) and will be responsible for the overall risk management of the mutual fund operation including the key risks. CEO will oversee the risk management activities and assist the RMC.

vii) The dedicated officers responsible for various key risks are as below:

<b>Risk Type</b>	<b>Responsible Risk Officer</b>
Investment, Credit, Liquidity and Governance	Chief Investment Officer (CIO)
Compliance	Chief Compliance Officer (CCO)
Operational	Person designated to oversee operations
Technology, Information Security and Cyber Security	Chief Information Security Officer (CISO)

viii) Apart from the above risks types, risks related to Reputation and Conduct, Sales and Distribution, Legal and Tax, Financial Reporting and Talent will be oversighted by CEO.

ix) With respect to Outsourcing Risk, operations head, finance and CIO will jointly oversee the function of Fund Accountant/ Custodian. Outsourcing of Financial accounting will be overseen by CEO and R&T (Registrar & Transfer Agent) services will be overseen by CCO.

x) The risk management activities are performed by various levels of management on a daily basis as per authorised delegation and there is daily discussion amongst the management team. From operational standpoint, it includes maker-checker controls for operational tasks, reconciliation of cashflows and account balances etc. The investment team monitors investments on a regular basis, engages with investee companies, monitors legal cases, tracks macro-economic environment and industry developments and discusses potential risks with CIO and CEO. The compliance team tracks regulatory environment, interacts with regulator/industry association and also ensures that all reporting is done in accurate and timely manner. All functional heads discuss any material events and potential risks with CEO on daily basis. Any material risk is also escalated to the RMC and the Boards of AMC and Trustee as may be required.

xi) The details of roles and responsibilities of Board of AMC, Trustees and the Management are described in next section. The responsibility for process ownership of risk management is reflected in the KRAs (Key result area) of key officials of line management.

#### IV. **Roles and Responsibilities for Risk Management**

##### 1) **Risk Management - Role of the Board of AMC and Trustees**

- i. Approving the Risk Management policies and procedures
- ii. Defining, reviewing and approving the risk appetite framework.
- iii. Periodic monitoring of risk appetite versus actual risk
- iv. Event based monitoring of Risk appetite versus actual risk
- v. Define specific responsibility of the management, including CEO
- vi. Approval for policy for incorporating risk based KRAs for relevant officials of AMC

- vii. Review of actions taken by Board of AMC and management in respect of risk management.
- viii. Reporting of material risk related observations to SEBI on periodic basis.
- ix. Approving a methodology for Board Evaluation of the Risk Management (on an annual basis).
- x. Annual review of effectiveness of the AMC and/or management's risk management function and policies to address the risk outcomes.
- xi. For assessing the effectiveness of the Risk Management Policy,
  - a. The board of AMC shall seek an annual report through an internal management assessment process covering all key risks
  - b. The RMC shall meet once in a quarter to review various risks
  - c. The Board of AMC shall have all relevant information of appropriate committee(s) (with the mandate and membership), CRO, CXO(s) (Chief experience officer) for specific risk management, audit functions, investor relations, investment and credit decisions, etc.

## 2) Risk Management - Role of Risk Management Committee

- i. The RMC shall be responsible for ensuring that there is an effective governance framework and reporting framework of risk management in line with the regulatory requirements.
- ii. The risk management roles of the RMC are as under:
  - a. Implementation of Risk management policy across the organization.
  - b. Review specific responsibility of management, including CEO, CIO, CXOs, and Fund Managers.
  - c. Put in place mechanism for risk reporting at least on a quarterly basis to the board of AMC and trustees, covering all risks, escalation of material risk related incidents, timely and corrective actions taken, if any.
  - d. Ensure functioning of mechanism for reporting to CEO - Including outcomes for risk management function on monthly basis.
  - e. The RMC shall inform to board of AMCs, trustee regarding any major findings or corrective actions required and also update on closure or the status of various recommendations.

## 3) Risk Management - Role of the Management

The overall role of the management shall be as below:

- a. Overseeing the risk management function.
- b. Keeping the Board of AMC and Trustees informed on new or emerging risks.
- c. Putting in place a mechanism for risk reporting on quarterly basis to the RMC, Board of AMC and trustees, covering all risks, escalation of material

risk related incidents, if any, and timely and corrective actions taken in specific cases of risk escalation. This may be carried out with an objective to address the root cause in escalation of such risks and also to improve the measurement and control mechanism for prevention of reoccurrence of such risks.

- d. Establishing an organization-wide risk-conscious culture.
- e. Inclusion of risk management as a KRAs for all the relevant officials of the AMC.
- f. Establishing human resource practices pertaining to hiring, orientation and training in order to send messages to employees regarding the organization's expected standards on integrity, ethical behavior, competence and risk management.

**4) Risk Management - Role of Chief Executive Officer (CEO)**

- i. The CEO shall be responsible for all the risks at both AMC and Fund.
- ii. The CEO shall
  - a. ensure that the outcomes of risk management function are reported to him on daily basis
  - b. define specific responsibility of CIO and CXO regarding risk management
  - c. define a risk appetite framework
  - d. define appropriate risk responsibilities for respective CXO, CIO, fund manager, etc.
  - e. ensure adherence to the guidelines pertinent, as may be applicable, to SEBI RMF and relevant principles thereunder including risk identification, risk management, risk reporting (both periodic and escalation of material incident) and corrective actions taken, if any.
  - f. The CEO shall approve the corrective action on various findings and report to the RMC, board of AMC and trustee regarding the same and also escalate to board of AMCs and trustees, if required, any major findings being reported.

**5) Risk Management - Role of Chief Investment Officer (CIO)**

- i. Daily management of risk and necessary reporting relating to Investment risk of all scheme(s) such as market Risk, liquidity Risk, credit risk etc. and other scheme specific risks (Compliance Risk, Fraud Risk, Liquidity Risk and Governance Risk etc.) and Outsourcing Risk pertaining to Custody/Fund Accounting lies on the CIO.
- ii. In respect of all schemes, CIO should ensure:
  - a. Adherence to the guidelines pertinent to SEBI RMF and relevant principles thereunder including risk identification, risk management, risk reporting

(both periodic and escalation of material incident) and corrective actions taken, if any.

- b. Defining specific responsibility of Fund Managers
- c. Adherence to risk appetite framework
- iii. CIO will evaluate overall risk through review of investee companies, macroeconomic environment/industry developments and impact on investment portfolio etc
- iv. The CIO shall escalate the corrective actions taken, if any, to the CEO and the RMC.

**6) Risk Management - Role of Chief Compliance Officer (CCO)**

- i. The CCO shall be responsible for the governance of the Compliance Risk and Outsourcing Risk pertaining to R&T services.
- ii. In respect of Compliance Risk and Outsourcing Risk, CCO should ensure:
  - a. Adherence to the guidelines pertinent to SEBI RMF and relevant principles thereunder including risk identification, risk management, risk reporting (both periodic and escalation of material incident) and corrective actions taken.
  - b. Defining specific responsibility regarding risk management of key personnel reporting to them.
- iii. The CCO shall take immediate corrective action for non-compliance or major finding post approval from CEO and also report to RMC.
- iv. The CCO shall escalate to CEO and the RMC any major findings.

**7) Risk Management - Role of Chief Information Security Officer (CISO)**

- i. The CISO shall be responsible for the governance of the Technology, Information Security and Cyber Risk.
- ii. In respect of Technology, Information Security and Cyber Risk, CISO should ensure:
  - a. Adherence to the guidelines pertinent to SEBI RMF and relevant principles thereunder including risk identification, risk management, risk reporting (both periodic and escalation of material incident) and corrective actions taken.
  - b. Defining specific responsibility regarding risk management of key personnel reporting to them.
- iii. The CISO shall take immediate corrective action for non-compliance or major finding post approval from CEO and also report to RMC.
- iv. The CISO shall escalate to CEO and the RMC any major findings.



- 8) **Risk Management – Role of person managing Operations Risk (Operations Risk Manager – ORM)**
- i. The ORM shall be responsible for the governance of the Operational Risk and Outsourcing Risk pertaining to Fund Accounting/Custodian
  - ii. In respect of Operational Risk, ORM should ensure:
    - a. Adherence to the guidelines pertinent to SEBI RMF and relevant principles thereunder including risk identification, risk management, risk reporting (both periodic and escalation of material incident) and corrective actions taken.
    - b. Defining specific responsibility regarding risk management of key personnel reporting to them.
  - iii. The ORM shall take immediate corrective action for non-compliance or major finding post approval from CEO and also report to RMC.
  - iv. The ORM shall escalate to CEO and the RMC any major findings.
- 9) **Risk Management - Role of Fund Manager (FM)**
- i. The FM shall be responsible for daily management of investment risk of managed scheme(s) such as market Risk, liquidity Risk, credit risk and other scheme specific risks and appropriate risk reporting of any risk related event to CIO.
  - ii. In respect of schemes managed by them, FMs should ensure:
    - a. Adherence to relevant SEBI RMF guidelines and relevant principles thereunder including risk identification, risk management, reporting and corrective actions etc.
    - b. Adherence to risk appetite framework.
  - iii. The FM shall take corrective action, if required, and escalate major risk related event to CIO.

**V. Risk Appetite**

- i) The Risk Appetite statement for IIAML and IDF is as follows:

**Investment and Credit Risk:** The investment and credit risk is managed following adequate diversification of exposures, thorough due diligence and close monitoring of all exposures.

**Governance Risk:** The governance risk is managed through assessment of checks and balances in governance structure of the issuer and continuous monitoring of investee companies on various matters.

**Operational Risk:** The operational risk is managed to ensure that there are adequate controls around processes, people and systems to prevent any operational errors.

**Reputation and Conduct Risk:** IIAML and IDF will conduct its operations in a manner to ensure that interests of investors are protected and reputation and integrity of the organization is maintained.

**VI. Triggers for review of Risk Management Policy**

- i) The following events will result in review of Risk Management Policy for any changes
  - a. Material claims or litigations from customers or incidents.
  - b. Material findings from internal or external audits.
  - c. Adverse media attention impacting reputation risk.
  - d. Adverse observations from the regulator(s), etc.
  - e. Key risk indicator breaches.
  - f. New regulatory requirements.
  - g. Sector-relevant developments or incidents.

**VII. Measurement and Management of Risk**

- i) IIAML has established structure and responsibility across 3 lines of defence
  - a. Business Operations.
  - b. Oversight functions like Risk Management and Compliance.
  - c. Internal Audit.
- ii) Business Operations will ensure that operations are carried out in line with processes/systems and regulations. It will ensure that there are adequate controls (maker-checker, senior management oversight, periodic reconciliations etc) in place to ensure that risks are identified, managed and controlled.
- iii) Risk Management and Compliance shall ensure that adequate mechanisms are in place for risk control across various functions. Further, there is process for reporting of the relevant risks to CEO, RMC and Board of AMC and Trustee (as applicable).
- iv) Internal Audit
  - a. The internal auditor shall audit the Fund.
  - b. The internal auditor shall audit compliance with the internal policies and applicable rules and regulations mandated by SEBI.
  - c. Internal auditor will highlight any non-compliances in its report.

- d. The internal auditor shall submit the internal audit report to the audit committee of the AMC and the Board of AMC. For any non-compliances, necessary actions will be taken to rectify the same and updated to the Board of AMC and Trustee.
- v) There shall be an established mechanism for reporting to the management, RMC and the Board of AMC and Trustees.
- vi) Periodic review shall be done to ensure that the said policies are up-to-date responding to new strategic priorities and risks and the monitoring mechanisms are working to ensure compliance with the updated policies.
- vii) Based on the management of the risk, necessary corrective actions must be taken to address any short comings.

### **VIII. Reporting of Risks and Related Information**

The respective heads of various functions are managing risks for their functions and reporting risk information to CEO, RMC and the Board as may be required.

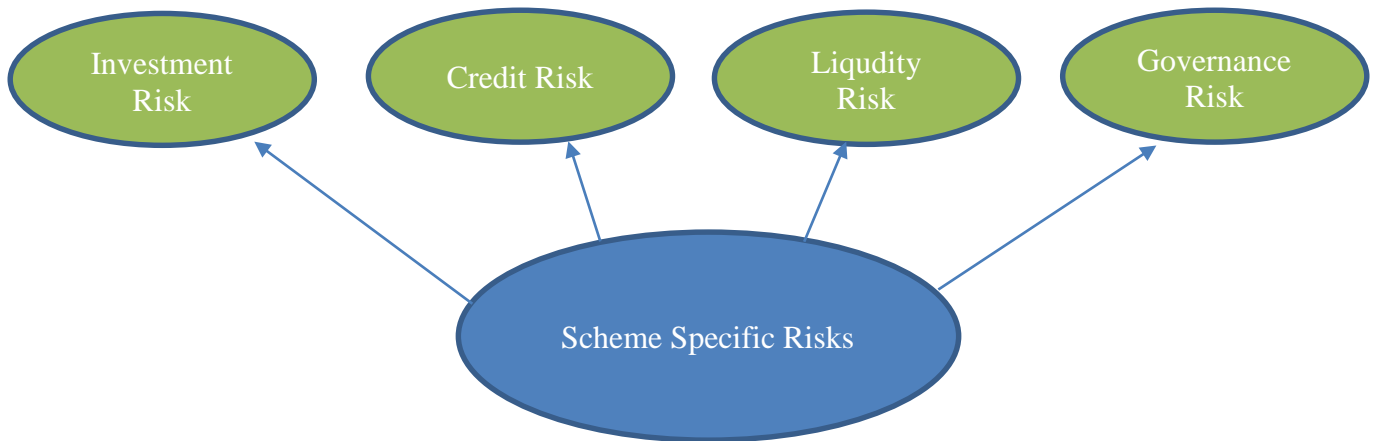
Risk reporting will be done to management on daily basis and any escalations as required may be made to the CEO and RMC. Reporting will be done to Board of AMC and Trustees on a quarterly basis. Trustees may forward the results and steps taken to mitigate the risk along with their comments to SEBI in the half-yearly trustee reports.

Risk reports will contain appropriate risk information to assess whether appropriate measures have been taken by the management to control and mitigate all relevant risks. Risk reports will also highlight any new risks which are emerging.

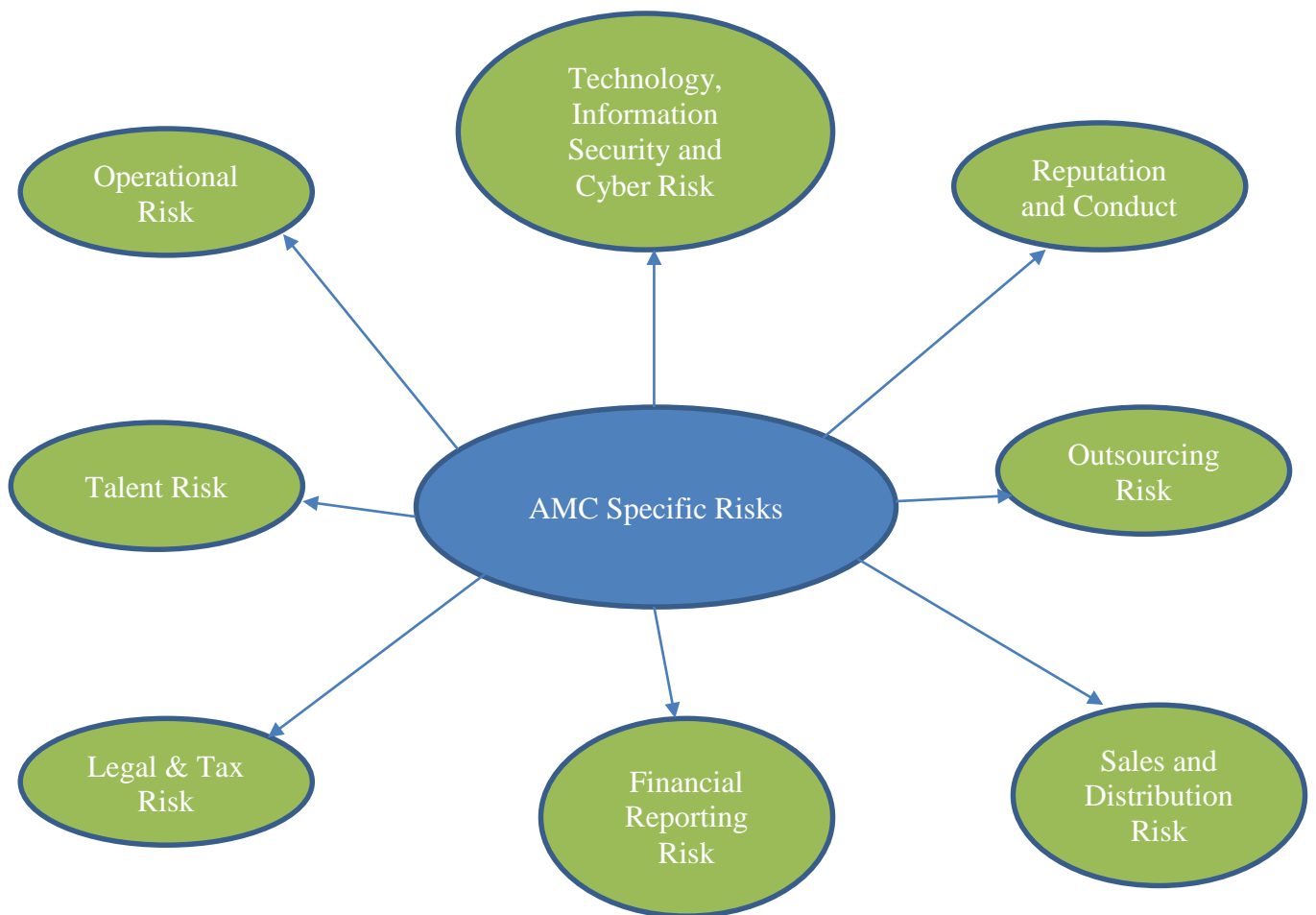
### **IX. Managing Key Risks**

- i) SEBI (Mutual Funds) Regulations, 1996 vide various circulars has prescribed certain norms which would cover many aspects of risk management such as, stress testing, internal credit risk assessment, cyber security and system audit, liquidity buffer, creation of segregated portfolio, investment restrictions, investment due diligence, etc. that are to be adhered to by the mutual funds.
- ii) The following sections incorporate the approach followed by IIAAML/IDF for managing key risks.
- iii) The key risks are divided in to two broad categories.
  - a. Scheme specific risks
  - b. AMC specific risks
- iv) The scheme specific risks are the risks majorly associated with the core activities of investment and portfolio management. The AMC specific risks are the risks associated with the functioning of the mutual fund business by the AMC.

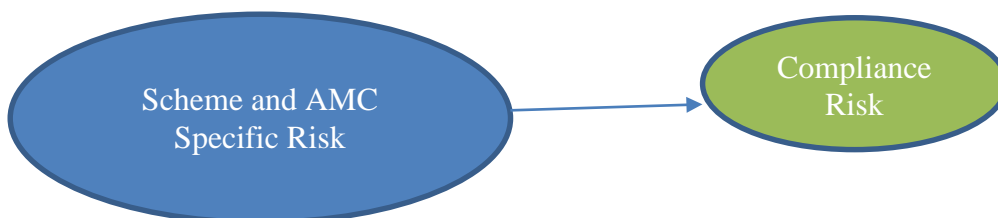
**Scheme Specific Risks**



**AMC Specific Risks**



**Scheme and AMC Specific Risks**



v) Description of Risks and mitigating measures are covered in sections below:

### **1. Investment Risk**

- i) Investment risk is risk of occurrence of losses relative to expected return on any investment.
- ii) IDF makes investments in line with investment objectives as set out in its Investment policy and Scheme Information Document and in accordance with stipulated regulations.
- iii) Investment Risk is managed through implementation of Investment and related policies and establishment of processes and controls for the investment process.
- iv) IDF has an established Investment Policy which defines the nature of investments which can be made by the fund in various asset classes as permitted by SEBI regulations. It also describes the investment process followed for the investments made by the fund.
- v) An Investment Committee has been set up which approves the investments undertaken by the fund. It sets limits for various counterparties (in line with regulations) and also covenants for individual investments.
- vi) As part of investment approval process, investment team does a thorough due diligence as defined in Investment Policy including
  - a) Review of Issuer's performance track record and financials
  - b) Review of Promoters and Group and governance structure
  - c) Industry dynamics and macro-economic environment
  - d) Client meetings and feedback of external stakeholders
- vii) The Investment proposals are submitted to Investment Committee for approval.
- viii) Post Investment, Investments are regularly monitored by the Investment team.
- ix) The Investment Policy also includes policy on trade execution, trade allocation and broker empanelment.
- x) The Fund has also formulated Investment Valuation policy for appropriately valuing all investments it undertakes.

### **2. Credit Risk**

- i) Credit Risk is the issuer credit risk and also negative outlook on specific sectors/industries and consequent impact on credit exposures

- ii) As outlined in Investment Policy, IDF carries out thorough independent analysis for all its investments. The rationale for investment is documented in investment memorandum which is approved by the Investment Committee.
- iii) All Investments made by IDF are tracked on regular basis through monitoring of covenants and financial parameters for investee companies and also through analysis of macroeconomic environment and developments in specific industries.
- iv) All concentration limit as per regulations are also tracked to ensure adherence.

### **3. Liquidity Risk**

- i) Liquidity Risk is risk of not being able to meet any redemptions/payouts on account of securities not being saleable at or near their real values.
- ii) Considering that all schemes of IDF are closed ended, the Investment team manages liquidity risk by ensuring that the investments made through various schemes have maturity prior to scheme maturity date.
- iii) The investment team also starts liquidating investments in any scheme where maturity date is approaching so as to ensure that the funds are available for distribution to investors.

### **4. Governance Risk**

- i) Governance risk is the risk that persons who have fiduciary responsibility towards holders of security do not act in the best interest of such stakeholders.
- ii) The Investment team reviews governance risk of investee companies as part of investment process as laid down in the Investment Policy. An analysis of governance structure and Board/Key Management is conducted as part of investment analysis including analysis of the company's track record and meetings with senior management.

### **5. Operational Risk**

- i) Operational Risk refers to the risk of loss resulting from inadequate or failed processes, people and systems or from external events e.g. internal fraud, external fraud, physical damage caused by nature or man-made etc.
- ii) IDF/IIAML has an operational risk management policy which captures key operational risk events and mitigants in place for the same. It has also formulated dealing room policy and anti-fraud policy as per SEBI guidelines.

- iii) Operational Risk is managed through creating processes which ensure that necessary controls and mitigants are in place to prevent any operational errors.
- iv) In terms of managing day to day operations, necessary controls in form of maker-checker, senior management oversight, end of day reconciliations, daily cashflow statements have been set up.
- v) Considering that IDF undertakes limited amount of investments in debt securities on bilateral basis, it has not established an integrated system (front-mid-back). All limits (regulatory /internal) are considered while making an investment. All processes required for order execution, deal confirmation and monitoring are done separately. It also has set up processes for trade confirmations/settlements, cashflow management, margin management as are required for limited nature of operations.
- vi) IDF has outsourced some of the functions viz. Custodian/Fund Accounting, RTA, Financial Accounting and oversight is maintained through reports and reconciliation on periodic basis. The Custodian and Fund accountant also have concurrent auditors who monitor the operations on daily basis.
- vii) Insurance: The fund takes an asset protection policy for first party losses and it also takes third party insurance loss policy. However both policies have expired and are not being renewed due to current IL&FS situation. Brief background the same is given below:

*Necessary insurance cover had been obtained from HDFC Ergo General Insurance Company Limited for all the three entities, IIAML, IIATCL and IDF with regard to Errors and Omissions for the Directors and Employees. In addition, a mutual fund asset protection policy was also obtained by the Company. However, the policy expired on March 23, 2020. The Company through its insurance broker Alliance Insurance Broker had approached many insurance companies. Considering the IL&FS issue, they have refused to provide any policy to the Company. However, an extension coverage had been obtained from HDFC Ergo for the period March 24, 2020 to March 23, 2021 which covers claim to be made for wrongful acts occurred prior to March 24, 2020.*

## **6. Compliance Risk**

- i) Compliance Risk refers to the risk of entity not being able to meet its regulatory obligations or manage changes in legal statutory and regulatory requirements which may result in fines or regulatory sanctions.
- ii) In order to manage Compliance Risk, policies have been made for Know Your Client (KYC), Anti Money Laundering (AML) and Combating the Financing of Terrorism (CFT), Outsourcing, Conflict of Interest/Code of Conduct/Insider Trading, Dealing Room, Fraud Risk, Whistle Blowing, Information Security, Record Retention.

- iii) In addition to policies, necessary disclosures are made in financial statements as required including related party transactions.
- iv) All reports to be filed with regulators and Boards of AMC and Trustee are submitted on timely basis and Compliance team maintains checklist for such filings.
- v) All investor grievances are promptly responded to post consultation with CEO.
- vi) Further, all required licences, registrations, approvals and permissions are maintained.

## **7. Technology, Information Security and Cyber Risk**

- i) Technology Risk refers to risk of any system failure which could result in an Operational or Compliance Risk. Information Security and Cyber Risk refers to risk of data leakage.
- ii) In order to manage these risks, IT Security policy and Cyber security and cyber resilience policy have been made to address any system failure and ensuring secure storage and handling of information.
- iii) As per SEBI guidelines, a system audit is also undertaken on an annual basis.

## **8. Reputation and Conduct Risk**

- i) Reputation Risk refers to risk of damage to firm's reputation that could lead to negative publicity, litigation, exit of customers and key employees. Conduct Risk refers to risk of actions which are detrimental to investor's interest.
- ii) A code of conduct has been established for employees of IIAML and Board of AMC and Trustee.
- iii) Any incident or event which may impact reputation is immediately escalated to CEO and discussed with RMC and Boards as necessary.

## **9. Outsourcing Risk**

- i) Outsourcing Risk is risk arising out of inadequate management of outsourced processes leading to errors, frauds, inefficiencies, poor quality investor service.
- ii) IIAML/IDF has established an Outsourcing policy for managing outsourcing risk.
- iii) IIAML/IDF has outsourced services of fund accounting/custodian, financial accounting, R&T. To manage these services, necessary agreements have been entered



into and there is regular oversight by the management of the functions performed by these vendors. Any data or information provided including any reports are reviewed by internal management team before sharing with any external party. The Fund accounting service provider also has a in-house concurrent auditor who reviews all activities on a daily basis.

#### **10. Sales and Distribution Risk**

- i) Sales and Distribution Risk is risk associated with mis-selling, managing distribution channels and processes, commission pay-outs, brokerage disbursements, sales expenses etc.
- ii) IIAML/IDF ensures that AMFI registered distributors are empanelled and employees of Distributors also have necessary certification.
- iii) The Fund's senior management who are involved in selling and distribution have necessary training and NISM certification.

#### **11. Financial Reporting Risk**

- i) Financial Reporting Risk is risk of improper maintenance of records and improper recording of transactions which could have a material impact on NAV and financial statements.
- ii) IDF has outsourced Fund Accounting and Financial Accounting Function. Necessary control is maintained through regular review of information provided by Fund Accounting team. The fund's portfolio is reviewed on fortnightly basis by the Finance team and Fund management team and the CIO. AUM of the fund is reviewed on fortnightly basis by finance and fund management team and the CIO. The Fund Accountant also has concurrent auditor for reviewing all activities of fund accountant on daily basis.
- iii) For financial accounting, accounting policy for the fund has been formulated.

#### **12. Legal and Tax Risks**

- i) Legal and Tax Risk is risk of loss caused by defective transaction, claim being made, failure to take appropriate measures to protect assets, change in law, misinterpretation of regulations and failure to pay taxes or submit returns.
- ii) In order to mitigate legal risks, it is ensured that all agreements are reviewed by legal counsels and also reviewed by management.
- iii) All agreements are executed and registered by persons with delegated authorities.

- iv) With respect to taxation, necessary mechanisms are in place for timely calculation and payment of taxes and filing of statutory returns.

### **13. Talent Risks**

- i) Talent Risk is the risk of not having the right people in place at the right time to drive current and future business growth.
- ii) The recruitment of talent is done in line with IL&FS Group policies. Remuneration policy is in place for determining appropriate remuneration for the employees. Board of AMC has Nomination and Remuneration Committee which reviews remuneration.

**Annexure – Process followed by IIAML vis-à-vis mandatory elements of SEBI RMF**

Particulars	Process followed by IIAML
<b>1 Investment Risk</b>	
i. The AMC should have the following policies / process:	
a. An investment universe to be updated periodically and responsibility for the same should be clearly defined.	The nature of investments which can be made by the fund are included in the current investment policy
b. An investment policy for investment in various asset classes/ securities as permitted by SEBI from time to time and policy on hedging of interest rate risk, foreign exchange risk, price risk, etc.	The fund has an established investment policy for investment in various asset classes as permitted under SEBI guidelines
c. Policy on participation in IPOs/FPOs including policy on participation in IPOs/FPOs of associate/ group company(ies).	The investment policy for the fund includes nature of equity investments which can be made and also nature of investments which can be made in associate/group companies
d. Trade execution policy.	The trade execution policy has been incorporated in the fund's Investment policy
e. Policy on trade allocation and Inter-Scheme Transfers (ISTs).	The fund is following the existing policy as stipulated in the guidelines
f. Investment valuation policy.	There is an existing investment valuation policy
g. Broker empanelment policy.	There is a broker empanelment policy
h. Trustee should review the portfolio at frequency as required by SEBI Regulations.	Trustee is reviewing the portfolio as per frequency required by SEBI Regulations
ii. The AMC must ensure that investment risk is adequately factored in by:	
a. Setting up an Investment committee which has close coordination with related departments, and monitors market risk.	Investment committee has been set up
b. Setting limits for issuer/ sector exposure vis-a-vis benchmark (in line with MF Regulations and internal limits).	Limits as per regulations being adhered to
c. Setting limits for investment in debt and money market instruments of various credit qualities.	Limits for investments in debt and money market instruments are approved by the Investment committee
d. Having all relevant documents and disclosures (that are required for listing) with regard to the debt and money market instruments before finalizing the deal for investment into the respective instruments so that mutual funds as investors into such instruments are not at an informational disadvantage vis-à-vis other market participants or lenders.	All the required documents in respect of investment being made are obtained by the investment team
e. Review of passive breaches and corrective actions.	The investment team reviews any passive breaches and corrective action is undertaken
iii. Investment Committee shall be responsible for the following:	
a. Review of Investment Policy at a pre-defined frequency.	The Investment committee is responsible for reviewing investment policy at regular intervals
b. Reviewing the Investment plan or policy to meet the investment objectives documented in the SID.	The Investment committee reviews the policy to ensure it meets the objectives documented in SID

Particulars	Process followed by IIAML
c. Any other responsibility as assigned by the management.	The Investment committee undertakes all activities as are assigned by the management
iv. The AMC should conduct the following to manage and monitor investment risks (at scheme level or aggregate portfolio level, whichever is applicable):	
a. Redemption analysis.	All the schemes for IDF are close ended. The Investment team ensures that maturity of investments is in line with maturity of the scheme and ensures funds/sufficient liquidity is available on scheduled redemption date of the scheme
b. Investor concentration analysis. Both single investor and/or group concentration.	This is being undertaken
c. Monitor investment risk at a defined frequency.	The investment risk is being monitored on regular basis
d. Managing and monitoring investment restrictions for overseas investment, if any.	No overseas investments have been made and hence there is no requirement currently to monitor any such investment
e. Monitor investment risk at individual portfolio level and also concentration risk and other relevant risks at aggregate level in a structured manner.	The investment risk is monitored along with concentration and other risks at portfolio level and in a structured manner
f. Stress testing for investment risk.	Stress testing as may be required for investment risk is undertaken
g. Consider investment risk while launching new products.	For launch of new products, investment risk is considered
h. Ensure that Trade Allocation policy is adhered to along with adequate information to identify those allocations that are out of line with the normal percentage allocation across funds.	The trade allocation policy is being adhered to while making investments
i. Quantitative risk analysis using metrics such as VaR, Sharpe Ratio, Treynor Ratio, Information Ratio, etc.	All the schemes for IDF are close ended and invests in long term debt of infrastructure companies. The fund has designed its own metric for evaluation and analysis which is being followed
j. Prepare and maintain management reports on topics discussed and conclusions made at investment committee meetings (including interest rate prospects, risk-taking and hedging policy, etc.)	A record of all discussions at the investment committee is being kept
k. Distributor concentration analysis.	This is being done
v. Further, it should be ensured that:	
a. Actual risk measures and reports are adapted to the risk characteristics of the individual asset classes, and capture dependencies between risks (e.g. market risk and liquidity risk).	This is being adhered to
b. Actual risk measures address risks in normal and stressed market conditions.	This is being adhered to
c. Actual risk measures cover all risk types in the portfolio, including counterparty credit and liquidity risks (assets, investors).	This is being adhered to
d. Appropriate tools are adopted for measurement of market and credit risks on different types of investment products.	This is being adhered to
e. Adequate processes and controls are in place to ensure that risk reporting is complete, accurate, timely and meets the needs of various stakeholders.	This is being adhered to
f. Adequate documentation of calculations, analyses and decisions is maintained.	This is being adhered to
g. Performance and positions with regard to objectives of schemes are reviewed.	This is being adhered to

Particulars	Process followed by IIAML
h. Performance vis-à-vis scheme benchmarks and performance of peer group(s) is reviewed.	This is being adhered to
i. Exceptions are defined and their monitoring is conducted.	This is being adhered to
j. Exceptions in style drift and portfolio concentration are reviewed.	These aspects are being reviewed
k. In cases of inter scheme transfer, the scheme (s) buying the securities must conduct an enhanced level of due diligence.	This is being adhered to
<b>2 Credit Risk</b>	
i. To manage credit risk, the AMC must have a robust framework comprising:	
a. An approved and documented Credit Risk Management policy.	There is an approved Risk Management policy incorporating credit risk management  In addition, approved Investment policy and investment process also cover aspect of credit risk management  Investment Selection and Monitoring process covered in Annexure I
b. Analysis and evaluation of ratings received from multiple credit rating agencies for securities across portfolios, at all points of time i.e. before investing in such securities/instruments or products and also on continuous basis.	IDF carries out its own independent analysis for all the investments made. External credit rating does not form the basis of IDF's investments. IDF invests even in unrated papers (in line with guidelines) IDF also tracks any ratings assigned by rating agencies
c. Formal procedure for AMCs to carry out their own credit assessment of assets and reduce reliance on credit rating agencies. For this purpose, all AMCs shall have an appropriate policy and system in place to conduct an in-house credit risk assessment or due diligence of debt and money market instruments or products at all points of time i.e. before investing in such instruments or products and also on continuous basis.	AMC carries out own credit assessment of all assets prior to investment and continuously monitors its investments
d. Adequate provisions to generate early warning signals (including yield based alerts) on deterioration of credit profile of the issuer. Based on the alerts generated, the AMCs shall take appropriate measures and report the same to trustees.	Investments are reviewed on regular basis to detect any warning signal
e. Concentration limits (counterparty wise, group wise, industry or sector wise, geography wise) monitoring.	Concentration limits as per regulations are adhered to and being continuously monitored
f. Stress testing for credit risk - applying shocks based on rating downgrades, negative outlook on specific industries and the consequent impact on credit exposures.	All investments reviewed basis any adverse movements
<b>3 Liquidity Risk</b>	
i. Liquidity Risk has to be modelled at the level of each scheme (except schemes that do not have continuous liquidity requirements like close ended and interval schemes) and should display alerts pertaining to asset liability mis-match on monthly basis and in line with any other relevant guidelines as specified by SEBI in this regard from time to time. The aforesaid model, should be based on the following key principles:	As IDF schemes are close-ended, elaborate analysis of liquidity risk is not required  The investment team takes care to make investments whose redemptions are within final maturity dates of the schemes

Particulars	Process followed by IIAML
a. The secondary market liquidity of assets of the scheme, shall be incorporated into the liquidity risk management model.	Not relevant for close ended schemes
b. For debt and money market instruments, the total asset value shall be classified in various maturity buckets for e.g. assets maturing in days 0-30, 30-60, 60-90 and so on. Debt and money market instruments that have a demonstrable secondary market liquidity shall be classified into a lesser maturity bucket depending upon the reasonable time in which particular value of the said instrument can be expected to be offloaded. In the absence of demonstrable secondary market liquidity, the instruments shall be strictly classified based only on the maturity dates.	Not relevant for close ended schemes
c. Liabilities of scheme shall be modelled in similar buckets based on back testing of historical data for subscription and redemption amounts in the respective schemes. The back testing period should be sufficiently long (say for last 5 years) to include spikes in redemptions because of market wide events. Organization specific factors/risks that may have a bearing on redemptions should also be factored into the model.	Not relevant for close ended schemes
d. Liquidation of assets at near the value ascribed to each asset in the scheme portfolio in specified period of time, shall be one of the factors to be considered in liquidity risk management.	Not relevant for close ended schemes
e. The model should incorporate forward looking asset liability mis-match for the scheme at different periods of time at least up to next 30 days.	Not relevant for close ended schemes
ii. The AMC should have policy in place on management of the mis-match in putative liabilities vis-à-vis the liquid assets of each scheme. It should follow the following principles:	
a. There should be an upper limit or threshold on the mis-match in putative liabilities vis-à-vis the liquid assets of each scheme. The upper limit shall be customized depending on size or type of the scheme.	Not relevant for close ended schemes
b. There should be a system based mechanism to generate alerts as per point-(a) above.	Not relevant for close ended schemes
c. The policy shall include monthly reporting to Board of AMC and Trustees and on quarterly basis to SEBI in a standard format (to be prescribed by AMFI in consultation with SEBI).	Not relevant for close ended schemes
d. The report shall include the details of alerts generated by the system regarding asset liability mis-match in excess of the defined threshold and subsequent actions taken to address the same. The scheme wise mis-match limits shall be put in the system and all alerts shall be managed effectively.	Not relevant for close ended schemes
iii. Stress testing should be mandatorily conducted for all schemes (excluding close ended and interval schemes) appropriately atleast on monthly basis. The results of the stress testing may be placed before trustees in every quarter. Trustees may forward the results along with their comments and steps taken, if any, to SEBI in the half-yearly trustee reports. With respect to stress testing of open ended debt schemes, norms have been provided vide SEBI circular No. CIR/IMD/DF/03/2015 dated April 30, 2015 and SEBI circular No. SEBI/HO/IMD/DF3/CIR/P/2020/229 dated November 6, 2020 and the same must be adhered to and any future guidelines issued by SEBI in this regard may suitably be followed.	Not applicable for close ended schemes
iv. The policies and procedures implemented by the AMC should include the following:	
a. Measures and limits for monitoring liquidity risk - cash flow approaches, ratios/tools for monitoring market liquidity (including equity market), etc.	Not relevant for close ended schemes
b. Measures for managing intra-day liquidity and controls around the same.	Not relevant for close ended schemes

Particulars	Process followed by IIAML
c. Stress testing policy to align the stress testing requirements mandated by SEBI for mutual funds in India specifically incorporating: 1. Risk parameters used and methodology adopted to conduct the stress tests. 2. Procedure to deal with stress events and early warning signals.	Not relevant for close ended schemes
d. Overview of funding plans/strategy during normal and stressed events, including contingency funding plan.	Not relevant for close ended schemes
v. Systematic classification and evaluation of liquidity risks should be initiated by performing following activities:	Not relevant for close ended schemes
a. Evaluation and disclosure of liquidity risk associated with schemes/products in the SID.	All required disclosures are being made in SID
b. Controls around preparation and accuracy of cash flows.	Necessary controls in place for preparation of cash flows
c. Management of collateral and margins for execution and settlement of derivatives, securities and money-market instruments.	No derivatives being done. For investment in CBLO, appropriate margins being placed
<b>4 Governance Risk</b>	
a. The AMC shall have an approved policy to deal with governance risk of the investee companies.	An assessment of investee company's management and promoters is taken up as part of analysis
b. The policy shall incorporate measures such as assessment of whether there are enough system checks and balances in the governance structure of the issuer to prevent such wrong doing and also assessment of track record or history of the issuer to monitor the trend of their past behavior.	Governance structure reviewed as part of analysis of investment
c. The policy shall also include guidelines on how it identifies and monitors any conflicts of interest involving members of the Board/ KMPs of the investee company.	Boards/KMPs of investee companies are reviewed as part of investment analysis
d. The AMC shall adhere to the "Stewardship Code" prescribed by SEBI for mutual funds which inter alia includes continuous monitoring of the investee companies on various matters such as operational and financial performance, corporate governance, related party transactions, opportunities or risks including ESG risks, etc., bearing in mind the insider trading Regulation while seeking information from the investee company for the purpose of monitoring etc.	All investments are regularly monitored. Policy on Stewardship Code prescribed by SEBI is for investments in listed equities. IDF has no investment in listed equities
<b>5 Operational Risk</b>	
i. The AMC should implement the following policies:	
a. Operational risk management policy, shall cover the following key elements:	
1. Purpose and scope.	This is included in the current operational risk policy
2. Governance Structure - Roles and Responsibilities.	This is included in the current policy
3. Identification of operational risk events.	This is included in the current policy
4. Management of the operational risk events, e.g. reversal of positions, rectifications, etc.	This is included in the current policy
5. Guidelines regarding transactions with associates, group entities, related parties or even with other stakeholders, such as distributors, channel partners, brokers, etc.	This is being adhered to
6. Escalation and reporting.	This is included in the current policy
7. Compensation of loss, if any.	This is included in the current policy
8. Follow-up actions, e.g. strengthening of systems and processes, training, etc.	This is included in the current policy

Particulars	Process followed by IIAML
9. Communication with external stakeholders - regulators, investors, distributors, etc.	This is being adhered to. Only authorized CXOs communicate with external stakeholders
10. Implementation of a 'new product approval' process to ensure that all functions have the systems, people, processes to support a new product	This is included in the current policy
11. Recording and documentation.	This is being adhered to
b. The Dealing room policy incorporating the non- usage of mobile, restricted internet access, dedicated recorded lines, handling of information, etc. In this regard, the detailed guidelines on this aspect as provided in SEBI circular SEBI/HO/IMD/DF2/CIR/P/2020/175 dated September 17, 2020 as well as in the part B of Fifth Schedule of SEBI (Mutual Funds) Regulations, 1996 or any further SEBI guidelines may be referred to.	The fund has an existing policy in line with SEBI guidelines
c. Roles and responsibilities are defined for the following:	
1. Time stamping, application processing and confirmation,	The applications are processed at the time of investments being made in each of the schemes. This is a one-time exercise for the fund as all schemes are close ended.
2. Review of KYC and investor declarations as specified through various SEBI regulations,	This is being reviewed at the time of funds being raised for the schemes
3. Timely and accurate credit identification (for investor subscription) and bank reconciliations (banks/custody).	This is undertaken at time of subscription being made in the schemes of the funds
4. A system to track and report high value transactions (including bulk redemptions) to the Investment management function.	This is not relevant for close ended schemes as all redemptions are done on maturity to the respective investors
5. Control oversight on brokerage computation and payment, redemptions, inter-scheme switches, maturity payments in closed ended funds, dividend payouts, tax and other statutory payments, subscription refunds, identification of unclaimed amounts and their deployment as per regulatory requirements, etc.	There is oversight on any brokerage payments. Maturity payments for close ended funds are reviewed before transfer of funds
6. Review of 'value dated' transactions, reversals, broker/ distributor code changes, etc.	This is more relevant for retail oriented open ended schemes. Not relevant for close ended schemes
7. Incident reporting and escalation matrix for the same.	This is being adhered to. Incidents and escalations highlighted to CEO, RMC and Board as may be required
8. Maintaining a Chinese wall between the different businesses earned out by the Asset Management Company (such as PMS, AIF, Overseas Investments, Advisory, Mutual Funds, etc.)	AMC currently has single business
9. Documented process to review human errors in transaction processing to identify training needs and corrective actions to prevent the errors in the future.	This is being adhered to
d. There is an adequate RCSA process for operational risks on a periodic basis with a structured reporting methodology.	All risks and checks performed are highlighted to CEO, RMC and Board
e. The AMC should perform the following:	
1. Analyze and classify frauds into internal (within the organization) and external (by persons outside the organization) frauds, identify root causes and incorporate monitoring mechanisms to address fraud scenarios.	This is undertaken when any frauds are identified



Particulars	Process followed by IIAML
2. Reporting of frauds and near miss incidents to the Board of AMC and Trustees on quarterly basis.	This is undertaken when any frauds are identified
f. Insurance cover shall be obtained for first and third party losses:	
1. The mutual fund must have insurance cover against third party losses arising from errors and omissions:	The fund obtains insurance cover for third party losses. But the current cover has expired and is not being renewed due to current IL&FS situation
(a) Third party liabilities refer to liabilities arising out of financial loss to investors or any other third party, incurred due to errors and omissions of directors, officers, employees, trustees, R&T agents, custodians etc.	
(b) The level and type of cover should be recommended by the AMC and approved by the Trustees.	<p><i>Necessary insurance cover had been obtained from HDFC Ergo General Insurance Company Limited for all the three entities, IIAML, IIATCL and IDF with regard to Errors and Omissions for the Directors and Employees. In addition, a mutual fund asset protection policy was also obtained by the Company. However, the policy expired on March 23, 2020. The Company through its insurance broker Alliance Insurance Broker had approached many insurance companies. Considering the IL&amp;FS issue, they have refused to provide any policy to the Company. However, an extension coverage has been obtained from HDFC Ergo for the period March 24, 2020 to March 23, 2021 which covers claim to be made for wrongful acts occurred prior to March 24, 2020. The status of insurance policy has also been informed to SEBI</i></p>
2. Further, the AMC shall have insurance to cover first party losses:	The fund has an asset protection policy. However the current policy has expired and is not being renewed
(a) First party losses are those which impact the insured and include asset based losses (due to natural or unnatural disasters such as fire, flood, burglary, etc.) as well as financial or data losses.	
(b) They also include losses due to the acts of employees of the insured and computer based crimes such as hacking or virus attacks that may impact the data of the mutual fund, etc.	
(c) Key details of the same, together with claims thereunder, shall be annually reported to the Trustees.	
g. The AMC should have an integrated system (front-mid-back) to perform the following functions:	
1. Order generation	
2. Position-keeping (Positions on all supported products are updated in real time). Trades can be accounted for by an electronic feed.	
3. Pre-trade compliance checks	
4. Order execution	
5. Deal booking	
6. Straight-through processing to allow one-time capture of trade details.	
7. System check on preset parameters and reporting of breaches e.g. whether investments made in permitted securities or limits on deal size, etc. have been adhered.	<p><i>In an IDF environment, investment in illiquid debt instruments largely on a bilateral basis will be undertaken. Presently, there is no investment in equities. All limits (regulatory /internal) are considered while making an investment. All processes required for order execution, deal confirmation and monitoring are done separately</i></p>

Particulars	Process followed by IIAML	
8. Automatic time-stamping of deals.		
9. Maker-checker authorisations.		
10. Exception reporting.		
11. Generation of deal confirmations.		
12. Monitoring of outstanding confirmations, settlements and payments.		
13. Cash management.		
14. Integrated reporting across the Mutual Fund.		
15. The back office system should facilitate daily fund projections to ascertain liquidity and settlement requirements.		
h. The AMC should have documented procedures for the following:		
1. Trade confirmations, settlements.		The relevant processes are being followed
2. Cash flow Management.		The relevant processes are being followed
3. Collateral Management.		The relevant processes are being followed
4. Corporate Actions.		The relevant processes are being followed
5. Margin Management.		The relevant processes are being followed
6. Security Master Creation.		The relevant processes are being followed
7. Pricing and Valuation.	The relevant processes are being followed	
8. Corporate action tracking and accounting.	Not relevant for debt securities	
9. Oversight on Service Providers – Custodians, Fund Administrators - SLA tracking, Parallel Valuation and calculation of NAV. The oversight over custodians shall inter alia include, receipt of daily position report from custodian, end of day reconciliation of positions with custodian data and once a week complete reconciliation of fund accounting system records with custodian records.	The functional heads oversee functioning of service providers	
i. The AMC may implement the following depending upon the scale and complexity of business:	The AMC has established an Anti-Fraud policy	
a. Documenting a Fraud Response Plan and reporting of near miss incidents.		
b. Developing Fraud Risk scenarios and updating with changing business dynamics, documentation thereof being maintained in appropriately designed and updated Fraud Risk Registers (capturing details such as past fraud incidents).		
c. Using data analytics as a key tool for identifying fraud patterns and indicators.		
d. Conducting a fraud control and reporting' training program.		
<b>6 Compliance Risk</b>		
i. The AMC shall establish and maintain policies as required by applicable statutes and regulations, including policies to address the following:		
a. Know Your Client (KYC), Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT)	There is an existing policy	
b. Outsourcing	There is an existing policy	
c. Customer Complaints & Investor Grievance – Should inter alia include details of adherence to SEBI regulations with regard to investor servicing and complaint resolution, tracking complaint resolution, update of complaint log and forwarding of	There is an existing policy	

Particulars	Process followed by IIAML
complaints and the Management Information System (MIS) to compliance officer, complaint resolution process being reviewed by compliance officer. The compliance officer shall review the complaints with an objective to catch early warning signs for fraud or any systemic issues.	
d. Related Party Transactions.	There is an existing policy
e. Front running	There is an existing policy
f. Conflict of Interest.	There is an existing policy
g. Employee Trading (including issues related to Insider Trading).	There is an existing policy
h. Code of Conducts.	There is an existing policy
i. Commission and other sales & marketing costs.	Being adhered to
j. Commercial Bribes or Kickbacks.	Being adhered to
k. Fraud Risk Management	There is an existing policy
l. Whistle Blowing	Being adhered to
m. Information Security and Data Privacy	There is an existing policy
n. Gifts and Entertainment	There is an existing policy
o. Record Retention	There is an existing policy
p. Dealing Room Policy	There is an existing policy
q. All disclosure requirements (including derivative transactions, off balance sheet items and contingent liabilities, etc.)	All disclosures made in financials
ii. There should be defined responsibilities for:	Responsibilities have been assigned for all activities as mentioned below
a. Filing of timely and accurate regulatory reports to the Regulator(s) and Board of AMC and Trustees as prescribed by the applicable laws and regulations.	Compliance checklists are being prepared and maintained for filing of regulatory reports.
b. Pre-use review of AMC's marketing materials (collateral, brochures etc.), website uploads, digital advertising and performance advertising etc.	Being done The Compliance Officer reviews all marketing material and brochures from regulatory perspective prior to disseminating to investor
c. Monitoring that all investments and holdings are consistent with disclosures made to clients and applicable restrictions.	Being done
d. Mechanism for prevention or detection of possible insider trading at the personnel or portfolio levels.	Being done There is a separate Code of Conduct for Prohibition of Insider trading wherein prevention or detection of possible insider trading are monitored.
e. Review for adequacy of disclosures made to the investors regarding significant risks such as liquidity, counterparty and credit (quality of investments made mainly debt based on the credit rating), investment, and other risk areas.	Being done
f. Measures to prevent and detect trading violations involving short selling.	Being done

Particulars	Process followed by IIAML
	Checks are maintained as per the Insider trading policy and the same is considered for trade execution (all including trades involving short selling).
g. Maintenance of all required licenses, registrations, approvals and permissions.	Being done
iii. AMCs should have an Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) program with the following attributes:	Policy in place
a. Employees understand obligations and contents of policies to effectively carry out their AML/CFT responsibilities.	Policy in place
b. Transaction Monitoring is done to identify Suspicious Activities.	Policy in place
c. Suspicious Transactions Reporting is done to the relevant authorities.	Policy in place
d. Adequate training programs to ensure employees are constantly aware of money laundering/financing of terrorism risks and measures (focus on their roles and responsibilities).	Policy in place
iv. AMCs should have systems in place to detect and prevent securities market violations including securities market frauds and malpractices at their end:	Systems are in place to detect and prevent any violatons
a. A report containing details of the alerts generated and the subsequent actions taken in this regard should be submitted to trustees on a quarterly basis.	Any alerts generated are reported to the Trustees
b. Trustees may forward the results along with their comments and steps taken, if any, to SEBI in the half-yearly trustee reports.	Trustee are submitting reports to SEBI
<b>7 Technology, Information Security and Cyber Risk</b>	
7.1 Given the huge dependence on technology, any system failure could trigger a variety of risks, e.g. operational risk, compliance risk. etc. Technology Operations should support processing and storage of information, such that the required information is available in a timely, reliable, secure and resilient manner.	IT Security policy document is in place to address any system failure and ensuring secure storage and handling of information and risk mitigation framework
7.2 Increasing disclosure requirements on public portals by AMCs required a focused approach towards data management. Digitalization and online platforms have given rise to need for effectively mitigating information security and cyber risks.	Cyber security and cyber resilience policy in accordance with the circular is in place and being adhered thereto
SEBI vide circulars, SEBI/HO/IMD/DF2/CIR/P/2019/12, SEBI/HO/IMD/DF2/CIR/P/2019/57, SEBI/HO/IMD/DF2/CIR /P/2019/58 dated January 10, 2019, April 11, 2019 and April 11, 2019 respectively has provided indicative guidelines encompassing cyber security and cyber resilience framework and audit framework encompassing systems and processes for Mutual Funds/AMCs. The systems and processes as elaborated in the aforementioned circulars must be in place and any future guidelines issued by SEBI in this regard may be suitably followed.	
<b>8 Reputation and Conduct Risks</b>	
i. The management must look into reputation and conduct risks and inculcate their significance in the AMC culture by,	Code of conduct in place
a. Integrating reputation and conduct risk considerations into strategy-setting and business planning.	Code of conduct in place
b. Establishing a crisis management policy (to minimize or neutralize negative publicity in the event of any incident or bad conduct by an employee).	Any situation of crisis reported to CEO. RMC and Boards

Particulars	Process followed by IIAML
c. Establishing monitoring tool(s) for social media grievances, etc.	This is more relevant for retail oriented fund with large number of investors. Any grievance raised by investors is responded to. Policy on grievance redressal mechanism is in place
ii. The Board of AMC should approve and monitor the effectiveness of implementation of an enforceable code of ethics and business conduct; in the event of a material breach in conduct or a significant reputation risk event, the Board of AMC should be informed.	Code of conduct in place
iii. The following practices must be adopted by the AMC:	
a. While designing or improving the products, the complexity of the product and consumer behaviors must be considered.	Covered in existing policy IDF's products are targeted at large institutional investors. Factor of consumer behaviors is more relevant for retail oriented mutual funds
b. Impact assessment should be undertaken for sales and promotion expenses (i.e. evaluation of value added v/s cost incurred) using appropriate techniques, e.g. analysis of complaints, compliance monitoring program, data analytics, mystery shopping, etc.	Covered in existing policy IDF's products are targeted at large institutional investors. Techniques like mystery shopping relevant for retail oriented mutual fund
c. Preventive measures and monitoring mechanism should be implemented to mitigate mis-selling risks.	Covered in existing policy The Mutual Fund's Senior Management staff who are involved in selling and distribution have been provided with necessary training and are required to have NISM certification
<b>9 Outsourcing Risk</b>	
i. Risk management with respect to any outsourced activity should be done in the manner as if the activities were being done in-house.	Being adhered to
ii. There shall be a dedicated person in the AMC who would be responsible for the outsourced activities of each outsourced vendor.	There are dedicated persons interacting with each outsourced vendor
iii. The AMC should have a Board approved Outsourcing Policy incorporating the following aspects (as well as other applicable regulatory requirements):	There is existing Board approved Outsourcing policy
a. Listing of core activities which cannot be outsourced.	Part of policy
b. Procedure for outsourcing, including risk and materiality assessment.	Part of policy
c. Monitoring and control of outsourced activities (as part of outsourcing risk management program).	Part of policy
d. Information security and confidentiality (including data privacy/ protection standards).	Part of policy
e. Criteria for selection and minimum qualification.	Part of policy
f. Minimum quality standards.	Part of policy
g. Tenure of agreement.	Part of policy
h. Responsibility for outsourced functions.	Part of policy
i. Acceptable level of deviations.	Part of policy and agreements

Particulars	Process followed by IIAML
j. Periodic review of service levels and pricing.	Part of policy and agreements
k. Restriction on sub-delegation or sub-contracting.	Part of policy and agreements
l. Right for inspection and audit.	Part of policy and agreements
m. Approval authorities.	Part of policy and agreements
n. Service level agreement.	Part of policy and agreements
o. Archival and retrieval of documents/data.	Part of policy and agreements
p. Insurance requirements.	Part of policy and agreements
q. Incident reporting and escalation matrix.	Part of policy and agreements
iv. Before outsourcing any activity, the AMC should ensure the following is in place:	
a. Outsourcing agreements with service provider are legal and binding as per the law.	Being adhered to
b. Due diligence (including AML/CFT, if applicable) is conducted on the service provider, where the outsourced activity is material, which may include the following considerations:	Being adhered to
1. Availability of qualified and experienced service providers to perform the service on an ongoing basis	
2. Arrangements for structured review of the capability and experience of service providers	
3. Evaluation of relevant personnel for critical functions, to evaluate their specific competencies and execution capabilities	
4. A disaster recovery and business continuity plan exist with regard to the contracted services and products, and that the adequacy and effectiveness of the same is maintained and tested periodically by the service provider.	
c. Analysis of the benefits and risks of outsourcing the proposed activity as well as the service provider risk, and determination of the cost implications for establishing the outsourcing arrangement.	Being adhered to
v. After outsourcing any activity, the AMC shall ensure:	
a. Outsourcing vendors' process/people/systems are reviewed.	Part of policy
b. A periodic internal review is done on the functioning of outsourced activities (like Fund Accounting and R&T agent functions) at least annually.	Part of policy
c. An effective structured tool (IT / manual) is used to review/benchmark the performance of the third party service providers (Fund Administrators / Custodians / R&T agents) vis-a-vis the SLA.	Part of policy
d. The result of the review documented and risks emanating from them are highlighted and remediation plans are monitored on an ongoing basis.	Part of policy
e. Communication of its error tolerance, code of conduct and objective to its third party service providers (Fund Administrators / Custodians / R&T agents).	Part of policy
f. The service provider should test business continuity and contingency plan on a periodic basis to ensure adequacy and effectiveness'.	Part of policy
vi. The Mutual Fund should establish reconciliation procedures with regard to periodic reconciliation between fund accounting system, R&T system and bank account and conduct a periodic audit of all investor-related activities, carried out both by the	Reconciliation being conducted to ensure accuracy of data and transactions

Particulars	Process followed by IIAML
Mutual Fund and the R&T agent, to ensure that all allotments, redemptions, income distributions and commission distributions have been accurate and timely.	
vii. The Mutual Fund should ensure that the fund accounting systems used (in-house or by the fund accountant to whom this activity has been outsourced) facilitate:	
a. Validation of NAV calculations.	Being adhered to
b. Automated and manual price feeds.	Being adhered to
c. Identification of missing prices.	Being adhered to
d. Flagging of price variances beyond pre-established tolerance levels.	Being adhered to
<b>10 Sales and Distribution Risk</b>	
i. The KRA/performance appraisal at the relevant CXO level must capture the performance in managing the risk of mis-selling. The risk of mis-selling may incorporate the components like the number of mis-sellings, outcomes in the inspection report, analysis of the portfolio of investors, analysis based on assessment of appropriateness to the investors, etc. As an example, a parameter to gauge mis-selling may be the analysis of whether growth in the AUM of a scheme is on account of performance or mainly due to higher commission paid to distributor.	Management of risk of mis-selling is part of existing policy
ii. The AMC shall also be responsible for the mis-selling done by the persons associated with selling of mutual funds including distributors. The performance disclosure to investors, if any, by the distributors should be true and fair. It should not be misleading to the investor by representing any selective time period representing the favorable return.	The Mutual Fund's Senior Management staff who are involved in selling and distribution have been provided with necessary training. The Mutual Fund has ensured that the AMFI Registered Distributors only are empanelled and that the employees of the Distributors also have obtained the necessary certification from AMFI
iii. Detailed analysis should be done at the AMC level to verify mis-sellings, if any.	Being done, will be reported to Board if any
iv. All the sales staff and distributors must be NISM certified with the required qualifications prescribed by SEBI/AMFI.	The Mutual Fund's staff who are involved in selling and distribution have been provided with necessary training and NISM certification
v. The AMC must implement the following procedures relating to distributor commissions:	
a. Analytical tools/ audit procedures used to review trends/errors in brokerage/ commission disbursements.	Any brokerage commission are reviewed
b. An approved methodology for determining commission structures applicable to distributors / products, together with an authorization matrix for approving deviations and reporting cost-benefit outcome.	All commissions are approved by relevant authorised persons
vi. Conducting regular performance reviews for distributors.	Due diligence as required by SEBI Regulations and AMFI best practices (including performance reviews) are carried out for empanelled Distributors
vii. Conducting enhanced due diligence of distributors where appropriate (suitable policy to be incorporated)	Due diligence as required by SEBI Regulations and AMFI best practices (including performance reviews) are carried out for empanelled Distributors

Particulars	Process followed by IIAML
<b>11 Financial Reporting Risk</b>	
i. The AMC should have detailed accounting policies and procedures for Mutual Fund accounting.	There are detailed accounting policies and procedures for MF accounting
ii. Adequate segregation of duties must be created within the Finance (or relevant) function for Mutual Fund accounting.	The duties within Finance function are duly segregated
iii. There should be documentation and regular testing of internal controls over financial reporting of Mutual Fund schemes.	There are adequate controls for financial reporting. Audit of schemes being done as per regulatory guidelines
<b>12 Legal &amp; Tax Risks</b>	
i. The AMC should have documented processes and defined responsibilities for:	
a. Calculation and deposit statutory levies applicable to Mutual Funds.	All calculations and deposit of statutory levies being done appropriately
b. Acceptance of applications from permitted jurisdictions.	All applications are accepted in line with guidelines
c. Monitoring of risks emanating from tax related aspects and their redressal.	Monitoring of risks from tax related aspects being undertaken
d. Implementation of new and amended statutory and regulatory requirements.	All new and amended regulations are being appropriately implemented
ii. To mitigate legal risks, the AMC should have documented processes and defined responsibilities for:	
a. Review of material agreements.	All agreements are reviewed from all aspects (commercial, legal etc)
b. Authorized personnel for execution and registration of legal agreements and documents.	All agreements are executed and registered by persons with delegated authorities
c. Centralized register of all legal agreements	Register of agreements is maintained
d. Archival of physical and electronic versions of all legal agreements and documents.	All documents are appropriated archived
<b>13 Talent Risk</b>	
i. With respect to talent risk, there should be proper succession planning for identified key positions. At no point of time the AMC is deprived of the services of any Key Managerial Person.	Part of existing policy
ii. The AMC should have adequately documented policies and procedures for:	
a. Recruiting staff with appropriate experience, skill levels, and degree of expertise to undertake specialized business operations., in particular, those relating to risk management	Part of existing policy
b. Employing screening procedures, including background checks, for job applicants, particularly for key positions.	Part of existing policy
c. Creation of policies for recruiting, retaining and remunerating staff, especially for key personnel.	Part of existing policy
d. Evaluation of the candidate's capability and experience to manage the risks associated with the concerned role is should be a key element of the recruitment process.	Part of existing policy
e. Adequate back-ups for key people are present.	Part of existing policy