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India Mutual Fund

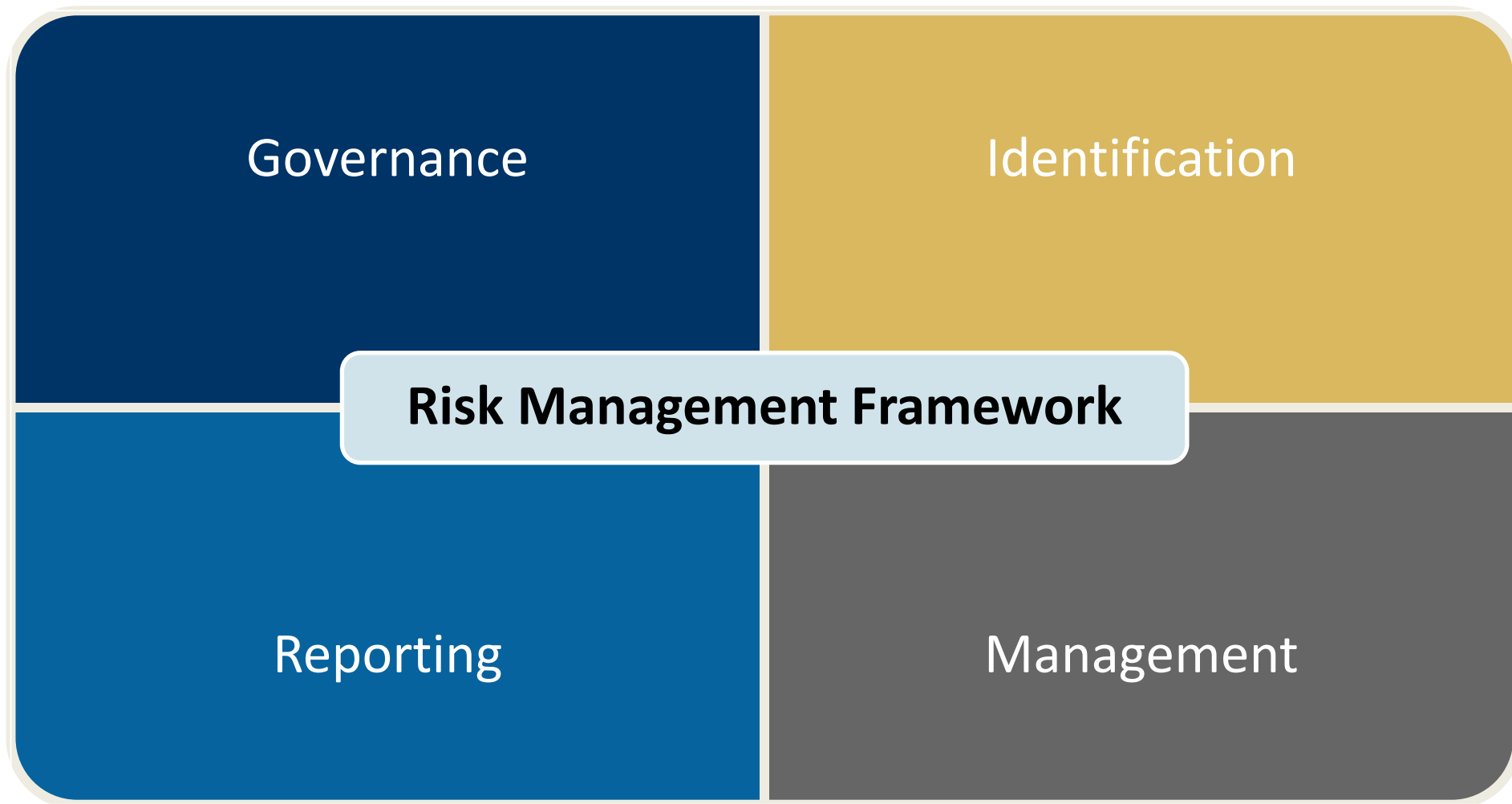
# Risk Management Framework

July, 2023 | Ver. 1.1


































# Components of Risk Management Framework

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# Risk Management Framework

Governance Structure	Risk Areas Covered	Risk Essentials
Boards 	Scheme specific risks  	Fund-level risk appetite  
Risk Management Committees  	AMC specific risks  	Firm-level risk appetite  
Management 		CXO / DH level accountability  
Executive Committees 		Risk Reporting at various levels  
CXOs & Departmental Heads 		Risk aware workforce 
Risk Identification	Risk Treatment	Risk Measurements
Three lines of Defense 	Accept	Risk-o-meter / PRC matrix 
Top Risks tracking 	Reduce	LR-RAR / LR-CRAR limits 
Controls Assessment 	Avoid	Stress Testing Reports  
RCA for Incidents 	Transfer	Key Risk Indicators  
Ears to ground External factors 	Exploit / Leverage	Incident Reporting 

 In Place     
  Needs more work     
  Not in place

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# Risk Governance



# Governance Structure



# Boards & RMCs – Roles & Responsibilities

## Boards (AMC/Trustee)

- ▲ Approve:
  - ✧ Risk Management Framework, Policies and Procedures
  - ✧ Risk metrics at Scheme Level
- ▲ Define, review and approve risk appetite framework (*AMC and Schemes*)
- ▲ Setting up of risk management function
- ▲ Approve responsibilities and policy on risk-based KRAs for CEO and 1 down
- ▲ Monitoring of actual risk vis-à-vis risk appetite at scheme level (*Periodic and Event Based*)
- ▲ Review action taken report on matters related to risk management
- ▲ Annual review of effectiveness of risk management function, policies, risk metrics to achieve risk outcomes
- ▲ Approve methodology for board evaluation of risk management framework

## Risk Management Committees (AMC/Trustee)

- ▲ Assist Board in discharge of its duties under the circular
- ▲ Define and review Risk Management framework (*AMC and Schemes*)
- ▲ Quarterly RMC Meetings to review risks
- ▲ Risk reporting to Boards
- ▲ Annual risk review

# Management – Roles & Responsibilities (1/2)

## Management

- ▲ Oversee risk management function
- ▲ Keep Boards informed on new and emerging risks
- ▲ Quarterly risk reporting to Boards
- ▲ Establish an organization-wide risk-conscious culture
- ▲ Include risk management as parameter for performance appraisal upto two levels below CEO
- ▲ Establish HR practices to align to expected standards on integrity, ethical behaviour, competence and risk management

## CEO

- ▲ Responsible for all risks at AMC and Scheme level
- ▲ Define risk appetite framework for schemes and AMC
- ▲ Monthly review of outcomes of risk management function. Approve corrective action on findings.
- ▲ Define risk management responsibilities and risk metrics for CXOs
- ▲ Ensure adherence to SEBI guidelines on RMF
- ▲ Board reporting, escalation of major findings

# Management – Roles & Responsibilities (2/2)

CIO	Other CXOs	CRO
<ul style="list-style-type: none"> <li>▲ Risk management and reporting related to Investment Risk</li> </ul>	<ul style="list-style-type: none"> <li>▲ Risk Governance responsibility for respective areas</li> </ul>	<ul style="list-style-type: none"> <li>▲ Implement RMF framework across organisation</li> </ul>
<ul style="list-style-type: none"> <li>▲ Adherence to SEBI guidelines on RMF (<i>Identification, Management, Reporting, Corrective Actions</i>)</li> </ul>	<ul style="list-style-type: none"> <li>▲ Adherence to SEBI guidelines on RMF (<i>Identification, Management, Reporting, Corrective Actions</i>)</li> </ul>	<ul style="list-style-type: none"> <li>▲ Review management and Fund Managers responsibilities</li> </ul>
<ul style="list-style-type: none"> <li>▲ Defining FM responsibilities</li> </ul>	<ul style="list-style-type: none"> <li>▲ Defining risk management responsibilities of key personnel</li> </ul>	<ul style="list-style-type: none"> <li>▲ Independent risk assessment for reporting to Committees, CEO.</li> </ul>
<ul style="list-style-type: none"> <li>▲ Adhere to risk appetite framework - <i>Maintain risk levels for schemes</i></li> </ul>	<ul style="list-style-type: none"> <li>▲ Maintain risk as per risk metric</li> </ul>	<ul style="list-style-type: none"> <li>▲ Establish risk metrics</li> </ul>
<ul style="list-style-type: none"> <li>▲ Compute Risk - <i>Weighted average of risk-o-meter and events of default</i></li> </ul>	<ul style="list-style-type: none"> <li>▲ Escalate major findings/non-compliance to CEO/CRO. Implement corrective action</li> </ul>	<ul style="list-style-type: none"> <li>▲ Monthly risk reporting to CEO. Quarterly risk reporting to RMCs and Boards – <i>Metrics, Incidents, Major findings, Corrective action.</i></li> </ul>
<ul style="list-style-type: none"> <li>▲ Escalate corrective actions taken to CEO, CRO</li> </ul>	<ul style="list-style-type: none"> <li>▲ Risk reporting to CRO</li> </ul>	<ul style="list-style-type: none"> <li>▲ Board approved DoP for risk management</li> </ul>

Roles and Responsibilities of Fund Manager also listed in the Circular. To include day-to-day management of Investment Risk for the schemes handled by the FM.



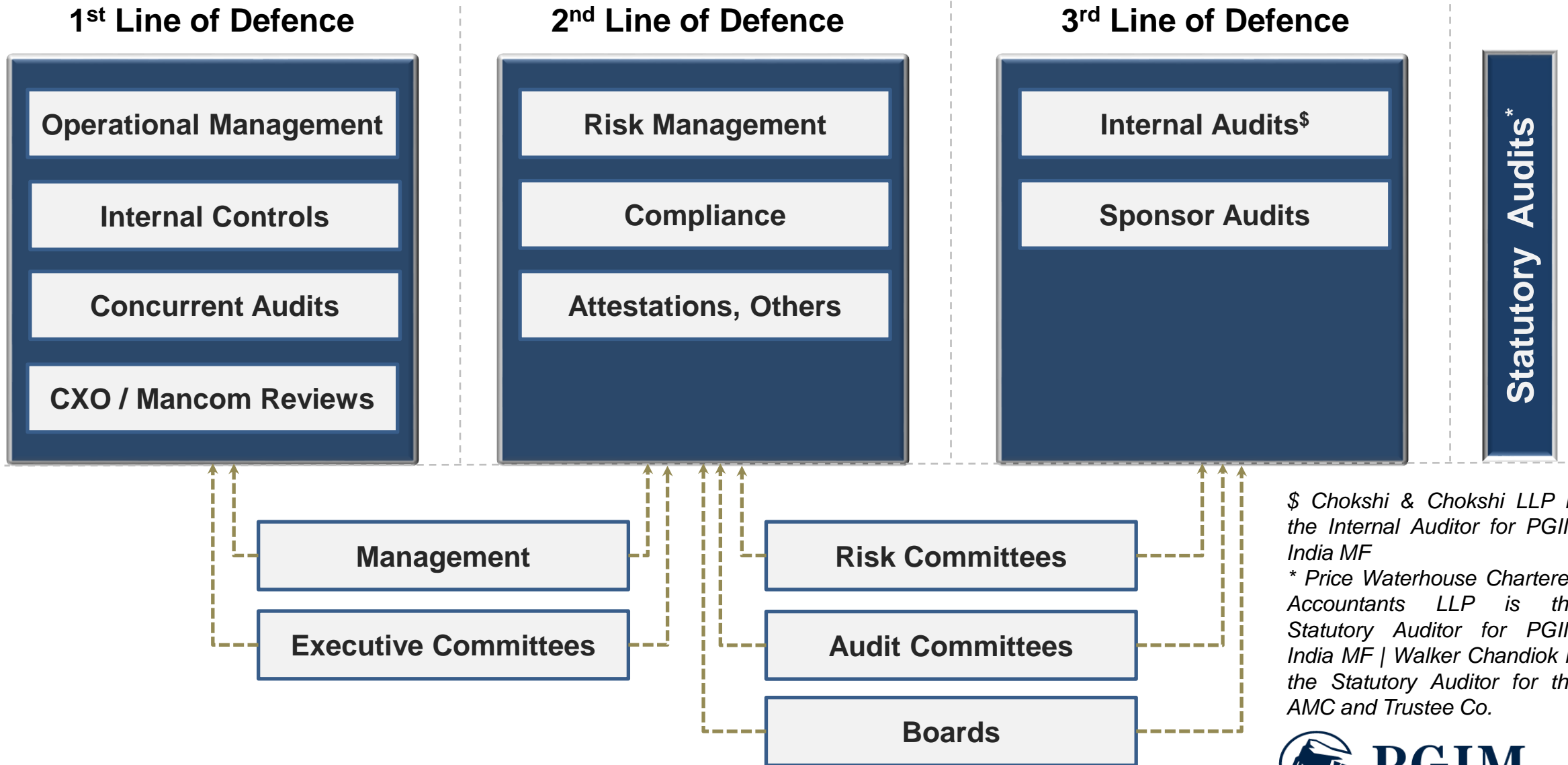
# Accountability & Responsibility Grid - Line Management

	Type of Risk	Accountability	Responsibility
1	Investment Risk	CIO	Heads – Equity, Fixed Income & PMS
2	Credit Risk	CIO	Head – Fixed Income
3	Liquidity Risk	CIO	Heads – Equity, Fixed Income & PMS
4	Governance Risk	CIO	Heads – Equity, Fixed Income & PMS
5	Operational Risk	COO	Functional Heads
6	Technology Risk	COO	Head – Technology, CISO
7	Reputation Risk	CEO & CBO	Head – Marketing & Corporate Communication
8	Outsourcing Risk	COO	Functional Heads
9	Sales & Distribution Risk	CEO & CBO	Regional Sales Heads
10	Financial Reporting Risk	COO	Head – Finance & Head – MF Operations
11	Legal & Tax Risk*	COO* & Compliance Officer	Head – Finance* & Head – MF Operations*
12	Talent Risk	CEO	Head – HR
13	Compliance Risk	Compliance Officer	Compliance Officer

\* For Tax Risk

Note : Certain risk areas may not lend itself to a 1-to-1 accountability grid and may spread across functions.

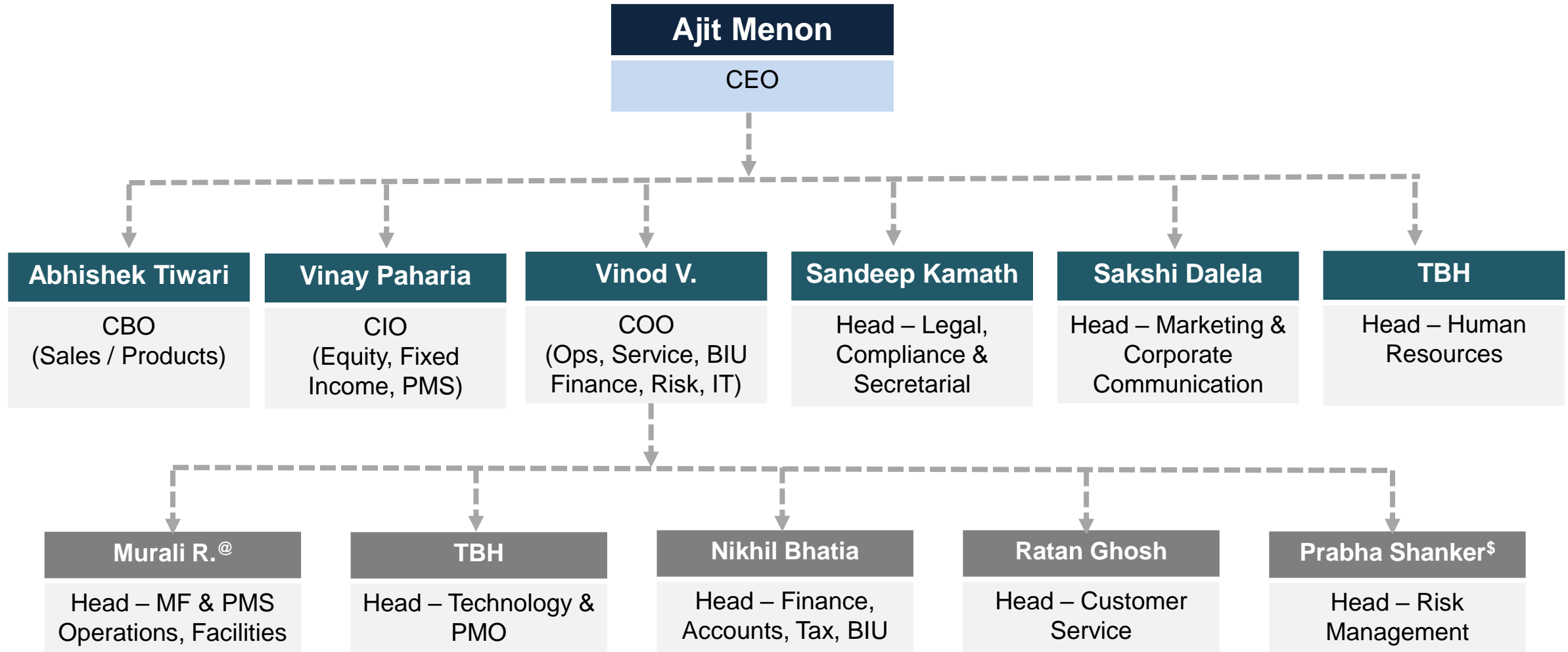
# Lines of Defence



<sup>\$</sup> Chokshi & Chokshi LLP is the Internal Auditor for PGIM India MF

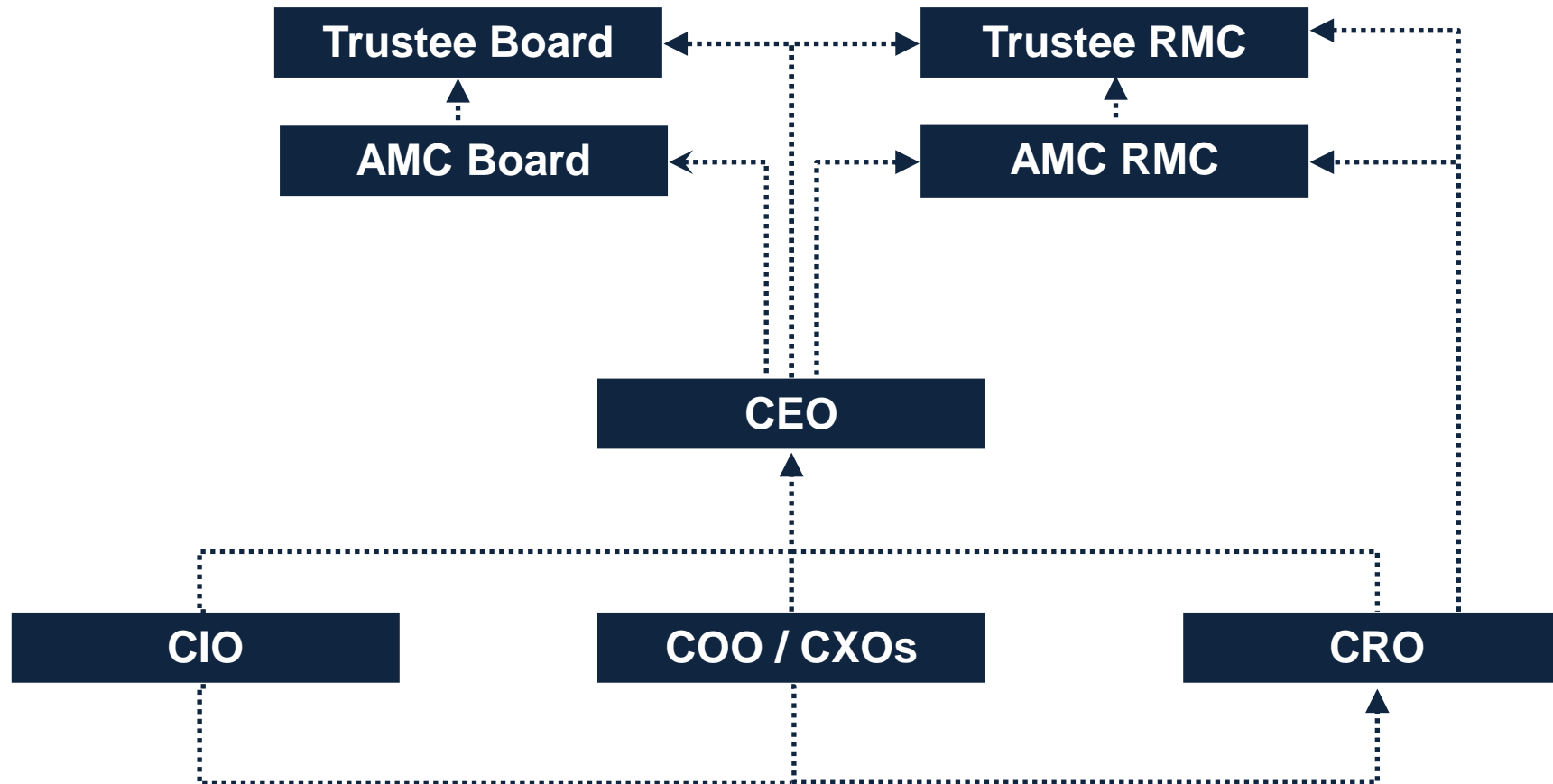
\* Price Waterhouse Chartered Accountants LLP is the Statutory Auditor for PGIM India MF | Walker Chandiook is the Statutory Auditor for the AMC and Trustee Co.

# Management – Organization Structure



@ Designated Investor Relations Officer | \$ Supports Audit Coordination across functions

# Risk Reporting Structure



- ▲ Overall risk management responsibility resides with the CEO
- ▲ From a risk reporting perspective, CRO has independent reporting to the CEO and has reporting line to the Risk Management Committees of the AMC and Trustee Company
- ▲ CIO and other CXOs required to report risk matters to CEO and CRO.



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# Risk Areas Covered



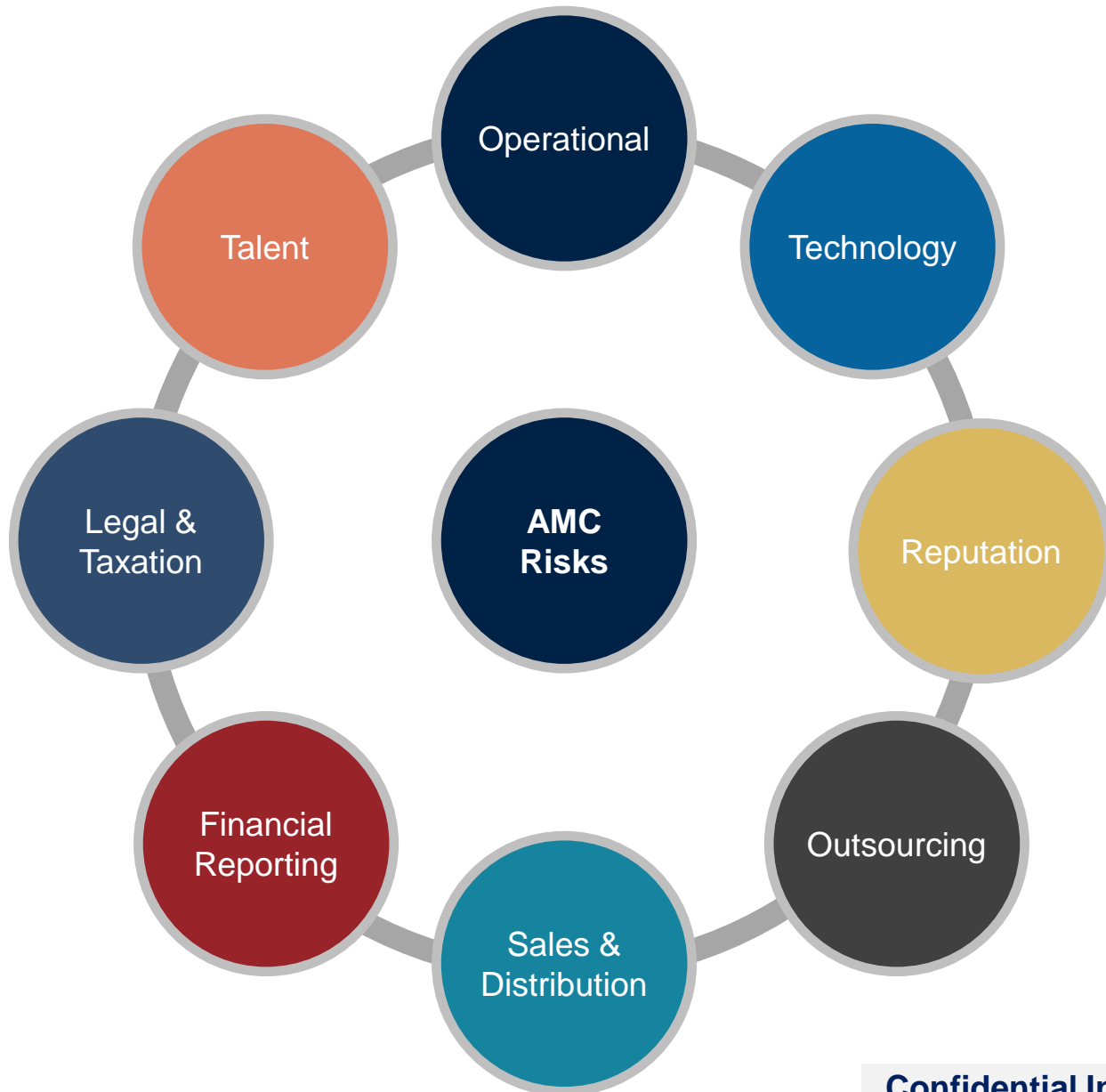
# Risk Coverage – Mutual Fund Schemes



Investment Risk	
... Investment risk profile defined in SID, Statutory disclosures	In Place
... Well-researched universe ; Limited FM Discretion	In Place
... Issuer, Sectoral, Group, Asset class exposure limits	In Place
... Robust monitoring, reporting and policy controls	In Place
Credit Risk	
... Researched Credit Universe	In Place
... Counterparty, Sectoral, Group exposure limits	In Place
... Proprietary internal credit assessment framework	In Place
Liquidity Risk	
... Mandatory stress testing	In Place
... Tracking of ALM mismatches	In Place
... Funding plans for normal and stressed events	Needs more work
Governance Risk	
... Stewardship (Governance, ESG, Conflict of Interest)	In Place

■ In Place      ■ Not in place  
■ Needs more work

# Risk Coverage – Asset Management Company



- ▶ ORM Framework in place to address most elements of Operational Risk
- ▶ Key Risk Indicators covering all key functions being published on monthly basis.
- ▶ Monthly incident reporting for all critical incidents
- ▶ Policies in place for most areas.
- ▶ Specialist consultants in areas of taxation / law
- ▶ Service performance review mechanisms in place for outsourced service providers
- ▶ Checks and balances for Financial Reporting in place.
- ▶ Cyber Insurance being evaluated



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# Risk Identification





# Risk Identification

Controls Assessment

Tolerance Threshold Breaches<sup>\$</sup>

Incident Root Cause Analysis

Top Risks Review

Customer Complaints Review

Employee Feedback

Insights from Data

Signals from External Sources

Audit Reviews

 In Place

 Needs more work

 Not in place



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# **Risk Assessment & Measurement**



# Risk Assessment

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## Probability of Occurrence

Likelihood of occurrence of a risk event in a defined time window



## Impact of Occurrence

Impact of occurrence of the risk event along the below dimensions

Financial

Reputational

Regulatory

Operational

Client



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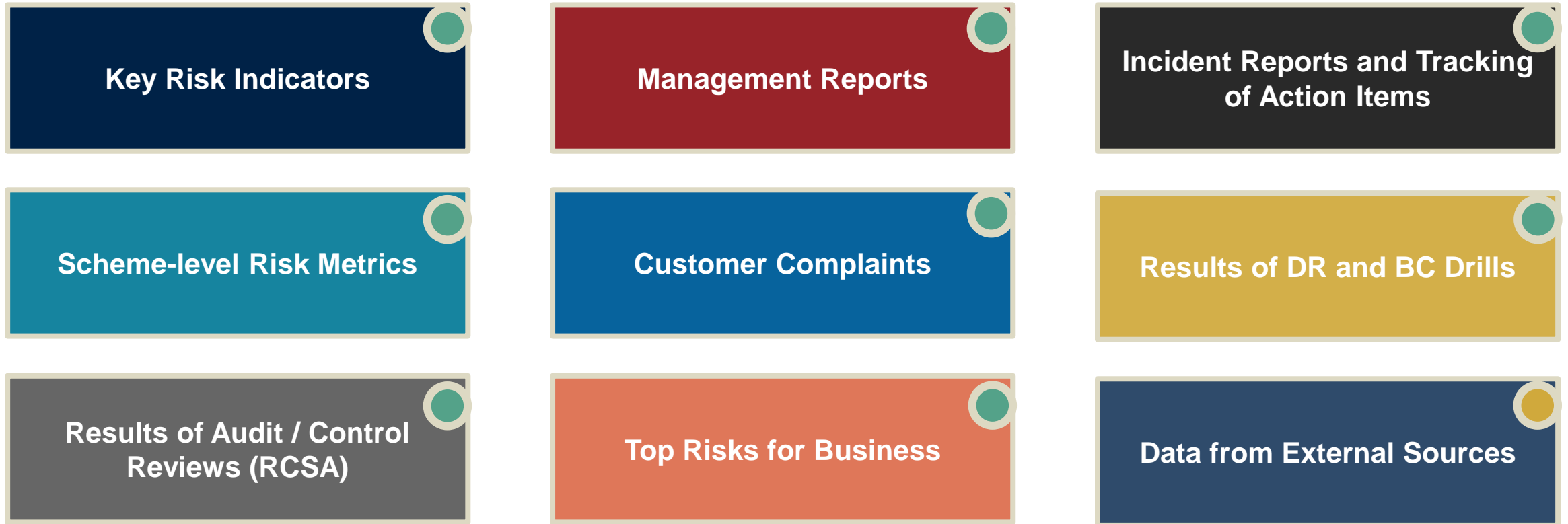
# Risk Assessment

Impact Type	Low (1-4)	Medium (5-7)	High (8-10)
<b>Financial</b>	Percentage of revenue <1%	Percentage of revenue 1-5%	Percentage of revenue >5%
<b>Reputational</b>	Minor and/or no impact, quickly resolved with limited or no publicity.	Moderate impact or sensitive in nature, is publicized at the local or regional level, and identification and/or resolution is not immediate.	Severe impact and sensitive to severe in nature, is publicized at a national or global level causing customer or market participant distrust, identification and/or resolution is not immediate.
<b>Legal/Regulatory</b>	Observations / recommendations from a regulator that don't warrant a formal adverse penalty. Any regulatory action taken likely to be suggestions or advisory in nature.	Official findings of violations by a regulator. Regulator issued corrective measures, minor fines/penalties, and/or some degree of additional regulatory attention.	Considerable fines, punishments, and/or substantial extended or additional scrutiny from regulator. Includes alterations/revocations of regulatory status, changes imposed on business activities.
<b>Operational</b>	Short-term service or operations failure affecting, an isolated customer group, product or specific processes. Resolved with no client or business impact.	Prolonged failure of service or operations failure affecting a broader customer group, product, or one or more business processes. Limited client impact with quick resolution.	Prolonged and/or widespread service or operations failure affecting broad customer group(s) products, and/or has a pervasive impact on additional processes or the entity as a whole. Negative client impact which requires remediation and may draw regulatory scrutiny.
<b>Client</b>	Limited or no harm to clients/no outreach to clients required and is unlikely to impact customers.	Minor/moderate harm to clients leading to customer dissatisfaction.	Prolonged, widespread, or significant harm to clients leading to loss of customers.


Probability*	Probability Score
Not Likely	1 – 3
Somewhat Likely	4 – 7
Very Likely	8 - 10



\* Likelihood of the risk to occur during a rolling 6-month period

# Risk Measurement - Overall



← Early Warning Signals across Measurement Tools →

 *In Place*

 *Needs more work* 

# Risk Measurement - Schemes

Risk-o-Meter

Stress Testing Reports

Credit Quality Review

Potential Risk Classification Matrix

ALM Reports


Portfolio Attribution Reports


Liquidity Reports  
(LR-RAR / LR-CRAR)

Exposure Limits  
(Asset Class / Sector / Group / Issuer)

Quantitative Risk Metrics

← Early Warning Signals across Measurement Tools →

 In Place

 Needs more work

 Not in place



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# Risk Reporting



# Risk Reporting

Report Type	Prepared By	Submitted To	Frequency
1) Material risk observations to SEBI	Board	SEBI	Periodic
2) Key risks and risk metrics ( <i>AMC &amp; Scheme level</i> )	Management <sup>\$</sup>	Board	Annual
3) Key risks and risk metrics ( <i>AMC &amp; Scheme level</i> )	Management	RMC	Quarterly
4) Risk Reporting ( <i>Risk metrics, Material risk incidents</i> )	Management	Board	Quarterly
5) Results of stress testing	Board	SEBI	Periodic
6) Results of stress testing	Management	Boards	Quarterly
7) Outcomes of Risk Management Function	Risk Officer	CEO/ Boards	Monthly/Quarterly
8) Major risk related findings by CXO	CXO	CRO	Event based
9) Fraud alerts reporting	Management	Boards	Quarterly
10) Report of review to be placed before Boards	Compliance	Boards	Quarterly/ Annual
11) Internal audit report ( <i>internal audit score tracker</i> )	Internal Auditor	Audit Committee/AMC Board	Quarterly
12) Half-yearly Trustee report to include findings from risk management review	Compliance	Boards	Half-yearly

*\$ Can also be from third party*

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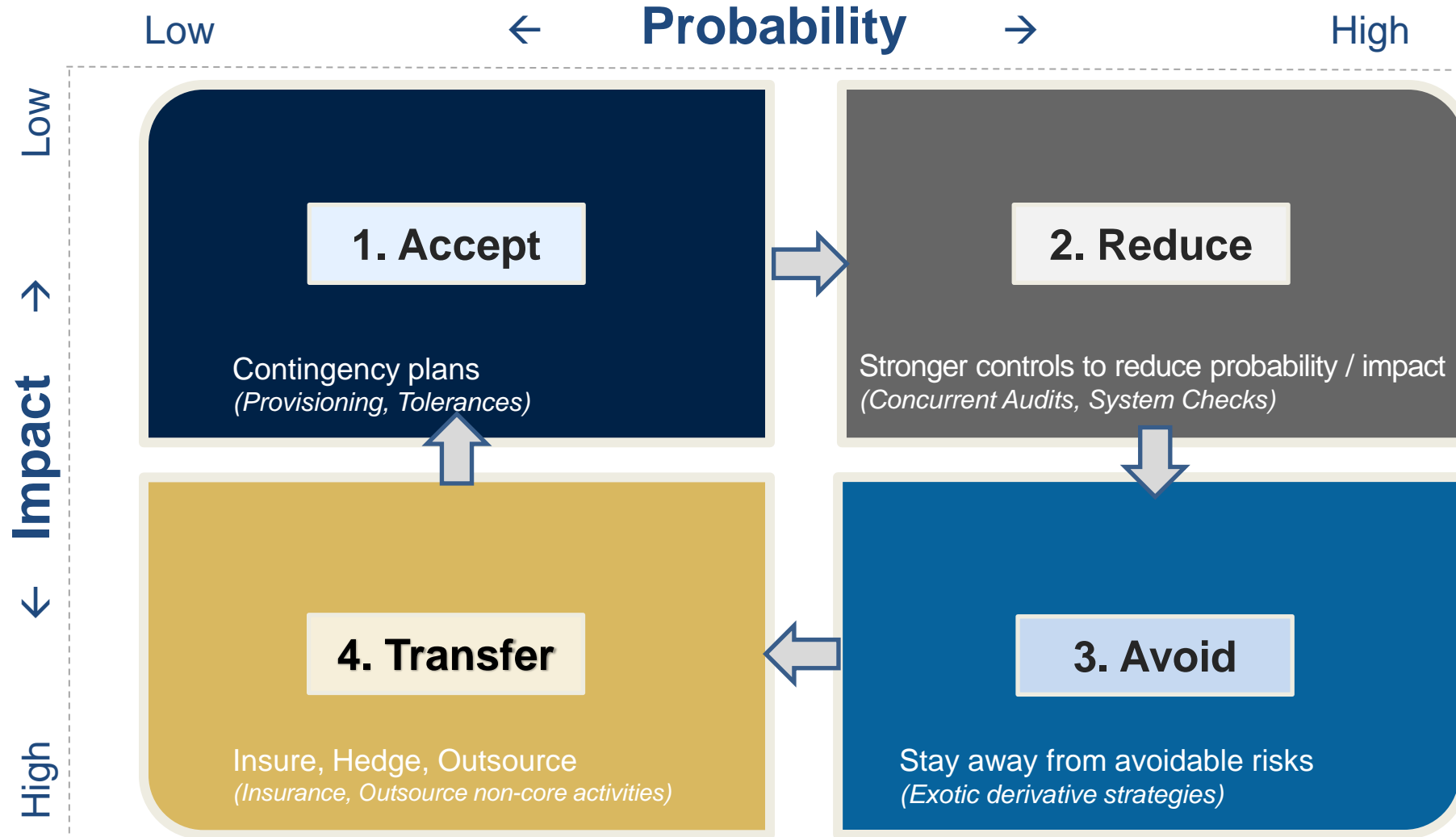


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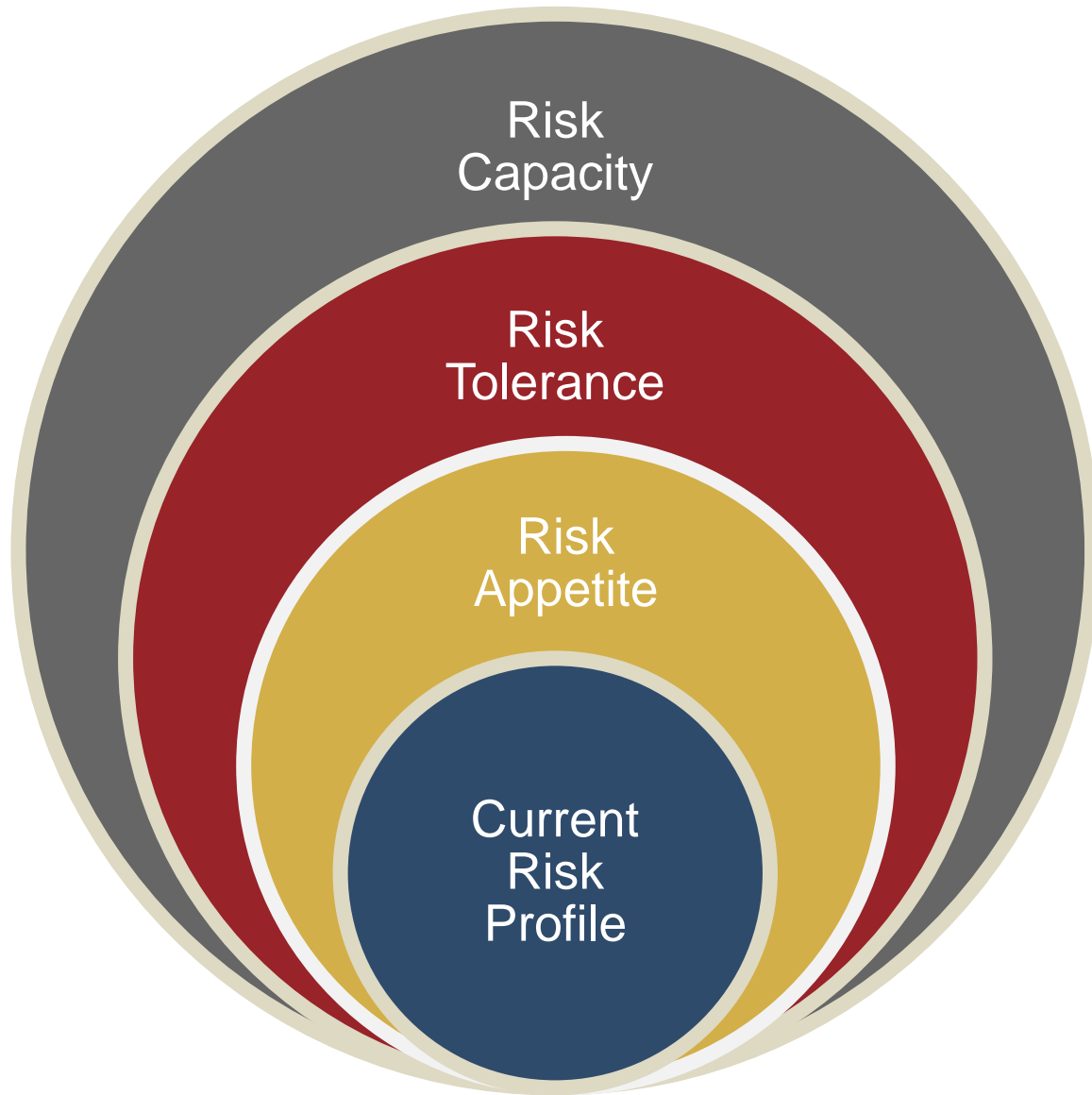
# Risk Management



# Risk Management Strategies



# Risk Appetite



Current level of risk taken by firm / schemes

*E.g. Current positioning under Risk-o-meter or PRC matrix*



Amount of risk organisation is willing to accept in pursuit of its long term objectives

*E.g. Lower cap on credit quality ; Max. cap on exposure to a particular security*



Amount of risk organisation is willing to tolerate temporarily beyond its defined risk appetite

*E.g. Near term breach in limits, etc.*



Amount of risk organisation has ability to sustain beyond its defined risk appetite / tolerance

*Financial strength of the firm to sustain shocks without risking survival*

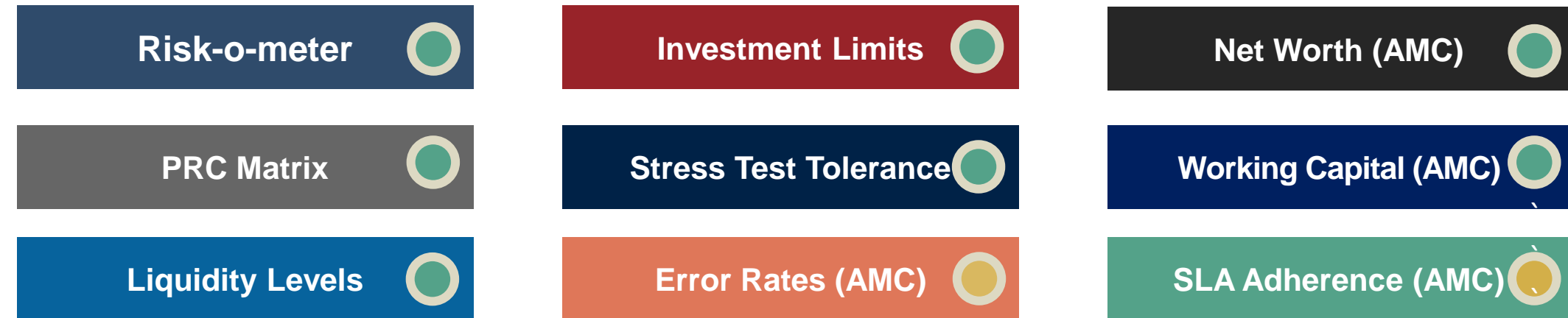





# Risk Appetite Framework

## Qualitative Risk Expressions – To fulfill our promises to customers



## Indicative Quantitative Measures



 *In Place*     *Needs more work*     *Not in place*



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# Annexures



# Audit Committees – AMC and Trustee Co.

Board

## PGIM India AMC\*

	Name	Role
1.	Dr. V R Narasimhan	Chairperson
2.	Mr. Muralidharan Rajamani	Member
3.	Mr. Indy Reddy	Member

## Frequency of Meetings

Quarterly

## Quorum

2

## Convened by

Compliance Officer

## Terms of Reference

Refer Audit Committee Charter

## Reporting to

AMC Board / Trustee Board

## PGIM India Trustee Company

	Name	Role
1.	Mr. Sidhartha Pradhan	Chairperson
2.	Mr. K Kumar	Member
3.	Mr. Sopun Leng	Member

\* *SEBI Circular dated Feb 09, 2022 mandates certain changes to constitution of our current Audit Committee. The change takes effect from April 1, 2023.*

# Risk Committees – AMC and Trustee Co.

Board

## PGIM India AMC

	Name	Role
1.	Mr. Muralidharan Rajamani	Chairperson
2.	Mr. Indy Reddy	Member

### Frequency of Meetings

Quarterly

### Convened by

Risk Officer

### Terms of Reference

Refer Risk Committee Charter

### Reporting to

AMC Board / Trustee Board

## PGIM India Trustee Company

	Name	Role
1.	Mr. N Sivaraman	Chairperson
2.	Mr. Sopun Leng	Member

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# Investment Committees - Mutual Fund & PMS

Executive

## PGIM India Mutual Fund

	Name	Role
1.	Mr. Ajit Menon, CEO	Chairperson
2.	Mr. Vinay Paharia, CIO	Member
3.	Mr. Vinod Venkateswaran, COO	Member
4.	Mr. Puneet Pal, Head – Fixed Income	Member
5.	Mr. Sandeep Kamath, Compliance Officer	Member
6.	Ms. Prabha Shanker, Risk Officer	Member

Frequency of Meetings
MF - Monthly / PMS - Quarterly

Quorum
CEO/CO or CIO + 2

Convened by
Investments Team

Terms of Reference
Defined in Investment Manual

Reporting to
AMC Board / Trustee Board

## PGIM India PMS

	Name	Role
1.	Mr. Ajit Menon, CEO	Chairperson
2.	Mr. Vinod Venkateswaran, COO	Member
3.	Mr. Sandeep Kamath, Compliance Officer	Member
4.	Ms. Prabha Shanker, Risk Officer	Member
5.	Mr. Surjitt Arora	Member

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# Valuation Committee (MF)

Executive

	Name	Role
1.	Mr. Ajit Menon, CEO	Chairperson
2.	Mr. Vinay Paharia, CIO	Member
3.	Mr. Vinod Venkateswaran, COO	Member
4.	Mr. Puneet Pal, Head – Fixed Income	Member
5.	Mr. Sandeep Kamath, Compliance Officer	Member
6.	Ms. Prabha Shanker, Risk Officer	Member
7.	Mr. Murali Ramasubramanian, Director - Operations	Convenor

## Frequency of Meetings

Need Based. At least annually

## Quorum

3  
(CEO / Compliance Officer + CIO mandatory)

## Convened by

Director – Operations

## Terms of Reference

Defined in Valuation Policy

## Reporting to

AMC Board

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# Technology Committee

Executive

	Name	Role
1.	Mr. Ajit Menon, CEO	Chairperson
2.	Mr. Vinod Venkateswaran, COO	Member
3.	Mr. Stanley Rajan, VP-Systems, PI Investments	Member
4.	Mr. Amit Gupta, Independent Expert	Member
5.	Ms. Prabha Shanker, Risk Officer	Member
6.	Ms. Snehal Pandav, AVP –Technology and PMO	Convenor

## Frequency of Meetings

Quarterly

## Convened by

AVP- Technology and PMO

## Terms of Reference

Defined in SEBI Circular

## Reporting to

AMC Board

## Quorum

CEO or COO + 2

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# Executive Risk Management Committee

Executive

	Name	Role
1.	Mr. Ajit Menon, CEO	Chairperson
2.	Mr. Vinod Venkateswaran, COO	Member
3.	Mr. Vinay Paharia, CIO	Member
4.	Mr. Abhishek Tiwari, CBO	Member
5.	Mr. Murali Ramasubramanian, Director – Operations	Member
6.	Ms. Sakshi Dalela, Head – Marketing	Member
7.	Ms. Disha Bhandary, Head – Human Resources	Member
8.	Ms. Snehal Pandav, AVP – Technology and PMO	Member
9.	Mr. Nikhil Bhatia, Head - Finance	Member
10.	Mr. Sandeep Kamath, Compliance Officer	Member
11.	Mr. Ratan Ghosh, Head – Customer Service	Member
12.	Mr. Aniruddha Naha – AIF and PMS	Member
13.	Mr. Srinivas Rao Ravuri	Member
14.	Ms. Prabha Shanker	Convener

## Frequency of Meetings

Quarterly

## Convened by

Risk Officer

## Terms of Reference

Defined in RMC Charter

## Reporting to

AMC Board

## Quorum

3

*(CEO / COO + Compliance Officer mandatory)*

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# Dividend Committee

Executive

	Name	Role
1.	Mr. Ajit Menon, CEO	Chairperson
2.	Mr. Vinod Venkateswaran, COO	Member
3.	Mr. Vinay Paharia, CIO	Member
4.	Mr. Abhishek Tiwari, CBO & Head – Products	Member
5.	Mr. Sandeep Kamath, Compliance Officer	Member
6.	Ms. Prabha Shanker, Risk Officer	Member

## Frequency of Meetings

Need based

## Convened by

Products Team

## Terms of Reference

Defined in Dividend Policy

## Reporting to

AMC Board

# Products and Pricing Committee

Executive

	Name	Role
1.	Mr. Ajit Menon, CEO	Chairperson
2.	Mr. Vinod Venkateswaran, COO	Member
3.	Mr. Vinay Paharia, CIO	Member
4.	Mr. Abhishek Tiwari, CBO	Member
5.	Mr. Sandeep Kamath, Compliance Officer	Member
6.	Mr. Murali Ramasubramanian, Head – MF Operations & Administration	Member
7.	Ms. Sakshi Dalela, Head – Marketing	Member
8.	Mr. Prabha Shanker, Risk Officer	Member
9.	Puneet Pal	Member

## Frequency of Meetings

Quarterly

## Convened by

Products Team

## Terms of Reference

Refer PGIM Product Pricing Committee Charter

## Reporting to

Management

# STR Committee

Executive

	Name	Role
1.	Mr. Murali Ramasubramanian, Director – Operations	Chairperson
2.	Mr. Vinod Venkateswaran, COO	Member
3.	Mr. Abhishek Tiwari, CBO	Member
4.	Mr. Sandeep Kamath, Compliance officer	Member
5.	Ms. Prabha Shanker, Risk Officer	Member

## Frequency of Meetings

Need based

## Convened by

Operations

## Terms of Reference

AML / STR review for reporting

## Reporting to

Management

# POSH Committee

Executive

	Name	Role
1.	Ms. Rinki Saraf, Human Resources	Presiding Officer
2.	Mr. Abhishek Tiwari	Associate Member
3.	Ms. Prabha Shanker	Associate Member
4.	Mr. Puneet Pal	Associate Member
5.	Ms. Niyati Shah	Associate Member
6.	Ms. Anuradha Maheshwari	Independent Member

## Frequency of Meetings

Need based

## Convened by

Human Resources

## Terms of Reference

POSH Act

## Reporting to

Management