



# Zerodha Fund House

No 51, 2nd Floor, Le Parc Richmond, Richmond Road,  
Shantala Nagar, Bengaluru 560025 India

## 1. Objective

To align roles and responsibilities including KRAs for risk management activities for mutual funds (“MFs”) and Asset Management Companies (“AMCs”) in accordance with SEBI risk management circular dated 27<sup>th</sup> September 2021.

### Key Positions

This document defines the illustrative roles and responsibilities for the following key positions:

- Chief Executive officer (“CEO”)
- Chief Risk Officer (“CRO”)
- Fund Manager (“FM”)
- Head - Legal and Compliance
- Head - Operations
- Chief Financial Officer
- Chief Information Security Officer (CISO)
- Chief Technology Officer (CTO)
- Chief Business Officer (CBO)



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Roles and responsibilities (including KRAs)

## 1.1. Chief Executive Officer (CEO)

### Roles & Responsibilities

- Monitor and manage risk at both AMC and Scheme level
- Responsible for the governance of business risks including distribution risks.
- Review the outcomes of risk management functions on a monthly basis.
- Approve roles and responsibility related to risk management including KRA of Chief Investment Officer (“CIO”) and / or Fund Manager(s) till such time as a CIO is designated and other CXOs
- Define Delegation of Power (DoP) framework for daily risk management, reporting and corrective actions and place it before the Board of AMC for approval.
- For the relevant functional risks, identify, analyze and report the following to the CRO and CEO along with recommended action plan for:
  - Early warning signals
  - Emerging risks
  - Major findings
  - Near miss and loss events
  - Fraud incidents

Ensure escalation of such incidents as per the escalation matrix approved by CRO.

- Define risk appetite at AMC and scheme level in consultation with CRO and get the same approved by the Risk Management Committee of AMC & Trustee Company.
- Review risks events across different functions and approve corrective / recommended actions highlighted by the CIO and other CXOs
- Monitor the distribution channels and miss-selling incidents reported such as –
  - Number of mis-selling incidents
  - Negative comments in the inspection report relating to distribution
  - Analysis of the portfolio of investors e.g. nature of investments vis-à-vis risk appetite of investor
- Review identified fraud incidents, loss and near miss incidents along with corrective action plans and reports to the Risk Management Committee of AMC & Trustee Company.
- Report and escalate corrective actions on major findings to the Board of AMC and Trustee Company.
- Ensure adherence to the Risk Management Framework of SEBI.

### Key Result Area

- Risk incidents / events beyond the defined thresholds or tolerance limits.
- Incidents of breach in risk appetite at AMC and Scheme Level.
- Frauds, loss and near miss incidents identified across AMC and Mutual Fund.
- Timely implementation of action plans beyond timelines approved by the board.



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## 1.2. Chief Risk Officer (CRO)

### Roles & Responsibilities

- Ensure all risk related policies are defined, reviewed, and updated periodically and placed at the relevant risk management committee for approval.
- Responsible for implementation and governance of Risk Management Framework (“RMF”) across Asset Management Company (“AMC”) and Mutual Fund Schemes.
- Responsible for overall risk management related activities of the AMC and Mutual Fund Schemes.
- Establishing an organization wide risk conscious culture
- Formulate and implement structured reporting process for risk monitoring and reporting to CEO, Risk Management Committee (“RMC”) and Board of AMC and Trustee Company.
- Monitor and ensure adherence and compliance to RMF across AMC and Mutual Fund Operations.
- Perform periodic review and update the RMF defined by the AMC and place the same to the RMC for approval.
- Periodically review the DoP covering the following:
  - Daily risk management
  - Daily risk reporting
  - Corrective actions at the level of Fund manager, CIO and CEO
- Review and suggest changes to the risk appetite and risk metrics for AMC and scheme as defined by the CEO.
- Ensure formulation and implementation of adequate mechanism for:
  - Generating early warning signals;
  - Conducting stress testing for investment, credit and liquidity risks basis approved parameters;
  - Define the tolerance limits for each of the risk parameters;
  - Measurement and review of AMC and scheme specific risks including RCSA and the person responsible to monitor the risks;
  - Assess liquidity risk at a scheme level;
  - Formulation of Fraud Risk Registers and Frauds response plan / strategies;
  - Escalation matrix for reporting and resolution of incidents (loss, near miss, fraud etc.);
  - Ensure review of operations for material outsourced activities at least on an annual basis;
  - Adequate framework to detect and prevent security market violation, frauds and malpractices by the AMC
- Review and report the following to the RMC of AMC and Trustee Company:
  - Risk reports and dashboards capturing deviations to risk thresholds, risk appetite across AMC and Scheme.
  - Result of stress testing based on defined parameters for investment, credit and liquidity risks, etc.
  - Internal and external fraud incidents reported / identified by CXOs including evaluation of fraud risk scenarios.
  - Near miss and loss incidents identified and reported by the respective departments.



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- Monitor liquidity risk including asset liability mismatch at a scheme and portfolio level vis-à-vis internally approved and defined liquidity model on a monthly basis.
- Major findings and corrective actions prepared by the CXOs.
- Monitor control breaches as a result of periodic RCSA review and mitigating actions put in place by the management and risk function.
- Independently assess reporting of risks to various committees and CEO.
- Ensure insurance cover is maintained based on AMC and Trustee Company approval for the MF operations and third party losses.
- Report outcomes of the risk management function to the management atleast once a month.
- Approve investment limit setup such as minimum number of stocks/securities, cash (net of derivatives), stocks/securities vis-a-vis benchmark and Beta range, regulatory limits
- Identify, assess and estimate emerging risks and their possible impact on AMC and mutual fund schemes.
- Report existing and emerging risks associated with the MF and AMC activities in a structured manner to the Board Risk Management Committee of the AMC and Trustee.

## Key Result Area

- Adherence to the requirements of SEBI risk management circular.
- Timely reporting of the results from monitoring of AMC and scheme specific risks such as:
  - RCSA testing;
  - Stress testing;
  - Monitoring of risk thresholds and risk appetite;
  - Monitoring of investment and liquidity risks; and
  - Monitoring of EWS by functions.
- Monitor and timely report implementation status of the actions plan committed by the respective functions/ CXOs and reporting of delays, if any.
- Timely reporting of risk events to the ERM and Board Risk Committees.
- Adherence to the defined roles and responsibilities and Delegation of Power (DoP).
- Availability of adequate insurance coverage for MF operations and third-party losses.



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## 1.3. Fund Manager (FM) Roles & Responsibilities

- Manage investment risk of managed scheme(s). i.e., market risk, liquidity risk, credit risk and other scheme specific risks within approved limits.
- Ensure adherence to Risk Management Framework, SID, internal & Regulatory limits.
- Ensure adherence of applicable provisions of Mutual Funds Regulations including Code of Conduct per Schedule V B of the SEBI (Mutual Funds) Regulations, 1996.
- Adhere to the risk appetite framework of the scheme.
- Review and Suggest / provide inputs on changes required to risk appetite of the schemes
- Recommend reduction/ change in the risk level of the schemes within the Potential Risk Class (PRC)
- Review and provide recommendations for changes to the Investment and other policies such as credit risk policy, liquidity risk policy and governance risk policy.
- Ensure investment policies are aligned to the investment objectives as documented in the Scheme Information Document (“SID”).
- Analysis and evaluation of ratings received from multiple credit rating agencies for securities across portfolios and take necessary actions
- Manage and monitor investments in schemes by conducting –
  - Quantitative risk analysis
  - Analysis of concentration limits
  - Redemption analysis
  - Investor concentration analysis
- Ensure maintenance of all relevant documents and disclosures with regard to debt and money market instruments before finalizing the deal.
- Ensure to comply with Code of Conduct as per Schedule V B of Mutual Fund Regulations.
- Ensure adherence to the “Stewardship Code” and other regulatory updates prescribed by SEBI for mutual funds
- Ensure adherence to the Dealing Room Controls, IST norms
- Calculate overall risk by taking in to account the weighted average of -
  - The risk-o-meter; and
  - The events of defaults.
- Take corrective action for deviations, if required, as per the approved Delegation of Power (DoP).

### Key Result Area

- Adherence to the SEBI risk Management circular relating to investment activities
- Adherence with investment limits
- Adherence to the investment risk tolerance levels for the schemes managed by the fund manager
- Compliance with investment limits setup
- Timely implementation of remediation actions plan linked to respective fund managers.
- Instances of fraud, near miss and loss events relating to schemes managed by the fund manager
- Adherence to DoP



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- Adequate due diligence during inter-scheme transfer of securities
- Timely action upon downgrade of securities
- Adequate documentation for debt and money market deals



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## 1.4. Head - Legal and Compliance

### Roles & Responsibilities

- Responsible for the governance of regulatory risks pertaining to Compliance Function/ Department.
- Formulate and implement compliance and other policies such as but not limited to prevention of front running, outside business activity, commercial bribes and kickbacks, whistle blowing policy, record retention policy, outsourcing arrangements. in accordance with SEBI Risk Management Framework and get the same approved by the Board of AMC and Trustee Company.
- Ensure identification and communication of regulatory updates to the respective functions and CXOs and monitor implementation.
- Provide inputs to CRO to define risk threshold and risk appetite of Compliance Function/ Department.
- Provide relevant information to CRO regarding monthly/quarterly risk reporting to the Committees.
- For the relevant functional risks, identify, analyze and report the following to the CRO and CEO along with recommended action plan for:
  - Early warning signals
  - Emerging risks
  - Major findings
  - Near miss and loss events
  - Fraud incidents

The escalation of such incidents should be based on the escalation matrix provided/ approved by CRO.

- Review the risk level for the functional risk is in accordance with the approved risk threshold and risk metric.
- Ensure adherence with the DoP framework.
- Formulate, review and update the RCSA for key Compliance risks and controls.
- Perform and report outcomes of periodic testing of the RCSA to CRO.
- Identify and implement corrective actions/recommend action plans for deviations in the controls and present to CRO/ CEO.
- Ensure adherence to the SEBI Risk Management Framework.
- Ensure that roles and responsibilities as per the RMF is disclosed on the AMC website.

### Key Result Areas

- Adherence to Risk Management Framework.
- Compliance with roles and responsibilities and DoP framework.
- Risks and inconsistencies identified and reported to CEO / CRO.
- Timely reporting of identified risks and outliers to CEO / CRO.
- Timely implementation of corrective actions for the risks and deviations relating to compliance function.



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- Timely reporting of fraud, loss and near miss events relating to Compliance function.
- Timely reporting to the Regulator, Board of AMC and Trustee Company.
- Ensure adequacies in disclosure of SID/ Offer Documents.
- Identification and timely implementation of regulatory changes.
- Risk incidents / events beyond the defined thresholds or tolerance limits, or the elements in the risk registers which are mapped to the compliance function.



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## 1.5. Head Operations

### Roles & Responsibilities

- Responsible for the governance of operational risks.
- Provide inputs to CRO to define risk threshold and risk appetite.
- Define and delegate roles to the key personnel within the operations function for identifying and reporting risks.
- Provide relevant information to CRO regarding the risk reports.
- For the relevant functional risks, identify, analyze and report the following to the CRO and CEO along with recommended action plan for:
  - Early warning signals
  - Emerging risks
  - Major findings
  - Near miss and loss events
  - Fraud incidents

Ensure escalation of such incidents as per the escalation matrix approved by CRO.

- Perform adequate due diligence of outsourced vendors prior to onboarding.
- Ensure periodic assessment of outsourced vendors .
- Monitor outliers findings identified during periodic assessment of outsourced vendors and recommend and monitor implementation.
- Ensure implementation of an integrated investment management system across front office, mid office, and back office.
- Ensure risk level are in accordance to the approved risk threshold and risk metric.
- Ensure adherence with the DoP framework.
- Formulate, review and periodically provide inputs to update the RCSA for key risks and controls
- Perform and report outcomes of periodic testing of the RCSA to CRO.
- Identify and implement corrective actions / recommend action plans for deviations in the controls and present to CRO/ CEO.
- Ensure adherence to the SEBI risk management framework.

### **Key Result Areas**

- Adherence to Risk Management Framework
- Compliance with roles and responsibilities and DoP framework
- Risks and inconsistencies identified and reported to CEO / CRO
- Timely reporting of identified risks and outliers to CEO / CRO
- Timely implementation of corrective actions for the risks and deviations
- Timely reporting of fraud, loss and near miss events in the respective functions
- Breach of approved threshold relating to risk appetite and risk metrics



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- Deviations / risks identified on outsourced vendor due diligence or internal review
- Risk incidents / events beyond the defined thresholds or tolerance limits



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## 1.6. Chief Financial Officer

### Roles & Responsibilities

- Responsible for the governance of financial accounting and reporting risks.
- Formulate and implement policy for mutual fund accounting and obtain approval from the Board of AMC.
- Provide inputs to CRO to define risk threshold and risk appetite.
- Define and delegate roles to the key personnel within the finance / accounting function for identifying and reporting risks.
- Provide relevant information to CRO regarding the risk reports.
- For the relevant functional risks, identify, analyze and report the following to the CRO and CEO along with recommended action plan for:
  - Early warning signals
  - Emerging risks
  - Major findings
  - Near miss and loss events
  - Fraud incidentsEnsure escalation of such incidents as per the escalation matrix approved by CRO.
- Ensure adequate segregation of duties within the finance function for accounting related activities for scheme and AMC
- Review the risk level are in accordance with the approved risk threshold and risk metric.
- Ensure adherence with the DoP framework.
- Formulate, review and periodically provide inputs to update the RCSA for key risks and controls.
- Perform and report outcomes of periodic testing of the RCSA to CRO.
- Identify and implement corrective actions / recommend action plans for deviations in the controls and present to CRO/ CEO.
- Ensure adherence to the SEBI risk management framework.
- Formulate procedure documents and implement process to perform periodic testing of internal controls over financial reporting of Mutual Fund schemes.

### Key Result Area

- Adherence to Risk Management Framework
- Compliance with roles and responsibilities and DoP framework
- Risks and inconsistencies identified and reported to CEO / CRO
- Timely reporting of identified risks and outliers to CEO / CRO
- Timely implementation of corrective actions for the risks and deviations
- Timely reporting of fraud, loss and near miss events in the respective functions
- Breach of approved threshold relating to risk appetite and risk metrics



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- Reporting of major gaps identified across MF schemes during Internal Financial Control (“IFC”) review
- Delayed / non implementation of action plan to mitigate IFC gaps
- Risk incidents / events beyond the defined thresholds or tolerance limits



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## **1.7. Chief Information Security Officer (“CISO”)**

### **Roles & Responsibilities**

- Develop, implement and monitor comprehensive information security and IT risk management program for the AMC and Mutual Fund Applications
- Formulate and implement Information Security Framework and policies and obtain approval from the Board of AMC
- Liaise with the business units to facilitate risk assessment and risk management processes governing the applications and systems being used
- Assess and Actively manage new and emerging cyber security risks
- Ensure Company’s digital assets and client information and privacy controls are safeguarded from cyber attacks
- Conduct VAPT risk assessments for identifying vulnerabilities
- Ensure adherence to the SEBI risk management framework.
- Formulate, review and periodically provide inputs to update the RCSA for key risks and controls.
- Perform and report outcomes of periodic testing of the RCSA to CRO.
- Identify and implement corrective actions / recommend action plans for deviations in the controls and present to CRO/ CEO.

### **Key Result Areas**

- Adherence to Risk Management Framework
- Compliance with roles and responsibilities
- Risks and inconsistencies identified and reported to CEO / CRO
- Timely reporting of identified risks and outliers to CEO / CRO
- Timely implementation of corrective actions for the risks and deviations
- Risk incidents / events beyond the defined thresholds or tolerance limits
- Timely reporting of cyber incidents, downtime etc.



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## 1.8. Chief Business Officer (“CBO”)

### Roles & Responsibilities

- Responsible for the governance of business risks including distribution risks.
- Provide inputs and relevant information to CRO to define risk threshold and risk appetite and relevant reports
- Define and delegate roles to the key personnel with regards to distribution aspects for identifying and reporting risks
- For the relevant functional risks, identify, analyze and report the following to the CRO and CEO along with recommended action plan for:
  - Early warning signals
  - Emerging risks
  - Major findings
  - Near miss and loss events
  - Fraud incidents
- Review the risk level for the functional risk is in accordance with the approved risk threshold and risk metric.
- Ensure adherence with the DoP framework
- Formulate, review and periodically provide inputs to update the RCSA for key risks and controls
- Perform and report outcomes of periodic testing of the RCSA to CRO
- Identify and implement corrective actions / recommend action plans for deviations in the controls and present to CRO/ CEO
- Ensure adherence to the SEBI risk management framework
- Monitor the distribution channels and miss-selling incidents reported such as –
- Number of mis-selling incidents
- Negative comments in the inspection report relating to distribution
- Analysis of the portfolio of investors e.g. nature of investments vis-à-vis risk appetite of investor

### Key Result Areas

- Adherence to Risk Management Framework
- Compliance with roles and responsibilities and DoP framework
- Risks and inconsistencies identified and reported to CEO / CRO
- Timely reporting of identified risks and outliers to CEO / CRO
- Timely implementation of corrective actions for the risks and deviations
- Timely reporting of fraud, loss and near miss events in the respective functions



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- Breach of approved threshold relating to risk appetite and risk metrics
- Instances of mis-selling reported and actions taken Risk incidents / events beyond the defined thresholds or tolerance limits



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## 1.9. Chief Technology Officer (“CTO”)

### Roles & Responsibilities

- Ensure Risk Management for Technology risks faced by the organization
- Ensuring compliance to Technology aspects specified under Cyber Risk and Information Security Policy
- Operational Risk related to activities of Technology function
- Responsibility for all risks from IT services including the activities outsourced to vendors
- Ensure adherence to the SEBI risk management framework.
- Formulate, review and periodically provide inputs to update the RCSA for key risks and controls.
- Perform and report outcomes of periodic testing of the RCSA to CRO.
- Identify and implement corrective actions / recommend action plans for deviations in the controls and present to CRO/ CEO.

### Key Result Areas

- Adherence to Risk Management Framework
- Compliance with roles and responsibilities and DoP framework
- Risks and inconsistencies identified and reported to CEO / CRO
- Timely reporting of identified risks and outliers to CEO / CRO
- Timely implementation of corrective actions for the risks and deviations
- Breach of approved threshold relating to risk appetite and risk metrics