BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

ADJUDICATION ORDER NO. Order/GG/AS/2022-23/17492-17496

UNDER SECTION 15-I OF THE SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992 READ WITH RULE 5 OF THE SEBI (PROCEDURE FOR HOLDING INQUIRY AND IMPOSING PENALTIES) RULES, 1995

In respect of:

S No	Name of Noticee	PAN
1	PGIM Asset Management Company	AACCD9994M
2	Ajit Menon	ABXPM9862C
3	Kumaresh Ramakrishnan	AAGPR4138Q
4	Puneet Pal	AJYPP7612E
5	Rakesh Suri	AVGPS5704A

In the matter of thematic inspection of PGIM India Mutual Fund

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A. BACKGROUND OF THE CASE

1. SEBI carried out a thematic inspection on Inter-Scheme Transfers (hereinafter referred to as "**IST**") of downgraded debt securities of PGIM India Mutual Fund (hereinafter referred to as "**PGIMMF**") for the period of August 01, 2018 to February 28, 2019 (hereinafter referred to as the "**Inspection period**"). The inspection was carried out in the office of PGIMMF, located in 2nd Floor, Nirlon House, Dr A.B. Road, Worli, Mumbai-400030 on December 17, 20 and 26, 2019, and February 07, 2020.

2. Subsequent to the Inspection of SEBI, it was observed that *interalia* PGIM Asset Management company (hereinafter referred to as "**AMC/ Noticee no: 1**"), Shri Ajit Menon, Shri Kumaresh Ramakrishnan, Shri Puneet Pal and Shri Rakesh Suri. (hereinafter referred to as "**Noticee Nos. 2 to 5**" respectively or by their individual names) (hereinafter collectively referred to as "**Noticees**") were in violation of certain provisions of SEBI (Mutual Funds) Regulations, 1996

(hereinafter referred to as “**MF Regulations**”), Circular No MFD/CIR/6/73/2000 dated July 27, 2000, and the same is the subject of the present adjudication proceedings.

B. APPOINTMENT OF ADJUDICATING OFFICER

3. SEBI initiated adjudication proceedings and appointed me as the Adjudicating Officer under Section 15-I of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as the “**SEBI Act**”) read with Rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as the “**Adjudication Rules**”), vide communication dated December 08, 2021 to inquire into and adjudge the violations alleged against the Noticees.

C. SHOW CAUSE NOTICE, REPLY AND PERSONAL HEARING

4. A common Show Cause Notice dated April 13, 2022 (hereinafter referred to as “**SCN**”) was issued against the Noticees. The SCN was issued to show cause as to why inquiry should not be initiated against the Noticees for the violation of provisions of Regulation 25(1), 25(2), 25(16), 25(6A), 25(6B) of the SEBI MF Regulations read with Clauses (4),(6),(8) and (9) of Fifth Schedule and related circulars and penalty be imposed under the provisions of Section 15(D)(b), 15(D)(f) and 15HB of the SEBI Act.

5. The crux of the allegations in the SCN was that the Noticees did not adhere to the extant provisions of the MF Regulations and Circular No MFD/CIR/6/73/2000 dated July 27, 2000 while executing ISTs between Open and Close Ended Schemes of PGIMMF, *interalia* by - recording misleading and/or incorrect rational for ISTs, executing ISTs which resulted in prejudice to other scheme holders, and also, by having a policy on Internal Grading of Issuer/ Security and Investment Limits which created arbitrage opportunity for the fund managers of open-ended schemes to transfer stressed securities to close ended schemes. The allegations have been elaborated and considered along with the replies of the Noticees, in the latter part of this order; after narration of the preliminary dates and events.

6. The common SCN dated April 13, 2022 was served on the Noticees via Speed Post Acknowledgement Due. Thereafter, Counsel for Noticees Mr Somasekhar Sundaresan appeared on behalf of the Noticees on May 20, 2022 and sought adjournment of the hearing to June 01, 2022, which was allowed.

7. Noticees submitted common reply dated May 31, 2022. During the course of hearing on June 01, 2022, Mr Somasekhar Sundaresan, Advocate, made submissions based on the reply dated May 31, 2022.

8. Further, the common SCN dated April 13, 2022 was also issued to one of the then CEOs of Noticee No: 1; who has submitted an application dated June 10, 2022 for settlement in terms of SEBI (Settlement Proceedings) Regulations, 2018. Therefore, he is kept out of the adjudication taken up in this order.

D. FACTUAL MATRIX

9. The SCN was based on SEBI's Thematic Inspection on ISTs of downgraded debt securities of PGIM MF. A brief overview of operations of PGIM MF as on February 28, 2019 is as below:

Table No: 1

Overview of operations of PGIMMF as on February 28, 2019

Total number of schemes (as on February 28, 2019)	*Value of ISTs (In INR crore)*		*Number of ISTs*		*Total value of buy and sell transactions across all schemes (excluding ISTs) (in INR crore)*		*Total number of buy and sell transactions across all schemes (excluding ISTs)*		*AUM across all schemes as on February 28, 2018 (in INR crore)*	*AUM across all schemes as on February 28, 2019 (in INR crore)*
	Debt security	*Equity security*	*Debt security*	*Equity security*	*Debt security*	*Equity security*	*Debt security*	*Equity security*		
46	*3,657.28*	*0*	*315*	*0*	*63,710.58*	*3,847.97*	*2,535*	*3,090*	*24,116.46*	*6,735.52*

10. There were 315 instances of ISTs in debt securities during the Inspection Period. Details of number of instances of ISTs along with the nature of schemes are as below:

Table No: 2

Details of ISTs undertaken during Inspection Period

Sr. no	Particulars	No. of instances
1	Open ended scheme to Closed ended scheme	60
2	Open ended scheme to Open ended scheme	240
3	Closed ended scheme to Closed ended scheme	2
4	Closed ended scheme to open ended scheme	13
Total		315

11. Further, 25 ISTs out of the 315 ISTs in debt securities were undertaken in downgraded securities (before or after IST). As brief summary of said 25 ISTs is as below:

Table No: 3

Summary of 25 ISTs

S No	Date of IST	Name of Transferor Scheme	Transferor Scheme Allotment Date	Type of Transferor Scheme (Close/Open ended)	Name of Transferee Scheme	Transferee Scheme Allotment Date	Type of Transferee Scheme (Close/Open ended)	Name of Security Transferred
1	08-Aug-18	DHFL Pramerica Arbitrage Fund	27-Aug-14	Open	DHFL Pramerica Fixed Duration Fund-Sr BC	08-Aug-18	Close	8.9% DHFL NCD RED 04-06-2021
2	09-Aug-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr BC	08-Aug-18	Close	10.25% S D CORPORATION NCD 17-04-2021
3	09-Aug-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr BC	08-Aug-18	Close	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021
4	31-Aug-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr BE	30-Aug-18	Close	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021
5	31-Aug-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr BE	30-Aug-18	Close	10.25% S D CORPORATION NCD 17-04-2021
6	06-Sep-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr BE	30-Aug-18	Close	8.9% DHFL NCD RED 04-06-2021
7	01-Oct-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr AR	14-Mar-18	Close	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021

S No	Date of IST	Name of Transferor Scheme	Transferor Scheme Allotment Date	Type of Transferor Scheme (Close/Open ended)	Name of Transferee Scheme	Transferee Scheme Allotment Date	Type of Transferee Scheme (Close/Open ended)	Name of Security Transferred
8	01-Oct-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr AT	21-Mar-18	Close	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021
9	01-Oct-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr BE	30-Aug-18	Close	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021
10	01-Oct-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr BC	08-Aug-18	Close	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021
11	08-Oct-18	DHFL Pramerica Medium Term Fund	06-Mar-14	Open	DHFL Pramerica Fixed Duration Fund-Sr AR	14-Mar-18	Close	8.45% JORABAT SHILLONG 01-03-21
12	08-Oct-18	DHFL Pramerica Medium Term Fund	06-Mar-14	Open	DHFL Pramerica Fixed Duration Fund-Sr AT	21-Mar-18	Close	8.45% JORABAT SHILLONG 01-03-21
13	08-Oct-18	DHFL Pramerica Medium Term Fund	06-Mar-14	Open	DHFL Pramerica Fixed Duration Fund-Sr BE	30-Aug-18	Close	8.45% JORABAT SHILLONG 01-03-21
14	17-Oct-18	DHFL Pramerica Medium Term Fund	06-Mar-14	Open	DHFL Pramerica Fixed Duration Fund-Sr AZ	15-Jun-18	Close	8.9% DHFL NCD RED 04-06-2021
15	17-Oct-18	DHFL Pramerica Dynamic Bond Fund	12-Jan-12	Open	DHFL Pramerica Fixed Duration Fund-Sr AZ	15-Jun-18	Close	8.9% DHFL NCD RED 04-06-2021
16	19-Oct-18	DHFL Pramerica Low Duration Fund	22-Jun-07	Open	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	8.15% VODAFONE MOBILE NCD RED 10-07-2019
17	26-Nov-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr AC	08-Mar-17	Close	9.50% BUSINESS BROADCAST NCD 07-02-2020
18	26-Nov-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr AA	30-Nov-16	Close	9.50% BUSINESS BROADCAST NCD 07-02-2020
19	26-Nov-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr AB	17-Feb-17	Close	9.50% BUSINESS BROADCAST NCD 07-02-2020

S No	Date of IST	Name of Transferor Scheme	Transferor Scheme Allotment Date	Type of Transferor Scheme (Close/Open ended)	Name of Transferee Scheme	Transferee Scheme Allotment Date	Type of Transferee Scheme (Close/Open ended)	Name of Security Transferred
20	31-Jan-19	DHFL Pramerica Short Maturity Fund	21-Jan-03	Open	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	11.25% HANSDEEP IND & TR NCD 28-09-2020
21	15-Feb-19	DHFL Pramerica Short Maturity Fund	21-Jan-03	Open	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	11.25% HANSDEEP IND & TR NCD 28-09-2020
22	18-Feb-19	DHFL Pramerica Short Maturity Fund	21-Jan-03	Open	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	11.25% HANSDEEP IND & TR NCD 28-09-2020
23	28-Feb-19	DHFL Pramerica Short Maturity Fund	21-Jan-03	Open	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	11.25% HANSDEEP IND & TR NCD 28-09-2020
24	28-Feb-19	DHFL Pramerica Short Maturity Fund	21-Jan-03	Open	DHFL Pramerica Fixed Duration Fund-Sr BE	30-Aug-18	Close	11.25% HANSDEEP IND & TR NCD 28-09-2020
25	28-Feb-19	DHFL Pramerica Short Maturity Fund	21-Jan-03	Open	DHFL Pramerica Fixed Duration Fund-Sr BC	08-Aug-18	Close	11.25% HANSDEEP IND & TR NCD 28-09-2020

12. Based on the above table of ISTs, certain allegations were made in the SCN against the Noticees, alleging violation of provisions of Regulation 25(1), 25(2), 25(16), 25(6A), 25(6B) of the SEBI (MF) Regulations read with Clauses (4),(6),(8) and (9) of Fifth Schedule and related circulars.

E. ISSUES

13. Based on the extensive reply of the Noticees, the following issues have been identified.

    13.1. Whether certain ISTs, which involved transfer of debt securities which were downgraded just prior to or after the date of IST, resulted in prejudice to the investors of Close ended schemes? If yes, whether it amounts to violation of provisions of Regulation 25(1), 25(2), 25(16) of the MF Regulations and Clauses (4),(6),(8) and (9) of Fifth Schedule thereof by Noticee No: 1 and violation of provisions of Regulation 25(6B) of the MF Regulations read with Clauses (4),(6),(8) and (9) of Fifth

Schedule thereof by Noticee Nos. 3, 4 and 5. The issue will be dealt in following 4 parts:

13.1.1. ISTs resulting in exchange of securities between open and close ended schemes, such that good quality security was transferred to open ended schemes, while stressed security was transferred to close ended schemes;

13.1.2. ISTs resulting in transfer of stressed securities from open to close ended schemes, before their downgrade;

13.1.3. ISTs resulting in transfer of stressed securities from open to close ended schemes, after their downgrade; and

13.1.4. ISTs of downgraded securities from open to close ended schemes, in 12 instances.

13.2. Whether the rationale recorded for certain ISTs were genuine and appropriate? If yes, whether it amounts to violation of provisions of Regulation 25(1), 25(2), 25(16) of the MF Regulations and Clause (4),(6),(8) and (9) of Fifth Schedule to the MF Regulations by Noticee No: 1, and violation of provisions of Regulation 25 (6A) and 25(6B) of the MF Regulations and Clause (4),(6),(8) and (9) of Fifth Schedule to the MF Regulations by Noticee Nos.2 and 3 to 5 as the CEO and the Fund Managers respectively.

13.3. Other issues:

13.3.1 Whether the investment in security of Sunny View and SD Corp in 2018 was undertaken without preparing the mandated research report? If yes, whether it amounts to violation of provisions of SEBI Circular Ref. No. MFD/CIR/6/73/2000 dated July 27, 2000 by Noticee No: 1 and 3.

13.3.2 Whether the policy on Internal Grading of PGIM MF created incentive for the fund managers of open ended schemes to transfer risky securities to close ended schemes? If yes, whether it amounts to violation of provisions of Regulation 25(1), 25(2), 25(16) of the MF Regulations and

Clause (4),(6),(8) and (9) of Fifth Schedule to the MF Regulations by Noticee No: 1.

13.3.3 Whether Ajit Menon (Noticee No: 2), in his capacity as the interim CEO during the period October 06, 2018 to February 20, 2019 and as the CEO since February 21, 2019, failed to ensure that the AMC and the Fund Managers adhered to the applicable provisions of law. If yes, whether it amounts to violation of provisions of Regulation 25(6A) of the MF Regulations, Clause (4),(6),(8) and (9) of Fifth Schedule to the MF Regulations and SEBI Circular ref No. MFD/CIR/6/73/2000 dated July 27, 2000 by Noticee No: 2.

F. CONSIDERATION OF ISSUES

14. At the outset, it is appropriate to set out the broad contours of the two broad categories of debt Mutual Funds i.e. Open and Closed ended Mutual Funds, along with the provisions of the MF Regulations, so as to be in a position to appreciate the facts and allegations in this case. In Open ended schemes, there is high liquidity and one can invest or exit any time by checking the track record of the schemes' performance. In case of Close ended schemes, one can only invest during the New Fund Offer, and redeem the investments after the mandatory lock-in period or on the maturity date. The design of Close ended schemes is such that the Fund Manager has more flexibility to take investment decisions without worrying about redemption pressure during the span of the scheme. However, in case of Open ended schemes, the Net Asset Value (NAV) changes daily, so that investments in such schemes are affected by the composition of their portfolio on an ongoing basis. Further, the enabling provision in the Mutual Fund Regulations pertaining to ISTs at the relevant time prescribed two conditions to be satisfied – (i) that the transfers were done at the prevailing market price on spot basis and (ii) that the securities transferred were in conformity with the investment objective of the transferee scheme.

15. I now proceed to consider the issues on merits in *seriatim*. For each issue, the allegations made in the SCN are summarized, followed by the Noticees'

submissions made in respect of the allegations and concluded by the findings made in that regard.

I. Issue 1- ISTs prejudicing close ended schemes-

16. **Summary of SCN**:The issue pertains to the allegations levelled in the SCN that certain ISTs, which involved ISTs of debt securities which were downgraded before or after the said transfer, resulted in causing prejudice against the investors of the close ended schemes.

17. First part of the allegation involves the ISTs, which resulted in exchange of securities between open and close ended schemes, such that stressed security was transferred to close ended scheme, while relatively good quality security was transferred to open ended scheme.

    17.1 Jorabat Shillong Expressway Ltd. (hereinafter referred to as "**Jorabat Shillong**"), was a 100% subsidiary of IL&FS Transportation Networks Limited (hereinafter referred to as "**ITNL**"), parent company of ITNL was IL&FS. The news about crisis in IL&FS and ITNL was in public domain at that point of time, so that there was a perceived risk on securities of Jorabat Shillong Expressway Ltd therefor. Therefore, it was observed that vide above transactions, potentially risky securities of Jorabat Shillong were transferred to close ended schemes, resulting in preference to investors of the Medium Term fund over that of the close ended scheme.

    17.2 Further, it was observed that the reason recorded by DHFL Pramerica Medium Term Fund for purchasing back of UP Power Corp Ltd. from Fixed Duration Fund on October 08, 2018 was *"The portfolio is switching to June 2020/ March 2021 from march 2021 maturity security, the security being transferred meets the requirement hence been transferred"*. It was observed that the said reason mentioned did not give clear picture as to whether the portfolio was intended to switch to June 2020 security or March 2021 security, about the reason for switching to the selected maturity security and for choosing said security for investment. It was further observed that just prior to the purchase of UP Power Corporation Ltd and in the period thereafter, the Medium Term Fund had purchased multiple securities which had maturity beyond the period of June 2020/March 2021 as mentioned in the aforesaid justification. Therefore, the justification given by PGIM AMC for transfer of security of UP Power Corporation was not in line with the other transactions of the scheme during the same period. Further, PGIM AMC and the Fund Manager had not justified the reason due to which Medium Term Fund had sold security of UP Power to close ended fund and repurchased the same security from close ended fund within 40 days, and again sold these securities to DHFL Pramerica Short Maturity Plan and DHFL Pramerica Hybrid Equity Fund within a period of two months i.e. on November 30, 2018 and December 14, 2018 respectively. Also, the stressed security viz. Jorabat Shilling was transferred to the close ended scheme vide the aforesaid ISTs, such that the aforesaid transfers were not in the interest of investors of the Close ended scheme viz. DHFL Pramerica Fixed Duration Fund- Sr BE.

17.3 The security of Power Finance Corporation was one of the benchmark securities. It was alleged that vide said exchanges, stressed security of Jorabat Shillong Expressway Ltd was transferred to the close ended schemes, showing non exercise of independent professional judgement and due care on part of the AMC and Fund Manager of transferee scheme.

17.4 On October 17, 2018, two instances of exchange of good quality security (8.8% L&T Housing Finance 23-06-2021 rated AAA stable by ICRA) with a security which got downgraded subsequently (DHFL NCD RED 04-06-2021) were observed. At the time of execution of said ISTs, default in interest payment by DHFL was in public domain. Further, the investment committee of AMC, in its meeting dated October 11, 2018, had also acknowledged the stress in DHFL and the fact that there were no takers of security even at a higher yield. It was further observed that the exposure of DHFL to the Medium Term Fund was 8.14%, so that it exceeded the 7.5% internal limit as per policy of AMC on internal investment limits in the month of June and continued to be higher than the 7.5% number for all months in the calendar year 2018 starting from the said month.

17.5 It was observed the Fund Manager had transferred the risky security viz. DHFL to close ended schemes vide aforesaid ISTs, which was detrimental to the interest of investors of the said closed ended schemes. It was also observed that the transferee close ended scheme did not have adequate fund to absorb the security. However, it still accommodated it by way of exchange of good quality security viz. L&T Housing Finance.

17.6 It was observed that the fund managers viz. Kumaresh Ramakrishnan (Fund Manager of fixed duration SR- AZ) and Puneet Pal (Fund Manager of medium term fund and dynamic bond fund) attempted to manage compliance with internal investment limits applicable to Open ended schemes at the cost of investors of Close ended schemes.

17.7 It was further observed that there were two other instances observed wherein DHFL security was transferred to close ended scheme. Details of which are as under:

Table no: 4

Details of ISTs of DHFL security

Sr no	Date of IST	Name of Transferor Scheme	Name of Transferee Scheme	Name of Security Transferred	Value of Securities transferred (in Rs)
1	8-Aug-18	DHFL Pramerica Arbitrage Fund	DHFL Pramerica Fixed Duration Fund-Sr BC	8.9% DHFL NCD RED 04-06-2021	100,040,531.51
2	6-Sep-18	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr BE	8.9% DHFL NCD RED 04-06-2021	48,147,386.30

17.8 It was observed that on the basis of the above details, that the AMC had failed to exercise due diligence in its investment decision and give equitable treatment to the unit holders of the close ended scheme.

18. The second part of the issue deals with the allegations levelled in the SCN, that certain securities, which had unfavorable news about them, were transferred through ISTs from open to close ended funds, and were eventually downgraded after the ISTs.

18.1 The said securities were that of SUNNY VIEW ESTA NCD 12-04-2021 (Sunny View) and S. D. CORPORATION NCD 17-04-2021 (SD Corp), and the details of transfers are as follows:

Table No: 5

Details of ISTs pertaining to securities of Sunny View and SD Corp

Sr no	Date of IST	Name of Transferor Scheme	Name of Transferee Scheme	Transferee Scheme Allotment Date	Name of Security Transferred	Value of Securities transferred (in Rs)
1	9-Aug-18	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr BC	8-Aug-18	10.25% S D CORPORATION NCD 17-04-2021	101,125,405.48
2	9-Aug-18	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr BC	8-Aug-18	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021	101,895,984.93
3	31-Aug-18	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr BE	30-Aug-18	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021	47,113,090.36
4	31-Aug-18	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr BE	30-Aug-18	10.25% S D CORPORATION NCD 17-04-2021	40,615,605.48
5	1-Oct-18	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr AR	14-Mar-18	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021	992,728.67
6	1-Oct-18	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr AT	21-Mar-18	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021	992,728.67
7	1-Oct-18	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr BE	30-Aug-18	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021	1,985,457.34
8	1-Oct-18	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr BC	8-Aug-18	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021	6,949,100.70

18.2 As regards the transfers at S Nos. 1 to 4 in Table above, it was observed that the reason recorded by the transferee schemes were generic, without specifying the reason for purchasing the specific security. Further, the said ISTs had common Fund Manager viz. Kumaresh Ramakrishnan (Noticee No: 4).

18.3 The investments in Sunny View and SD Corp were backed by a Guarantee provided by Shapoorji Pallonji and Company Pvt Ltd (hereinafter referred to as "**SPCL**"), and as per the research report of SD Corp of 2014, the recommendation for investment was based on the said Guarantee. Further, during the period of IST, i.e. in August, 2018, there was news about the owner of SPCL i.e. Mr Pallonji Mistry being embroiled in a lawsuit with Tata Sons. It was alleged that in the background of said news, there was transfer of thesecuritites of Sunny View and SD Corp from open to close ended schemes, to protect interest of investors of open ended schemes over that of close ended schemes.

19. The third part of the issue deals with the allegations levelled in the SCN, that securities of Business Broadcast and Hansdeep, which were downgraded, were transferred in a short period of time to close ended scheme, protecting interest of the investors of open ended scheme.

19.1 The details of ISTs in said securities are as follows:

Table No: 6

Details of ISTs pertaining to securities of Business Broadcast and Hansdeep

Date of IST	Name of Transferor Scheme	Name of Transferee Scheme	Name of Security Transferred	Downgraded	Date of Downgrade of the Security	Difference in days between IST and Downgrade of security
26-Nov-18	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr AC	9.50% BUSINESS BROADCAST NCD 07-02-2020	AA+(SO) to AA (SO) on Oct 19, 2018 and the security was eventually downgraded to 'D' on Sep 13, 2019.	19-Oct-18	38
26-Nov-18	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr AA	9.50% BUSINESS BROADCAST NCD 07-02-2020		19-Oct-18	38
26-Nov-18	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr AB	9.50% BUSINESS BROADCAST NCD 07-02-2020		19-Oct-18	38
28-Feb-19	DHFL Pramerica Short Maturity Fund	DHFL Pramerica Fixed Duration Fund-Sr BE	11.25% HANSDEEP IND & TR NCD 28-09-2020	AA(SO) to AA-(SO)	09-Oct-18	142
28-Feb-19	DHFL Pramerica Short Maturity Fund	DHFL Pramerica Fixed Duration Fund-Sr BC	11.25% HANSDEEP IND & TR NCD 28-09-2020		09-Oct-18	142

19.2 With regard to IST of Business Broadcast NCD, it was observed that:

19.2.1 The rating of Business Broadcast NCD was backed by unconditional and irrevocable corporate guarantee by RCL. CARE issued a press release dated January 05, 2018 and stated that the ratings on the instruments of Business Broadcast had been placed with *Rating Action* viz. 'credit watch with developing implications' because RCL had also been placed with same Rating Action. The rating of Business Broadcast News Holdings Limited was then downgraded on October 17, 2018 from AA+ (SO) to AA (SO).

19.2.2 The AMC transferred the securities of Business Broadcast from credit risk fund to close ended fund in November 2018, while the deal of Reliance Capital Ltd to sell its radio business was still pending clearances and expected to be concluded only by December 2018. Further, on November 28, 2018 and November 29, 2018 (2 days after IST), the said deal had been called off. It was observed that the above news had clear ramification on the rating of Business Broadcast and increased possibility of further downgrade or default.

19.2.3 It was further observed that the investment committee of AMC in its meeting dated June 14, 2018 had revised the grading of Business Broadcast News from B to C. In terms of the policy of AMC on internal investment limits, the DHFL Credit Risk Fund could not have exposure of more than 5.00% towards single issuer of 'C' Grade security. The exposure of DHFL Credit Risk Fund towards Business Broadcast was 5.07% in October 2018. It was observed that the fund had to reduce the exposure towards Business Broadcast News, and therefore, the credit risk fund had transferred the security to close ended fund wherein the investment limits were not applicable.

19.2.4 Therefore, it was observed that AMC had decided to protect the investors of credit risk scheme, as the performance of open-ended fund had direct relation to the inflow of fund and AUM of the scheme, and the probable risk of loss was transferred to investors of close ended schemes whose investments were locked in.

19.3 With regard to IST of security of Hansdeep on February 28, 2019, the following was observed:

19.3.1 It was observed Hansdeep Industries & Trading Company Limited (HITCL) was incorporated in the year 1993, and is a wholly-owned subsidiary of JK Lakshmi Cement Limited. The rating assigned to the bank facilities of HITCL was based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee provided by JKLC (rated 'CARE 'CARE AA-; Stable/CARE A1+').

19.3.2 The investment Committee Meeting of AMC in its meeting dated September 11, 2018 had revised the internal grading of HITCL from Grade B to Grade C. In terms of the policy of AMC on internal investment limits, the DHFL Premerica Short Maturity Fund could not have exposure of more than 3.75% towards Single Issuer of C Grade securities. The exposure of DHFL Premerica Short Maturity Fund towards HITCL was 7.10 % in October 2018, 7.33% in November 2018 and 9.11% in December 2018 and 8.94% in January 2019 and 5.7% in February 2019. The fund had to reduce the exposure towards HITCL.

19.3.3 In January and February, 2019, the DHFL Pramarica Short Maturity Fund transferred the security of HITCL to Credit Risk Fund and Close ended schemes. Further, the rational recorded by transferor scheme was 'to meet redemption requirements' and the standard rational recorded by transferee (close ended scheme) was to utilize Cash and add same security near maturity of the fund. However, it was observed that the rational recorded were misleading, and that the scheme was trying to rebalance the portfolios in line with the internal investment limits and had observed that there were no takers for the risky and illiquid security. It was observed that the schemes dumped the aforesaid securities on close ended schemes wherein the investment limits were not made applicable by the AMC, and such act of AMC was not in the interest of investors of close ended scheme.

19.3.4 Thereafter, as per the following details, the security was transferred from open to close ended funds:

Table No: 7

Details of ISTs pertaining to securities of Hansdeep

Date of IST	**Name of Transferor Scheme**	**Name of Transferee Scheme**	**Name of Security Transferred**
31-Jan-19	DHFL Pramerica Short Maturity Fund	DHFL Pramerica Credit Risk Fund	11.25% HANSDEEP IND & TR NCD 28-09-2020
15-Feb-19	DHFL Pramerica Short Maturity Fund	DHFL Pramerica Credit Risk Fund	11.25% HANSDEEP IND & TR NCD 28-09-2020

18-Feb-19	DHFL Pramerica Short Maturity Fund	DHFL Pramerica Credit Risk Fund	11.25% HANSDEEP IND & TR NCD 28-09-2020
28-Feb-19	DHFL Pramerica Short Maturity Fund	DHFL Pramerica Credit Risk Fund	11.25% HANSDEEP IND & TR NCD 28-09-2020
28-Feb-19	DHFL Pramerica Short Maturity Fund	DHFL Pramerica Fixed Duration Fund-Sr BE	11.25% HANSDEEP IND & TR NCD 28-09-2020
28-Feb-19	DHFL Pramerica Short Maturity Fund	DHFL Pramerica Fixed Duration Fund-Sr BC	11.25% HANSDEEP IND & TR NCD 28-09-2020

19.3.5 It was observed that the reasons recorded for above transfers were misleading, and that the security was transferred to ensure compliance with internal investment limits, which caused prejudice to the investors of close ended schemes.

20 Finally, the last part of the issue deals with the allegation that in 12 ISTs involving 4 securities, a downgraded security was transferred from Credit Risk Fund (Open ended scheme) to Fixed Duration Funds (Close ended scheme).

20.1 The said ISTs were allegedly intended to benefit investors of Open ended schemes at the cost of investors of Close ended schemes.

20.2 It was observed that of the total 315 instances of ISTs during the Inspection period, there were 23 instances of transfer of security from DHFL Pramerica Credit Risk Fund to a Closed ended scheme. It is observed that of the said 23 instances (involving 11 securities) there were 12 instances (more than 50%) of ISTs to be downgraded security (involving 4 securities).

20.3 It was observed that investment objective of credit risk funds (open ended fund) is to generate income and capital appreciation by investing predominantly in AA and below rated corporate debt (excluding AA+ rated corporate bonds). The scheme had purchased risky securities as per its investment objective. However, subsequently when there was risk of default/downgrade, the fund choose to transfer these securities to close ended fund. It was therefore alleged that such transfers were done to avoid adverse consequences arising out of any news of haircut/ default of any of its underlying security.

20.4 Therefore, it was observed that the AMC (Noticee No: 1) was alleged to have violated provisions of Regulations 25(1), 25(2), 25(16) of the MF

Regulations and Clause (4),(6),(8) and (9) of the Fifth Schedule thereof. Further, the CEOs of the PGIM MF, including Noticee No: 2, were alleged to have violated provisions of Regulation 25(6A) of the MF Regulations and Clauses (4),(6),(8) and (9) of the Fifth Schedule thereof. The Fund Managers, viz. Kumaresh Ramakrishnan, Rakesh Suri and Puneet Pal (Noticee Nos. 3,4 and 5) were alleged to have violated provisions of Regulation 25(6B) of the MF Regulations and Clause (4),(6),(8) and (9) thereof.

Summary of Reply

21 As regards the first part of the issue pertaining to exchange of securities between Open and Close ended schemes, Noticees have submitted the following.

21.1 Noticees have submitted that the extant provisions do not prohibit ISTs between an open and a close ended scheme. The ISTs of security into close-ended schemes were done as the securities suited the maturity profile and credit rating profile of the buying schemes, taking in to account investment objective of the investing scheme. The provisions of the MF Regulations pertaining to ISTs were fully complied with. Noticees have also contended that said provisions mandate only that the transfer must be done at prevailing market price and that the security must be in conformity with the investment objective of the buying scheme.

21.2 Noticees have also contended that in 5 out of 7 securities listed in the SCN, debt servicing was timely, and in 6 out of the said 7 securities, transferor schemes i.e. the Open ended schemes continued with very sizeable exposures even after the ISTs. Further, none of the investors of close ended schemes faced any erosion in their invested capital. Noticees have submitted that even after the referred ISTs, transferor schemes continued to hold significant quantum of the securities alleged to be stressed. Noticee has contended that the value of securities transferred through IST was 38.75% of the total value of holdings of these very securities across transferor schemes.

21.3 Noticees have submitted that in all the referred ISTs, rating downgrade happened much later or prior to the IST and generally rating downgrade happened only by one notch. The securities continued to be in investment grade even after the downward revision. Noticees have further contended that many of the buying close ended schemes had small AUM, due to which they faced lot size restrictions in buying securities directly from the market.

21.4 Noticees have repeatedly argued at various places that the investment policy does not stipulate that breach of internal limits has to be mandatorily rebalanced within a defined period. Further, vide their submissions, Noticees have *interalia* disputed the inferences in the SCN that securities issued by issuers viz. Jorabat Shillong and DHFL were stressed.

21.5 Noticees have submitted that the investment in Power Finance Corporation was made more as a temporary deployment pending identification of securities that had a better fit on parameters of maturity and credit profile of the Funds and offered better yields. Both in terms of maturity profile and yield pick-up, the Jorabat Shillong paper was a superior fit into the portfolio of the two Fixed Duration Funds AR and AT. This was because, UP Power Corporation Ltd. was a AA rated instrument with a staggered maturity structure exposing the fund to re-investment risks, while Jorabat Shillong was a AAA (SO) rated instrument with a terminal maturity that aligned better to the maturity profile of the close ended scheme. Further, Jorabat Shillong was a fully operational road asset with a ring-fenced SPV structure that was always expected to be insulated from any financial risks to its parent entities. Also, even though CARE modified the outlook for the issuer to Negative from stable on October 5, 2018, it retained its AAA(SO) rating due to features like strong financial risk profile and credit quality of National Highways Authority of India, the project being operational for over 2 years with receipt of 5 semi-annuity payments without any material delays and no exposure to traffic risk etc. The steep decline in ratings of

Jorabat Shillong was completely unprecedented, being triggered by NCLAT's ruling on October 15, 2018, which came after the date of the referred IST. Noticees have also justified the sale of security of UP Power by open ended schemes to rebalance the portfolio and pare down the exposures, based on suitability of the security to investment objective of the buying scheme. The subsequent purchase of UP Power Corporation by the DHFL Medium Term Fund from FDF Series BE on October 8, 2018 was directed towards bringing down the portfolio maturity of the Fund given the negative interest rate view.

21.6 Noticees have submitted that the security of DHFL was not stressed, as brought out in the SCN. This was because as on the date of IST, DHFL was a AAA rated issuer, and there was no negative news in public domain. Further, first rating revision of the security from AAA to AA+ actually happened much after the date of IST. Therefore, The DHFL default was an unexpected fall from the cliff event. Further, at the time of the ISTs, Noticee No: 1 did not have an optimistic long term view on housing finance entities with a large developer funding portfolio. However, no concerns were anticipated in medium term. Therefore, L&T Housing Finance was transferred to open ended scheme, as it suited the investment objective of the said open ended scheme.

21.7 Further, Noticees submitted that the inference that L&T Housing Finance was a good security and DHFL was not, is misplaced because (i) DHFL and L&T Housing Finance were rated AAA by CARE ratings; (ii) DHFL was part of Indices like Crisil AAA Long Term Bond Index, Crisil AAA Medium Term Bond Index etc, while L&T Housing Fund was not; (iii) DHFL was the 3rd largest lender in the Housing Finance space in India at that time with a book size 10 times larger than the book size of L&T Housing Finance. It can be inferred from the press release from the rating agency CARE dated January 25, 2019 (3 months after the Inter-scheme transfers referred to the SCN) that the financial standing of the company was perceived by the market place at large as stable as can be evidenced in the healthy fund raising, that the company managed during the October to December, 2018 quarter.

21.8 As regards the reference in the SCN to the meeting of Investment Committee on October 11, 2018, the Noticees have submitted that the extract from the Minutes of the Investment Committee needs to be looked at in the larger context. The extract from the minutes of said meeting is reproduced below:

"Kumaresh informed the Committee that the first three weeks of September witnessed stable conditions, until the crisis surrounding financial services entities hit the market around the 20th of the month. The fear and near panic mood of the market around the liquidity situation and ALM of financial entities (both HFCs and NBFCs) led to accelerating redemption in our funds. We were among the most severely impacted given our part ownership by DHFL which is a HFC."

Noticees have contended that the above reference in the minutes was a correct representation of the illiquid state of the market in the month of September 2018 going into early October 2018. There is no reference in the Investment Committee minutes to "stress in the issuer company" as is being made out in the observation. On the contrary, there is a clear reference to the "fear and near panic mood of the market around the liquidity situation and ALM of financial entities (both HFCs and NBFCs)". Therefore, what was appraised to the Investment Committee has to be interpreted in an unbiased manner based on what was stated in the specific context of "fear and near panic mood of the market around the liquidity situation and ALM of financial entities (both HFCs and NBFCs)".

21.9 As regards the second part of the issue pertaining to transfer of securities of SD Corp and Sunny View to Close ended schemes before their downgrade, the Noticees have contended that both the issuers continued to remain in the investment grade till the maturity of the instrument and had a flawless track record on debt servicing throughout the tenure of the exposure. There was 100% repayment of principal and interest from all the issuers. Also, the open-ended schemes continued to hold sizeable exposure after the referred ISTs all the way till the maturity of these bonds. As on the date of the referred ISTs in the two securities, the Credit Risk Fund had exposure to several securities which had a weaker credit profile than the referred securities. Further, the downgrade in securities happened much after the IST, and by one notch only.

21.10 Noticees have also contended that the close ended schemes had bought the securities because of undeployed cash being available, suitability of securities to investment mandate, tenure of securities vis-à-vis maturity date of funds etc. Also, close ended schemes had existing exposures to the referred issuers as on October 01, 2018. Also, close ended schemes had smaller AUM, which had restricted their ability to carry out transactions in market.

21.11 Noticees have further contended that while the Tata Sons vs. Mistry matter was sub-judice since 2016, they did not witness any imminent and immediate liquidity stress on the referred issuers, given the strong credit standing of the issuers which were operating entities with their own cash streams and the credit comfort offered by the DSRA guarantor, SPCL. Noticees have also contended that the downgrade rationale, as per the release by CARE ratings, had no reference to the tussle with the Tata group. Instead, the downgrade was based on a general slowdown in the infrastructure sector, which was the major area of presence for the group. Further, the Noticees have contended that the date of said change in outlook (along with a revision of rating) was December 7, 2018 whereas the ISTs referred in the SCN were executed in August 2018 and October 2018.

21.12 As regards the third part of the issue pertaining to transfer of securities after their downgrade, the Noticees have contended that the value of ISTs was small as compared to overall exposure across all funds or the credit risk fund to the issuer, maturity of the security aligned with that of the scheme, rating of the maturity aligned with target rating profile of the investing fund etc. Further, Noticees have contended that the Credit Risk

Fund continued to hold other securities with weaker credit profile than that of Business Board. Noticees have also contended that they did not have any information about the ongoing deal between RCL and Zee Group, as they did not have any exposure to Reliance Broadcast Network Ltd. Further, the security was rated AA at the time of IST, and the default was not anticipated.

21.13 As regards IST of security of Hansdeep, the Noticees have *interalia* contended that the exposure of the open ended scheme to Hansdeep increased because of heavy outflows from the fund. Further, there was no pressure from the Investment Committee on the Fund Managers to urgently bring down the exposure, as the investment committee was aware of the passive nature of the breach triggered by heavy outflows from the fund. Further, despite the one notch downgrade, security was in the investment grade, and backed by a strong parent entity i.e. JKLC. Further, out of the 6 instances of ISTs, 4 of them were into an open ended fund itself. Also, the short maturity fund continued to hold exposure which was more than that in the two close ended schemes combined.

21.14 As regards the final part of the issue pertaining to transfer of stressed securities from Open to Close ended schemes, Noticees have contended that out of the 12 ISTs from Credit Risk Fund into Fixed Duration Funds,

- only 3 ISTs in Business Broadcast Network Limited aggregating to 2.32 Crores were carried out after a one notch rating downgrade while the security still remained in the higher end of investment grade.
- For 9 ISTs aggregating to 34.98 Crores, the ISTs happened 59 to 151 days before the credit downgrade.
- Out of the 12 ISTs from Credit Risk Fund to close-ended funds, in 11 ISTs, all sums due including interest was fully received on or before due date by the transferee scheme.

- Only for 1 IST pertaining to security of DHFL, where the downgrade (by 1 notch) happened 151 days after the IST and default happened over 9 months after the IST, the AMC could realize substantial value after the default.

Observations and Findings:

22 As per Regulation 25(1) of the MF Regulations, the AMC was mandated to take all reasonable steps and exercise due diligence to ensure that investment of funds pertaining to any scheme was not contrary to the extant provisions and to the trust deed. As per Regulation 25(2) of the said regulations, the AMC was mandated to exercise due diligence and care in all investment decisions, as would be exercised by other persons engaged in the same business. As per Clauses 4,6,8 and 9 of Code of Conduct (Fifth Schedule) read with Regulation 25(16) of the MF Regulations, the AMC was mandated to avoid conflicts of the interest keeping interest of unitholders paramount; carry out business in accordance with investment objectives stated in offer documents; maintain high standards of integrity and fairness in conduct and render high standards of service; exercise due diligence; ensure proper care and exercise independent professional judgment. Further, Regulation 25(6B) of the MF Regulations mandates that the Fund Managers ensure that the funds of the scheme are invested to achieve objectives of the scheme and in the interest of the unit holders.

23 I now proceed to consider the issue on merits.

23.1 The Noticees have relied on the provisions in MF Regulations that enabled ISTs subject to 2 conditions (i) that it should be done on spot basis and (ii) that the securities transferred were in conformity with investment objective of the transferee schemes. This enabling provision cannot be extrapolated to imply that all kinds of transfers were allowed between various schemes. Even though the provisions allow all transfers when done in conformity with the investment objective of the transferor/ transferee schemes, the underlying theme is that requisite due diligence to protect the interest of investors of all schemes with fairness must be taken care of. All transfers must be executed with the objective of furthering the interests of investors of the scheme, without compromising the interests of investors of other schemes. ISTs, which might adversely affect interests of both transferor and transferee schemes, must be done with higher standards of due diligence, such that the transfers are fair to all stakeholders.

23.2 Before going into the consideration of specific ISTs in respect of the instant issue, I note that Noticees in their submissions have justified certain ISTs on grounds of availability of surplus cash. In this regard, I would like to reply on the following observations made in SEBI Order ref no. WTM/GM/IMD/08/2021-22 dated June 07, 2021, in the matter of Inspection of Six Debt Schemes of Franklin Templeton Mutual Fund:

"5.4.4.3……….In this context, it may be noted that the purpose of ISTs is to save cost if two schemes under the same mutual fund wish to buy and sell the same underlying securities given that such securities are matching with the objective of schemes. However, this would not mean that a scheme with cash surplus can buy any security for assisting the selling scheme to manage its liquidity issues. Therefore, the practice of using ISTs for managing liquidity is against the principle of fair treatment to all unit holders I find that by using ISTs to cope with illiquidity arising out of problems in the underlying portfolio of schemes, the Noticee had failed to use ISTs in a fair manner."

In light of the above, I now proceed to consider the issue in four parts as mentioned before.

23.3 As regards the first part of the issue pertaining to exchange of securities between open and close ended schemes, I note for reference the ISTs which resulted in the exchange of securities below:

Table No: 8

Details of ISTs involving exchange of securities

Date of IST	Name of Transferor Scheme	Name of Transferee Scheme	Name of Security Transferred	Value of Securities transferred (in Rs)
08-Oct-18	DHFL Pramerica Fixed Duration Fund-Sr AR	DHFL Pramerica Medium Term Fund	7.42% POWER FIN COR SR165 RED 26-06-2020	2,03,67,941.92
08-Oct-18	DHFL Pramerica Medium Term Fund	DHFL Pramerica Fixed Duration Fund-Sr AR	8.45% JORABAT SHILLONG 01-03-21	1,98,59,465.21
08-Oct-18	DHFL Pramerica Fixed Duration Fund-Sr AT	DHFL Pramerica Medium Term Fund	7.42% POWER FIN COR SR165 RED 26-06-2020	2,03,67,941.92
08-Oct-18	DHFL Pramerica Medium Term Fund	DHFL Pramerica Fixed Duration Fund-Sr AT	8.45% JORABAT SHILLONG 01-03-21	1,98,59,465.21
08-Oct-18	DHFL Pramerica Fixed Duration Fund-Sr BE	DHFL Pramerica Medium Term Fund	8.48% UP POWER CORP LTD RED 15-03-2021	3,88,73,934.90
08-Oct-18	DHFL Pramerica Medium Term Fund	DHFL Pramerica Fixed Duration Fund-Sr BE	8.45% JORABAT SHILLONG 01-03-21	3,66,40,713.31
17-Oct-18	DHFL Pramerica Fixed Duration Fund-Sr AZ	DHFL Pramerica Medium Term Fund	8.8% L&T HOUSING FIN NCD RED 23-06-2021	50,54,084.38
17-Oct-18	DHFL Pramerica Medium Term Fund	DHFL Pramerica Fixed Duration Fund-Sr AZ	8.9% DHFL NCD RED 04-06-2021	49,21,099.04
17-Oct-18	DHFL Pramerica Fixed Duration Fund-Sr AZ	DHFL Pramerica Dynamic Bond Fund	8.8% L&T HOUSING FIN NCD RED 23-06-2021	2,02,16,337.54
17-Oct-18	DHFL Pramerica Dynamic Bond Fund	DHFL Pramerica Fixed Duration Fund-Sr AZ	8.9% DHFL NCD RED 04-06-2021	1,96,84,396.16

23.4 The instances mentioned above clearly indicate a pattern which show that the stressed securities were transferred from open to close ended schemes, while the good quality securities were transferred from close to open ended schemes. For instance, the stressed security of Jorabat Shillong was transferred from Medium Term Fund to Fixed Duration Fund on October 08, 2018. On the same day, security of Power Finance Corporation, which did not have any adverse developments pertaining to it, was transferred from the same Fixed Duration Fund to Medium Term Fund. Similarly, security of DHFL was transferred from Medium Term Fund to Fixed Duration Fund on October 17, 2018 and on the same date, good quality security of L&T Housing Finance was transferred from Fixed Duration Fund to Medium Term Fund.

23.5 Also there were two instances in which stressed security of DHFL was transferred from open to close ended scheme, as shown below:

Table No: 9

Details of ISTs pertaining to transfer of security of DHFL

Sr no	Date of IST	Name of Transferor Scheme	Name of Transferee Scheme	Name of Security Transferred	Value of Securities transferred (in Rs)
1	8-Aug-18	DHFL Pramerica Arbitrage Fund	DHFL Pramerica Fixed Duration Fund-Sr BC	8.9% DHFL NCD RED 04-06-2021	100,040,531.51
2	6-Sep-18	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr BE	8.9% DHFL NCD RED 04-06-2021	48,147,386.30

I note that the above two transfers when seen along with the exchange of securities through ISTs in the earlier table (Table No. 8), indicates an attempt by the Noticees to protect the interests of open ended schemes, by enhancing quality of their portfolio by transferring stressed securities out of them.

23.6 In this regard, as regards the contention of Noticees that the debt servicing of majority of the securities was timely, I note that what is relevant for consideration is the basis for IST, that prevailed upon the Fund Manager, at the time it is actually done. The justification for an IST cannot be the consequence which followed, as it could be a matter of chance and not necessarily a point taken into consideration at the time of deciding on the IST.

23.7 The argument that the transferor schemes continued to hold significant quantum of the stressed securities also is inherently weak. The transfer of a significant percentage of securities as stated by the Noticee, if done to avoid the possibility of downgrade/default then its amounts to indifference and disregard of the best interest of the investors of close ended schemes. It could be that already the transferor or transferee schemes had equally bad / low quality securities. The addition of securities that are akin to it, through ISTs would only worsen the exposure levels of those investors and does not in any way improve the position.

23.8 I further note that the news about stress in the issuers of the securities of Jorabat Shillong and DHFL, during the relevant time should have been easily accessible to the Fund Managers given their job portfolio and expertise in the domain, indicating possibility of default or of further future downgrade.

23.9 As regards Noticees' contentions that buying schemes were constrained into buying the securities from other schemes, as they had small AUM, I note that given the stress in the securities, it is doubtful whether close ended schemes, or any other scheme, would have bought the same from the market. In fact, the Investment Committee meeting in the month October, 2018 pointed out the difficulty in offloading securities of DHFL. The contention relies on the assumption that close ended schemes would have purchased such securities from the market itself, despite the adverse developments taking place. This proposition appears to be devoid of merit.

23.10 Further, upon perusal of the investment policy, I find that as regards review of the credit exposure, the following is stated at Para 12.7 (Page No. 22) of the investment policy:

The aggregate and scheme wise credit exposure based on the internal grade are monitored on an ongoing basis and reported monthly to the Investment Committee. The Investment Committee will be responsible for reviewing/ modifying/ ratifying these limits based on internal grade

I note that even though no specific timeline is mandated for meeting issuer-wise limits, breach of the said cap of exposures were bound to be raised and discussed before the Investment Committee. First, the Fund Managers need to take care that they do not exceed the stipulated limits. If in case it exceeds, it has to be brought back to the stipulated limit within a reasonable timeframe. Therefore, the contention that as there was no timeline for meeting issuer-wise limits which may have compelled them for the ISTs is not acceptable. The issuer wise limits, when read along with the circumstances around different transfers, have to be read holistically to infer whether the transfer was done with genuine intentions or with the motive of protecting interests of investors of certain schemes only.

23.11 Further, I note as regards exchange of securities of Jorabat Shillong with Power Finance Corporation and UP Power, that ITNL had defaulted on many of its obligations in August 2018 and that IL&FS had defaulted on many of its commitments starting from September 2018. I further note that on October 05, 2018, the rating of Jorabat Shillong was placed on 'credit watch with negative implications', on account of significant deterioration in the credit profile of ITNL. The Noticee's contentions that it relied upon the strong fundamentals of the company, its presence in the infrastructure segment and the association with NHAI etc are not relevant in light of the above rating revision, which was in public domain. The Fund Manager is reasonably expected to undertake necessary research and analysis, and be aware of the latest developments to ensure that investments are safe and secure. The Fund Manager is supposed to proactively monitor the securities underlying the schemes bearing in mind the interest of investors. I note that the assertion in the SCN about stress in securities, was because of dynamic developments, which exposed the issuer to possibility of default. Further, the Noticees' contention that the decline in ratings of Jorabat Shillong was only triggered by judgement of the Hon'ble NCLAT dated October 15, 2018, is not acceptable, as the factual developments culminating in the said judgement were already in public domain. Fund Managers, being aware of the same, were expected to act and effect the ISTs. To argue that the Fund Managers were not aware of possibility of rating downgrade or possible default in the security of Jorabat Shillong, in the background of IL&FS crisis and revision in outlook of the said security by CARE ratings on October 05, 2018, is devoid of logic. Therefore, the timing of news about stress in the issuer and execution of immediate IST thereafter into close ended scheme, points towards the conscious decision by the fund managers involved, to protect the interest of the open ended schemes motivated by commercial interest and to counter or prevent redemption pressure from subscribers of Open ended schemes.

23.12 As regards exchange of security of L&T Housing Finance with DHFL, I note that the developments associated with DHFL were in public domain at the time of IST. I do not agree with the contention of the Noticees in this respect. The minutes, in my opinion categorically point towards the acknowledgement by the Investment Committee of the crisis that started surrounding financial services entities which set in right from September 20, 2018 onwards. Further, on Page No 4 of the minutes of said meeting (Annexure 10 to the SCN), the stress in DHFL was explicitly recorded as follows:

As regards the fair valuation of DHFL bonds, Kumaresh mentioned that these securities have seen a yield mark up by Crisil and Icra of about 125-150 bps from the <u>*onset of the crises in end September*</u>*. Nevertheless, he mentioned that there are no active bid in the market even at the higher valuation yields. It was discussed if there was a need to relook at the valuation yield to see if they were reflecting fair valuation in light of the lack of market demand even at the evaluated yields.".* It is noted from the above, that the AMC was clearly in knowledge of the stress associated with DHFL, and the contention that the default in DHFL was an unexpected and unprecedented event cannot be accepted.

23.13 Further, in terms of internal grading of security by the AMC, DHFL was categorized as a grade B security, and the exposure of Medium Term Fund to DHFL security was more than 10% prior to IST in the month of October 2018, which was greater than exposure cap of 7.5% as stipulated by the Investment policy. I note that said situation also created further incentive for the fund managers, to transfer the securities out of the open ended schemes, to manage compliance with the provisions of the investment policy.

23.14 Apart from the observations of the investment committee noted above, DHFL's stocks had fallen by 60% already in the month of September, 2018, resulting from sale of commercial papers of DHFL by DSP Mutual Fund at higher rates. The contention by fund managers that they were not aware of such developments, and were relying merely on credit ratings to make investment decisions, by itself points to lack of due diligence.

23.15 As regards the Noticees' contention that they had adhered to provisions of SEBI Circular No. SEBI/HO/IMD/DF3/CIR/P/2017/114 dated October 6, 2017, I note that within the remit of law and the prescribed limits, Noticees were also required to ensure due diligence, so that a mechanical adherence with the referred provisions is not sufficient. The law needs to be complied in letter and spirit.

23.16 As regards the second part of the issue pertaining to transfer of securities of Sunny View and SD Corp to Close ended schemes before their downgrade, I note that notwithstanding the facts stated by the Noticees like both the securities being investment grade, downgrade by only one notch etc, the development which took place in August, 2018, indicated possibility of future downgrade. The purpose of carrying out the investment was to preempt chances of any such downgrade affecting interests of investors of open ended scheme. In fact, the fund managers are expected to use their prudence and expertise, and anticipate such rating downgrades, and make investment decisions accordingly.

23.17 I also note that in the given circumstances, it would not have made any sense for even close ended schemes to invest in securities which had adverse developments concerning them. The contention that such investment was done on basis of well-considered parameters like tenure, investment mandate etc, while ignoring developments which might have led to default in payments in future, does not appeal. Further, just because close ended schemes already held the said stressed securities, it does not justify purchase of more such securities to further deteriorate the quality of their portfolio.

23.18 I further note that the investment in SD Corp and Sunny View were made on the basis of guarantee provided by SPCL, so that any change in outlook of or any developments associated with SPCL were bound to have ramifications on the said securities as well. Even though the dispute between Pallonji Mistry and Tata Sons had been ongoing since 2016. In August, 2018, Tata Sons had restricted shareholders from freely selling their stake. This implied that Pallonji Mistry could not have sold his shares in Tata Sons without the approval of its board. SPCL had Pallonji Mistry as its owner, which was bound to raise uncertainty about its future ratings. In such scenario, Fund Managers responded by transferring the securities of SD Corp and Sunny View to Close ended schemes. Even though the later change in ratings did not mention the said dispute as the reason, at the time of IST, Fund Managers could easily anticipate such downgrades based on ongoing developments and act thereupon. The fact that such event did or did not lead to downgrade becomes secondary, as what is being considered is the conduct and exercise of due diligence by the Fund Manager/ AMC at the time of execution of ISTs. The Fund Managers cannot ignore the factual developments associated with a particular group and engage in IST on the pretext that the actual downgrade has not happened.

23.19 Apart from stating generic reasons to justify the IST, the Noticees have not been able to justify transfer of the said securities, which happened only to close ended schemes, just after the passing of the NCLAT order. Therefore, the ISTs, when read along with the overall pattern shown in terms of potentially prejudicing the investors of close ended schemes, indicate attempts by the Fund Manager i.e. Kumaresh Ramakrishnan (Noticee No: 4), to optimize the performance of open ended schemes based on information available at the relevant point of time.

23.20 As regards the third part of the issue pertaining to transfer of securities after their downgrade, I note that the generic reasons stated by the Noticees do not justify transfer of the security immediately after its downgrade. The transfers, which took place only to close ended schemes, cannot be justified on grounds that the stressed security somehow aligned with the mandate of the referred Close ended schemes. As regards contentions of the Noticees that the Credit Risk Fund continued to hold other securities with weaker credit profile than that of Business Broadcast, I note that the allegations were not made merely on the basis of credit rating, but based on the the developments pertaining to the issuers which raised possibility of their downgrade or default in future. It is noted that, the Fund Managers are reasonably expected to be aware of all developments which might affect the returns of their securities, so that they may anticipate any change in ratings or defaults, and suitably modify decisions accordingly. The investors in mutual funds rely on the aforesaid expertise of the Fund Managers. In this context, the contention that they were not aware of such developments associated with the guarantor of Business Broadcast, or were not aware of possibility of default, is not acceptable.

23.21 As regards the IST in security of Hansdeep, I do not fund any specific violation made out in the SCN, apart from breach of investment limits as per the investment policy of the AMC, and the execution of IST to manage compliance with the same after 5 months.

23.22 As regards the final part of the issue, I note that there were 12 instances in which a downgraded security was systematically transferred from Credit Risk Fund to Fixed Duration Funds. The details thereof are as below:

Table No: 10

Details of ISTs pertaining to transfer of downgraded security from open to close ended schemes

Date of IST	**Name of Transferor Scheme**	**Transferor Scheme Allotment Date**	**Type of Transferor Scheme (Close/Open ended)**	**Name of Transferee Scheme**	**Transferee Scheme Allotment Date**	**Transferee Scheme Maturity Date**	**Type of Transferee Scheme (Close/Open ended)**	**Name of Security Transferred**
09-Aug-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr BC	08-Aug-18	11-Aug-21	Close	10.25% S D CORPORATION NCD 17-04-2021
09-Aug-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr BC	08-Aug-18	11-Aug-21	Close	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021
31-Aug-18	DHFL Pramerica	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr BE	30-Aug-18	02-Sep-21	Close	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021

	Credit Risk Fund							
31-Aug-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr BE	30-Aug-18	02-Sep-21	Close	10.25% S D CORPORATION NCD 17-04-2021
06-Sep-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr BE	30-Aug-18	02-Sep-21	Close	8.9% DHFL NCD RED 04-06-2021
01-Oct-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr AR	14-Mar-18	26-Apr-21	Close	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021
01-Oct-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr AT	21-Mar-18	26-Apr-21	Close	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021
01-Oct-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr BE	30-Aug-18	02-Sep-21	Close	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021
01-Oct-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr BC	08-Aug-18	11-Aug-21	Close	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021
26-Nov-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr AC	08-Mar-17	06-May-20	Close	9.50% BUSINESS BROADCAST NCD 07-02-2020
26-Nov-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr AA	30-Nov-16	04-May-20	Close	9.50% BUSINESS BROADCAST NCD 07-02-2020
26-Nov-18	DHFL Pramerica Credit Risk Fund	29-Sep-14	Open	DHFL Pramerica Fixed Duration Fund-Sr AB	17-Feb-17	01-Jul-20	Close	9.50% BUSINESS BROADCAST NCD 07-02-2020

The above transfer of the stressed securities, in which rating downgrade had happened, shows the attempt of Noticees to improve quality of portfolio of the open ended schemes in light of the rating downgrades. The contention that the amounts were fully recovered cannot be accepted, as the Fund Manager was executing the ISTs to manage returns and performance of the open ended schemes at the relevant time. Even if all the sums were received on time, the performance of one scheme had been preferred over that of the other. Further, it is apparent that even if the security remained at the higher end of the scale of investment grade, the downgrade and the possibility of further downfall was the reason for triggering the referred ISTs. Also, variation in the time between downgrade and the IST does not negate the broader trend that is apparent herein.

23.23 I note at the risk of repetition, that instances brought out above amply illustrate the attempt by the Noticees to selectively protect the interest of investors of open ended schemes, at the cost of investors of close ended schemes. The investors of Close ended schemes, unlike that of Open ended schemes, could not withdraw their investments before the maturity of scheme. This fact, read along with the stress which debt securities were facing at the time of ISTs due to the IL&FS crisis, makes it even more important for their interest to be cautiously looked after, rather than prioritizing performance of open ended schemes only. Such attempts indicate pure commercial intent of the Noticees, to prevent withdrawal of funds from open ended schemes. It is evident that the investments in Open ended schemes are correlated with its Net Asset Value, and that a fall in the same might result in decrease in AUM as well, and ensuring better performance of Open ended schemes made more commercial sense. Noticees' acts clearly indicate failure to ensure due diligence, and to avoid conflict of interest in managing the relevant schemes.

23.24 I note that despite the fact that certain low quality securities were transferred from close ended schemes to open ended schemes, the Noticees have tried to justify it on several grounds possible like high credit rating of the stressed quality which was transferred; downgrade of stressed security by only one notch; alignment of security transferred with portfolio of transferee scheme; etc. All such grounds are after thoughts and not really material. After applying the standard of a reasonable Fund Manager, I find that the ISTs done by the AMC is driven by motives of preserving the Net Asset Value/AUM by protecting the interest of the investors of open ended schemes, and this amounts to irrational preference of those subscribers at the cost of subscriber of close ended schemes.

23.25 Despite all the laborious explanations given by the Noticees, I find that there is no merit emanating therefrom. As a matter of fact, the ISTs were mainly driven by myopic commercial interests and not supported by strong principles of treating investors of all schemes uniformly and having a proper strategy to balance out different portfolios without exposing the other scheme holders to risk.

23.26 The quantum of ISTs is too stark to ignore. The details of ISTs along with name of Fund Managers of transferor and transferee schemes is as shown below:

Table No: 11

Quantum of ISTs along with details of Fund Managers

Sr. no	Particulars	No. of instances	Name of Fund Manager	
			Transferor schemes	**Transferee schemes**
1	ISTs resulting in exchange of securities, such that stress securities were transferred to close ended schemes while good quality securities were transferred to open ended schemes	10	• Puneet Pal (5 instances) • Kumaresh Ramakrishnan (5 instances)	• Puneet Pal (5 instances) • Kumaresh Ramakrishnan (5 instances)
2	IST resulting in transfer of stressed security (DHFL) to close ended schemes	2	Kumaresh Ramakrishnan (2 instances)	Kumaresh Ramakrishnan (2 instances)
3	ISTs resulting in transfer of securities to close ended schemes before their downgrade	8	Kumaresh Ramakrishnan (8 instances)	Kumaresh Ramakrishnan (8 instances)
4	ISTs resulting in transfer of securities to close ended schemes after their downgrade	3	Kumaresh Ramakrishnan (3 instances)	Rakesh Suri (3 instances)
Total		**23**	• **Kumaresh Ramakrishnan (18 instances)** • **Puneet Pal (5 instances)**	• **Kumaresh Ramakrishnan (15 instances)** • **Puneet Pal (5 instances)** • **Rakesh Suri (3 instances)**

23.27 In conclusion, based on the findings in paragraph 42 to 67, it is noted that the AMC (Noticee No: 1) and the Fund Managers (Noticee Nos. 3,4 and 5), through the above ISTs, transferred the stressed securities to close ended schemes, causing prejudice to investors of said schemes. Therefore, the AMC (Noticee No: 1) violated the provisions of Regulation 25(1), 25(2), 25(16) of MF Regulations and Clause (4),(6),(8) and (9) of Fifth Schedule to the MF Regulations. Also, the CEO and the Fund Managers (Noticee Nos. 2, 3, 4 and 5) have violated provisions of Regulation 25(6A) and 25(6B) of MF

Regulations and Clauses (4),(6),(8) and (9) of Fifth Schedule to the MF Regulations.

II. Issue 2: Rationale recorded for ISTs – Summary of SCN

24 As regards the second issue, the following was alleged in the SCN.

24.1 It was alleged in the SCN that the rationale recorded for certain ISTs by the AMC (Noticee No: 1) and the relevant Fund Managers (Noticee Nos. 4,5 and 6) were not correct, showing lack of exercise of due diligence on their part. In one instance, Close ended scheme viz. DHFL Pramerica Fixed Duration Fund-Sr BE sold security viz. 8.48% UP POWER CORP LTD RED 15-03-2021 to an open ended scheme on October 08, 2018. The reason recorded while selling the said security was "*Switching to longer maturity bond near to maturity of the scheme*". It has been alleged that as the transferor scheme had purchased various shorter maturity bonds on the same day, the reason recorded was misleading.

24.2 Further, it is alleged that in another set of 14 ISTs, the reason for transfer was that the schemes had 'cash' and were utilizing the same for buying security closer to maturity of the scheme. However, the reason for selecting a specific security was not explained. It was alleged that the said reasons were recorded without exercise of professional judgement or due diligence.

24.3 The rational recorded by transferor i.e. DHFL Pramerica Fixed Duration Fund-Sr BE (close ended scheme) for selling security viz. 8.48% UP POWER CORP LTD RED 15-03-2021, on October 08, 2018, was ''*Switching to longer maturity bond near to maturity of the scheme''*. It was observed that the said rational was misleading, which resulted in alleged violations of provisions of Regulation 25(1), 25(2), 25(16) of MF Regulations and Clause (4),(6),(8) and (9) of Fifth Schedule to the MF Regulations by PGIM AMC, and also, alleged violations of provisions of Regulation 25(6B) of the MF Regulations and Clause (4),(6),(8) and (9) of Fifth Schedule to the MF Regulations by the Fund Manager viz. Kumaresh Ramakrishnan.

24.4 In 14 instances out of the 25 instances of ISTs, as shown in Table no: 3 above, wherein there was inflow from redemption proceeds, the reason was recorded without exercise of proper due diligence, or an independent professional judgement as mandated. Therefore, it was observed that PGIM AMC allegedly violated provisions of Regulation 25(1), 25(2), 25(16) of MF Regulations and Clause (4),(6),(8) and (9) of Fifth Schedule to the MF Regulations. Further, Fund Managers viz. Kumaresh Ramakrishnan, Puneet Pal and Rakesh Suri allegedly violated provisions of Regulation 25(6B) of MF Regulations and Clause (4),(6),(8) and (9) of Fifth Schedule to the MF Regulations.

Summary of Reply:

25 Noticees' submissions as regards the issue are summarized below.

25.1 Noticees have submitted as regards the instance pertaining to IST of security of UP Power, that the rationale recorded were appropriate as the security of UP Power had a staggered maturity structure, such that the principal repayment was in 4 equal tranches of Rs. 25/- each payable on June 15, 2020, September 15, 2020, December 15, 2020 and March 15, 2021. Further, the close ended scheme bought security of Jorabat Shillong after selling the security of UP Power. The SID of close ended scheme mandated 95-100% of the investments of the fund in NCDs rated AA or higher. The security of Jorabat Shillong was rated AAA(SO), while that of UP Power was rated AA. Therefore, the switch over from a staggered maturity to a single terminal maturity closer to the date of maturity of the scheme arrested re-investment risk which was there in the structure of security of UP Power. Noticees have also submitted that other purchases of shorter maturity securities made by the close ended scheme were in line with the overall portfolio construct and the intended asset allocation and target maturity profile of the fund. Also that, all of the referred transactions happened in the month of October, 2018 and despite some of these securities carrying longer dated maturities, the average maturity of the portfolio fell from 2 years in September, 2018 to

1.8 years in October, 2018. Thus, the portfolio stance of reducing maturity of securities must be looked at holistically, based on all transactions in the portfolio, instead of looking at it selectively.

25.2 As regards the 14 instances of ISTs, the Noticees have contended that there is no specific template as to how detailed the reason must be, and that the provisions do not prohibit *'cash available for deployment'* to be an acceptable reason. Further, Noticees have justified the presence of cash flow for executing the buy transaction as regards the ISTs and have provided reasons for executing the transactions in certain ISTs.

Observations and findings:

26 I note the following as regards the issue.

26.1 I note that the investment decisions in various mutual fund schemes require detailed analysis, consideration of multiple factors and data points, for selecting securities which also satisfy the mandate of extant regulations and internal policy if any, of the AMC. Such factors include investment objective of the scheme, existing portfolio, options of securities available, existing funds, maturity of the scheme etc. However, I am of the view that the rationale mentioned during the ISTs, ought to correlate to the actual purpose of their investments.

26.2 I note that in the instance pertaining to transfer of security of UP Power Corp, debt securities were transferred by the close ended scheme to the open ended scheme through the IST on October 08, 2018, and the maturity date of the close ended scheme was September 02, 2021, while that of the debt security of UP Power was March 15, 2021. It is also noted that on the same day, the close ended scheme had purchased securities of Jorabat Shillong maturing on March 01, 2021 and securities of Emami Agrotech maturing on March 27, 2020. The said securities had maturity shorter than that of the security of UP Power Corp which was sold by the close ended scheme. The Noticees have tried to justify the fact that the reasons recorded differed from the actual reasons by providing explanations like staggered maturity structure of security of UP Power, higher credit rating of Jorabat Shillong etc. It is clear from the submissions of the Noticees itself that the reasons recorded were not self-explanatory and ISTs were done mechanically as a perfunctory exercise.

26.3 As regards the set of instances pertaining to the referred 14 ISTs, I note the details of the same below:

Table No: 12

Details of 14 ISTs

Date of IST	Name of Transferor Scheme	Name of Transferee Scheme	Name of Security Transferred	Justification/Rationale of IST (Transferee Scheme)
09/08/2018	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr BC	10.25% S D CORPORATION NCD 17-04-2021	The scheme has cash and is looking utlize the cash by buying security which is near to maturity (11-08-2021), the security being transferred meets the requirement hence been transferred.
09/08/2018	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr BC	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021	The scheme has cash and is looking utlize the cash by buying security which is near to maturity (11-08-2021), the security being transferred meets the requirement hence been transferred.
31/08/2018	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr BE	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021	The scheme has cash and is looking utlize the cash by buying security which is near to maturity (02-09-2021), the security being transferred meets the requirement hence been transferred.
31/08/2018	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr BE	10.25% S D CORPORATION NCD 17-04-2021	The scheme has cash and is looking utlize the cash by buying security which is near to maturity (02-09-2021), the security being transferred meets the requirement hence been transferred.
06/09/2018	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr BE	8.9% DHFL NCD RED 04-06-2021	The scheme has cash and is looking utlize the cash by buying security which is near to maturity (02-09-2021), the security being transferred meets the requirement hence been transferred.
01/10/2018	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr AT	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021	The scheme has cash and is looking utlize by consolidating holding and buying security which is near to maturity (26-04-2021), the security being transferred meets the requirement hence been transferred.
01/10/2018	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr BE	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021	The scheme has cash and is looking utlize by consolidating holding and buying security which is near to maturity (02-09-2021), the security being transferred meets the requirement hence been transferred.
01/10/2018	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr BC	10.5% SUNNY VIEW ESTA NCD RED 12-04-2021	The scheme has cash and is looking utlize by consolidating holding and buying security which is near to maturity (11-08-2021), the security being transferred meets the requirement hence been transferred.
26/11/2018	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr AC	9.50% BUSINESS BROADCAST NCD 07-02-2020	Utlizing Cash and adding same security near maturity of the fund (06-05-2020), the security being transferred meets the requirement hence been transferred.

26/11/2018	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr AA	9.50% BUSINESS BROADCAST NCD 07-02-2020	Utlizing Cash and adding same security near maturity of the fund (04-05-2020), the security being transferred meets the requirement hence been transferred.
26/11/2018	DHFL Pramerica Credit Risk Fund	DHFL Pramerica Fixed Duration Fund-Sr AB	9.50% BUSINESS BROADCAST NCD 07-02-2020	Utlizing Cash and adding same security near maturity of the fund (01-07-2020), the security being transferred meets the requirement hence been transferred.
28/02/2019	DHFL Pramerica Short Maturity Fund	DHFL Pramerica Credit Risk Fund	11.25% HANSDEEP IND & TR NCD 28-09-2020	Utizing cash; also being a AA rated issuer, the security was appropriate for the Credit fund.
28/02/2019	DHFL Pramerica Short Maturity Fund	DHFL Pramerica Fixed Duration Fund-Sr BE	11.25% HANSDEEP IND & TR NCD 28-09-2020	Utlizing Cash and adding same security near maturity of the fund (02-09-2021), the security being transferred meets the requirement hence been transferred.
28/02/2019	DHFL Pramerica Short Maturity Fund	DHFL Pramerica Fixed Duration Fund-Sr BC	11.25% HANSDEEP IND & TR NCD 28-09-2020	Utlizing Cash and adding same security near maturity of the fund (11-08-2021), the security being transferred meets the requirement hence been transferred.

I note that in above mentioned ISTs, the reason was broadly and vaguely mentioned, without detailing with the exact reasoning which went into choosing one security over the others available in the universe of approved securities.

26.4 However, I note that the reasons for ISTs are not disclosed to the public at large. The recording of reasons was an internal issue and did not have a direct impact on investor interests. However, the casual approach in recording of reasons certainly has an impact on the veracity of the records maintained by the Noticees, while supporting the transfers. In this regard, the Noticees are alleged to have violated provisions pertaining to exercise of due diligence; investing monies in accordance with provisions of law and the investment objectives of the scheme; avoiding conflict of interest and maintaining high standards of integrity. Though, I find that the recording of reasons by Noticees was done very casually, it may not be serious enough to warrant imposition of monetary penalty.

III. <u>Issue 3: Other Issues – Summary of SCN:</u>

27. It was alleged in the SCN that the decision for investment in SD Corp and Sunny View was taken without preparation of Research Report.

27.1 It was alleged that the investment decision in the securities of SD Corp and Sunny View was taken first in 2014 and 2015 respectively.

Thereafter, on expiry of the instrument there was re-investment in another instrument of the said issuers in 2018, for which no research report was prepared, and the past research report prepared for initial investment was relied upon. It was observed that as per the extant provisions, AMC was mandated to record the basis for taking individual scrip wise investment decision in debt securities. PGIM AMC should have exercised proper due diligence and ensured that investments were done based on latest available information.

27.2 Therefore, it was alleged that the AMC and the Fund Manager viz. Kumaresh Ramakrishnan had failed to carry out research and record the details in support of decision of investment in a new instrument of the issuer on maturity of the earlier instrument., resulting in alleged violation of provisions of SEBI Circular ref No. MFD/CIR/6/73/2000 dated July 27, 2000.

Summary of Reply:

28. Noticees have made the following submissions as regards the issue.

28.1 Noticees have contended that once a credit proposal was included in the investment universe, unless there were events which materially altered the credit profile of the issuer, the approved security could be purchased by any of the schemes based on suitability to the investment mandate. The same is brought out in the Investment Policy of the AMC. Noticees have further submitted that as the issuers had enjoyed stable credit profile for over 4 years after their initial inclusion, there was no need to undertake fresh research for their investment.

28.2 Noticees have also submitted that there was an ongoing review of financials of the parent entity which was the guarantee provider, reports of credit rating agencies who rated their various issuances as also their ongoing updates on changes, if any, in the credit outlook of the issuers / guarantor, interaction with the management of the issuer / promoter group and available information in the public domain, based on which the renewal was done.Noticees have also submitted that all compliances, including that of maintaining records in respect of each investment, have been adhered to. Further, Noticees contended that all investment decisions were recorded, research on securities was performed on an ongoing basis, financial review/ credit rating communication were recorded etc.

Observations and findings:

29. I note the following as regards the instant issue.

29.1 I note that the provisions of SEBI Circular No. MFD/CIR/6/73/2000 dated July 27, 2000 mandate the following as regards investment decisions into various securities:

AMC boards can prescribe broad parameters for investments, it is important that the basis for taking individual scrip wise investment decision in equity and debt securities should be recorded. While there should be a detailed research report analysing various factors for each investment decision taken for the first time, the reasons for subsequent purchase and sales in the same scrip should be recorded.

I note that the provisions stipulate that after a detailed research report has been undertaken, reasons for subsequent purchase and sales in the same scrip may be recorded relying on the same. In the instant matter, the research report of SD Corp was prepared in July, 2014, relying upon financial of FY 2013, and the recommendation for initial investment was for Rs 100 to Rs 150 Cr for a period of 1-4 years. The research report of Sunny View was prepared in June, 2015, relying on same financials of SPCL of FY 13 and same credit report details which were initially prepared for SD Corp in July 2014, and the recommendation was for a period of 3 years. I note that the said reports concerning both the issuers were made on data which could not be suitable for making investments after a period of more than 5 years. However, but for the failure to record reasons for renewal, I do not find a fresh research was warranted to be done as alleged. In any case, I do not view this to be a serious violation on a standalone basis.

30. I now proceed to consider the allegations pertaining to the issue as regards the investment policy of the AMC. In the said policy, internal investment single issuer limits were made applicable only to open ended schemes and not to close ended schemes. It was alleged that by doing so, the AMC had created an arbitrage opportunity for the fund managers of open-ended schemes to transfer all risky and stressed securities to close ended scheme(s), and ensured that the performance/returns of open-ended schemes could be projected to be attractive to investors, which reflected that the AMC had prioritised their commercial interests over the regulatory responsibility. Therefore, it was alleged that by making Internal Investmet single issuer limits applicable only to open ended schemes and not to Close ended schemes vide its ‘Policy on Internal Grading of Issuer/Security and Investment Limits’, the AMC allegedly violated provisions of Regulation 25(1), 25(2), 25(16) of the MF Regulations and Clause (4), (6),(8) and (9) thereof.

31. In this regard, Noticees have denied the allegation that any arbitrage opportunity was created, and that in all cases except one, the open ended schemes had retained significant share of the security even after the IST. Further that, the rationale behind setting up internal investment limits for open ended schemes was portfolio diversification and risk containment measure, given their open ended structure, which was not needed in case of close ended schemes. Noticees have also contended that the cap of exposure to an issuer was not a mandatory requirement, and there was always sufficient consideration given to extraneous factors while making investments.

32. I note that the following as regards the issue

    32.1 I note that the limits for single issuer exposure were based on Internal grading of issuers, as per paragraph 12.7 of the Investment Policy of the AMC. The said policy mandated that aggregate exposure for a single issuer as a percentage of the scheme AUM on the date of investment must be as follows:

    Table No: 13

Details of aggregate exposure for single issuer as a percentage of AUM as per investment policy

		Issuer Level		
Category		A	B	C
1	Liquid Fund	10%	5.00%	2.50%
2	Non liquid, non Credit focused fund	10%	7.50%	3.75%
3	Credit focused funds	10%	7.50%	5.00%

Further, the investment policy does not specify any timeline for adherence to said limits in case of a breach, and states *interalia* that the exposure should be monitored on an ongoing basis and reported monthly to the Investment Committee. I note that the policy nudges the fund managers of only the open ended schemes, towards ensuring that exposure of fund to securities falling in different categories remains within certain limits. Such a policy ensures better monitoring of portfolio of open ended schemes, which has not been made applicable to close ended schemes. This might, in certain situations, constrain Fund Managers to take steps to manage compliance with the limits through various measures, including IST to Close ended scheme as has been observed in the instant considerations.

32.2 However, to allege that the policy in itself created such a structure, which would be detrimental to interests of closed ended schemes is farfetched. Though the policy appears to prioritize performance of open ended schemes, it does not suggest that the said provisions created arbitrage opportunity for the fund managers of open-ended schemes to 'dump' all risky and stressed securities to close ended scheme. It is ultimately the decision or choice of the Fund Manager. Thus, I do not find the allegation that the policy of AMC was the cause for creating arbitrage opportunity for the Fund Managers to be substantiated.

Conclusion

‘Due diligence’ and test of reasonableness:

33. As regards ‘due diligence’, the Noticee has relied on the decision of the Hon’ble Supreme Court rendered in *Chandra Kanta Bansal V. Rajinder Singh Anand* (2008) 5 SCC117 to contend that “when assessing whether an entity acted with diligence, it does not require assessing whether the entity did everything but only that the entity did everything that was reasonably expected of it”. When I apply the test of ‘reasonableness’ to the alleged ISTs, I am compelled to consider the frequency of such transfers; the inkling of the AMC towards projecting / maintaining top line figures (NAV/ AUM) and the irresistible urge to push low quality assets to close ended schemes or swap good securities from close ended to open ended schemes, with the underlying motive to thwart or arrest the potential redemption pressure. It is also a fact that similar violations were not found by SEBI’s inspection in several other AMCs, which by itself evidences the fact that most of the peers had better practices with respect to ISTs. As such, the Fund Managers need to be circumspect and alert to the possible changes in the financials or other impactful developments of the issuers. They need to be diligent to sense the dynamic changes and act in anticipation and protect the interest of scheme holders across all schemes. Thus, exercise of due diligence has totally different connotation in the context of MF Regulations and it traverses well beyond the standards of ‘reasonableness’.

Absence of Regulatory Prescriptions:

34. With respect to the flaws in the ISTs pointed out against the Noticee, it has been contended that there were no stipulated regulatory restrictions at the relevant point of time. The Noticee stated that there were no restrictions on transfer of securities between an open ended to a closed ended scheme; or between two open ended schemes; or between two closed ended schemes.

35. In this regard, I note that it is the duty of a Mutual Fund AMC, its CEO and Fund Managers to take good investment decisions with proportionate spread of risk

across the available gamut of securities, depending on the objectives and features of the schemes. Very strict regulatory prescriptions, in the form of a series of SEBI circulars that followed post the 2018 failures in the debt market, marked by the IL&FS fiasco, does not serve as a good ground of defense for the Noticees. On the other hand, one needs to appreciate that the unfair practices and strategies adopted by similar AMCs have driven the Regulator to spell out the various dos and don'ts subsequently, in the interest of the investors and for safeguarding the securities market.

36. I would like to examine certain provisions of the MF Regulations that were existent at the relevant time. Regulation 25(1) provides that the AMC shall take all reasonable steps and exercise the diligence to ensure that the investment of funds pertaining to any scheme is not contrary to the provisions of the regulations. Regulation 25(2) provides that the AMC shall exercise due diligence and care in all the investment decisions as would be exercised by other persons engaged in the same business. Regulation 25(16) provides that the AMC shall abide by the Code of Conduct specified in Part A (renumbered) of the Fifth Schedule. Clause (4) of the Code categorically provides that the AMC should avoid conflicts of interest in managing the affairs of the schemes and keep the interest of all unitholders in paramount in all matters. Investment decision should be taken solely in the interest of unit-holders, as provided in Clause 6 thereof, which means that the interest of unit-holders should be kept in mind. As found in the factual findings all low/poor quality securities such as DHFL, Jorabot Shillong, Business Broadcas, Sunny View and SD Corp were moved through IST route to the close ended schemes. Good securities such as UP Power, Power Finance Corp and L&T Housing Finance were moved out of close ended to open ended schemes.

37. A close ended scheme is related to a specific maturity period. In the case of close ended schemes, the net assets and NAV becomes relevant only towards the period of closure of the scheme. The NAV of each scheme is computed by dividing the net assets of the scheme by the number of units outstanding as on

the date of valuation. The NAV of open ended scheme is very sensitive as the subscribers can seek redemption at any point in time. Hence, it is in the commercial interest of the AMCs to protect and preserve the interest of open ended schemes. The MF Regulations therefore provides that the AMC is mandated to maintain high standards of integrity and fairness in all their dealings and in the conduct of their business, which in this case has not been demonstrated. The facts brought out during inspection shows that “integrity and fairness” was absent in the dealings of the AMC.

38. As regards the CEO of the AMC (i.e. Noticee No.2), Regulation 25 (6A) stipulates that it is his duty to ensure that the investment made by the Fund Managers are in the interest of the unit-holders. Unit holders’ interest ought to be the paramount interest of the CEO and the Fund Managers. In the instant case, I note that the unit holders of close ended schemes were conveniently and consciously short changed by the ISTs.

39. As far as the Fund Managers are concerned, (i.e. Noticee Nos. 3 to 5), Regulation 25 (6B) casts an obligation on them to ensure that the funds of the schemes are invested to achieve the objectives of the scheme and in the interest of the unit holders. The ISTs which were done by the Fund Managers during the period of inspection were apparently prejudicial to the interest of close ended scheme holders and was unfair to both sets of investors (i.e. Open and close ended scheme) as the inter scheme transfers were only to window dress the NAV and was inherently not intended to protect the interest of either sets of subscribers.

40. In view of the facts and circumstances brought out above and in light of the provisions envisaged in the MF Regulations with respect to conduct of business by AMCs, CEOs and Fund Managers, I am inclined to impose suitable penalty on the Noticees as shown hereunder.

G. ORDER

41. I hereby hold the Noticees liable for penalty as shown below:

Table No: 14

S No	Noticees	Violation of provisions	Actions Recommended	Penalties
1	PGIM Asset Management company (Noticee No: 1)	Regulation 25(1), 25(2), 25(16) of the MF Regulations, Clause (4), (6), (8) and (9) of the Code of Conduct as specified in the Fifth Schedule to the MF Regulations and Circular No MFD/CIR/6/73/2000 dated July 27, 2000	Section 15(D)(b), 15(D)(f) and 15HB of the SEBI Act, 1992	INR 25,00,000/- (Rs Twenty Five Lakh only)
2	Ajit Menon (Noticee No: 2)	Regulation 25(6A) of the MF Regulations, Clause (4), (6), (8) and (9) of the Code of Conduct as specified in the Fifth Schedule to the MF Regulations and Circular No MFD/CIR/6/73/2000 dated July 27, 2000	Section 15(D)(f) and 15HB of the SEBI Act, 1992	INR 5,00,000/- (Rs Five Lakh only)
3	Kumaresh Ramakrishnan (Noticee No: 3)	Regulation 25(6B) of the MF Regulations, Clause (4), (6), (8) and (9) of the Code of Conduct as specified in the Fifth Schedule to the MF Regulations and Circular No MFD/CIR/6/73/2000 dated July 27, 2000	Section 15(D)(f) and 15HB of the SEBI Act, 1992	INR 2,00,000/- (Rs Two Lakh only)
4	Puneet Pal, (Noticee No: 4)	Regulation 25(6B) of the MF Regulations and Clause (4), (6), (8) and (9) of the Code of Conduct as specified in the Fifth Schedule to the MF Regulations	Section 15(D)(f) and 15HB of the SEBI Act, 1992	INR 2,00,000/- (Rs Two Lakh only)
5	Rakesh Suri (Noticee No: 5)	Regulation 25(6B) of the MF Regulations and Clause (4), (6), (8) and (9) of the Code of Conduct as specified in the Fifth Schedule to the MF Regulations	Section 15(D)(f) and 15HB of the SEBI Act, 1992	INR 2,00,000/- (Rs Two Lakh only)
	Total			INR 36,00,000/-

I note that the penalties imposed on the Noticees is commensurate with the violations committed by them.

42. The Noticees shall remit / pay the said amount of penalty within 45 days of receipt of this order either by way of Demand Draft in favor of "SEBI - Penalties Remittable to Government of India", payable at Mumbai, OR through online payment facility available on the website of SEBI, i.e. www.sebi.gov.in on the following path, by clicking on the payment link:

ENFORCEMENT → Orders → Orders of AO → PAY NOW

43. The Noticee shall forward said Demand Draft or the details / confirmation of penalty so paid to "The Division Chief (Enforcement Department-1 DRA-4), Securities and Exchange Board of India, SEBI Bhavan, Plot No. C – 4 A, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai – 400 051.". The Noticee shall also provide the following details while forwarding DD / payment information:
    - Name and PAN of the Noticee
    - Name of the case / matter
    - Purpose of Payment – Payment of penalty under AO proceedings
    - Bank Name and Account Number
    - Transaction Number

44. In the event of failure to pay the said amount of penalty within 45 days of the receipt of this Order, SEBI may initiate consequential actions including but not limited to recovery proceedings under section 28A of the SEBI Act, 1992 for realization of the said amount of penalty along with interest thereon, *inter alia*, by attachment and sale of movable and immovable properties.

45. In terms of the provisions of Rule 6 of the Adjudication Rules, a copy of this order is being sent to the Noticees and also to the SEBI.

Date: June 30, 2022	**GEETHA G**
Place: Mumbai	**ADJUDICATING OFFICER**