BEFORE THE ADJUDICATING OFFICER

SECURITIES AND EXCHANGE BOARD OF INDIA

[ADJUDICATION ORDER NO. EAD/ AO-NP/ AS/45/2017]

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

In respect of:
Indiabulls Mutual Fund
(PAN: AAATI8720R)

Indiabulls Asset Management Company Limited
(PAN: AABCI9149Q)

Indiabulls Trustee Company Limited
(PAN: AABCI9148R)

In the matter of Inspection of Indiabulls Mutual Fund

FACTS OF THE CASE IN BRIEF

1. SEBI conducted inspection of Indiabulls Mutual Fund for the period February 01, 2013 to March 31, 2014 through M/s M.P. Chitale & Co., the auditor. Inspection report dated June 30, 2015 was examined by Securities and Exchange Board of India (hereinafter referred to as 'SEBI') with respect to the possible violation of the provisions of the Securities and Exchange Board of India Act 1992 (hereinafter referred to as the **'SEBI Act,1992'**), SEBI Mutual Fund Regulations, 1996 and various Circulars issued thereunder.

2. The finding of inspection revealed that Indiabulls MF did not comply with dividend declaration and distribution procedure. In four instances in Indiabulls Income Fund

(Half Yearly / Quarterly dividend) AMC has not obtained trustee approval and not issued addendum as per guidelines in violation of Reg. 10 (a) of SEBI Mutual Fund Regulations, 1996, Reg. 25 (16), Reg. 52(A), Clause 9 of Fifth Schedule of SEBI (Mutual Fund) Regulations, 1996 and SEBI Circular No. SEBI / IMD / CIR No. 1 / 64057 / 06 dated April 04, 2006. It was further stated in inspection report that the Indiabulls AMC was not valuing the same security consistently across schemes and in several instances single security was valued at different prices in different schemes in violation of Reg. 10 (a) of SEBI Mutual Fund Regulations, 1996, Reg. 25 (19), Reg. 47, Eighth Schedule of SEBI (Mutual Fund) Regulations, 1996 and SEBI Circular no. SEBI/IMD/CIR No.16/ 193388/2010 dated Feb 02, 2010.

3. In view of the above, it was alleged that Indiabulls Mutual Fund, Indiabulls Asset Management Company Limited and Indiabulls Trustee Company Limited have violated Reg. 10 (a) of SEBI Mutual Fund Regulations, 1996, Reg. 25 (16), Reg. 52(A), Clause 9 of Fifth Schedule of SEBI (MF) Regulations, 1996, SEBI Circular No. SEBI / IMD / CIR No. 1 / 64057 / 06 dated April 04, 2006 & Reg. 25 (19), Reg. 47, Eighth Schedule of SEBI (Mutual Fund) Regulations, 1996 and SEBI circular no. SEBI/IMD/CIR No.16/ 193388/2010 dated Feb 02, 2010.

Appointment of Adjudicating Officer

4. In the view of above, the undersigned was appointed as the Adjudicating Officer vide Whole Time Member (WTM)'s order dated the 11th May, 2016 under Section 15-I of the SEBI Act, 1992 read with Rule 3 of the SEBI (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules, 1995 (hereinafter referred to as ' SEBI Adjudication Rules'). SEBI, initiated adjudication proceedings against the said three noticees under Section 15 D (b) of SEBI Act, 1992 for violation of Reg. 10 (a) of SEBI (Mutual Fund) Regulations, 1996 & under Section 15 HB of SEBI Act, 1992 for alleged violation of Reg. 25 (16), Reg. 52(A), Clause 9 of Fifth Schedule of SEBI (MF) Regulations, 1996, SEBI Circular No. SEBI / IMD / CIR No. 1 / 64057 / 06 dated April

04, 2006, Reg. 25 (19), Reg. 47, Eighth Schedule of SEBI (MF) Regulations, 1996 and SEBI circular no. SEBI/IMD/CIR No.16/ 193388/2010 dated Feb 02, 2010.

Show Cause Notice, Reply and Personal Hearing

5. The noticees were served Show Cause Notices (**SCNs**) separately vide SCN dated June 17, 2016 in terms of Rule 4(1) of the said Adjudication Rules to show cause as to why an inquiry should not be held and penalty be not imposed on the noticees under the provisions of the SEBI Act, 1992 for violation of aforesaid provisions of SEBI (MF) Regulations, 1996 and aforesaid Circulars.

6. The noticees vide letter dated July 05, 2016 requested extension till July 22, 2016 to furnish detailed reply to the show cause notice. Thereafter the noticees vide letter dated July 22, 2016 submitted that due to certain unforeseen circumstances, they are still in process to collate the relevant documents and requested extension till August 19, 2016 to furnish detailed reply to the show cause notice. Thereafter the noticees vide letter dated August 19, 2016 submitted that they are still in process to collate the relevant documents and requested extension till September 09, 2016 to furnish detailed reply to the show cause notice The noticees vide letter dated September 09, 2016 submitted their reply to the SCN. The submissions of the noticees are as under-

Dividend Distribution Procedure

With respect to the dividend distribution procedure, we deny any violation of SEBI (Mutual Funds) Regulations, 1996 and the applicable SEBI circular including

Regulation 10, 25(16), 52(A), Clause 9 of Fifth Schedule of SEBI (Mutual Funds) Regulations, 1996 and SEBI Circular No. SEBI/IMD/CIR No. 1/64057/06 dated April 4, 2006.

It is our humble submission that the show-cause notice including the inspection report is silent on the exact nature of dividend distribution procedure which was allegedly not *followed by IBAMC. Further it does not specify scheme details of Indiabulls Mutual Fund wherein the alleged violation may have been observed. Without prejudice to the fact that specific violation has not been brought out, we are unable to reply on behalf of IBAMC.*

*It may be noted that the Scheme Information Document ("**SID**") of various schemes of Indiabulls Mutual Fund, offers pre-defined Dividend facility of Monthly, Quarterly and Half-yearly frequency subject to availability of distributable surplus. The respective SIDs were pre-approved by the Board of Directors of IBTCL and subsequently approved by SEBI prior to any scheme launch. Further, on launch of NFO, various scheme's SID has been available in public domain for wider audience and for information of investors in the scheme. Further, it may be noted that referred dividend was paid based on the available distributable surplus. There is no adverse observation in this respect in the inspection report.*

It was ensured that no communication in respect of dividend was disseminated to any external or internal entity other than the investment committee members. Further, there is no adverse observation in the inspection report on movement in scheme AUM before and/or after the record date.

Aforementioned facts clearly highlight that the IBAMC has followed at all times high standards of service, exercised due diligence, ensured proper care and exercised independent professional judgment while rendering its/their services to Indiabulls Mutual Fund. It is hereby submitted that IBAMC has always followed the terms and conditions of registration of Mutual Fund in letter and spirit. IBAMC was thus in compliance with the applicable provisions including Clause 9 of Code of Conduct as detailed under Fifth Schedule of SEBI (Mutual Funds) Regulations, 1996.

As detailed above, IBAMC has exercised due skill, care and diligence while conducting its business. It is thus denied that IBAMC violated the applicable statutory provisions including Regulation 10, 25(16), 52(A) and Clause 9 of Fifth Schedule of

SEBI (Mutual Funds) Regulations, 1996 read with SEBI Circular No. SEBI/IMD/CIR No. 1/64057/06 dated April 4, 2006.

Valuation of Securities

With respect to the valuation of security, we deny any violation of SEBI (Mutual Funds) Regulations, 1996 and the applicable SEBI circular including Regulation 25(19), 47, Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996 and SEBI Circular No. SEBI/IMD/CIR No. 16/193388/2010 dated February 2, 2010.

Regulation 25(19) of SEBI (Mutual Funds) Regulations, 1996 mandates AMC to value investments in accordance with the investment valuation norms specified in Eighth Schedule and publish the same. It may be noted that IBAMC followed the guidelines as detailed under Eighth Schedule as follows,

- *IBAMC followed defined the valuation policy, duly approved by the board of directors of IBAMC and IBTCL;*
- *Defined valuation policy was posted at website of IBAMC for general dissemination to all investors;*

- *Valuation policy clearly defined the methodology in respect of different asset class, trading type and maturity;*
- *All securities during the inspection period were consistently valued as per pre-defined valuation policy;*
- *Valuation policy was updated periodically;*
- *On any trade date, same/similar security was posted in the account at the deal price consistently;*
- *All expenses and incomes accrued up to valuation date were considered for computation of net asset value;*
- *NAV of schemes under management was declared/published on regular basis.*

Sir, it is our humble submission that the IBAMC had met all its obligations as defined under Regulation 25(19) and 47 read with Eighth Schedule of SEBI (Mutual Funds)

Regulations, 1996. It is pertinent to that there was no adverse observation in respect of above in the inspection report.

In reference to SEBI Circular No. SEBI/IMD/CIR No. 16/193388/2010 dated February 2, 2010, it is our kind submission that there was no difference in valuation methodology of same security in different schemes. All same or similar securities were valued consistently across all schemes.

The 31 instances mentioned in the captioned notice, refers to 9 underlying new trades as detailed below. The difference in the count is on account of continuous holding of the specific security. As valuation methodology is applied on initial posting of any new trade in any scheme and then amortized over the holding period, 31 instances do not reflect true scenario for analysis purpose.

Of the referred 9 securities transaction, 2 were with residual maturity of more than 60 days. As per SEBI Circular no. SEBI/IMD/CIR No.16/193388/2010 dated February 02, 2010 and subsequent circular no. Cir/IMD/DF/6/2012 dated February 28, 2012; these securities were valued based on mark-up/mark-down approach over the aggregated yield obtained from entrusted agencies like CRISIL/ICRA.

			Liquid		UST		Income Fund		Closing Price		
Security	Particulars	Date	Qty	Price per Unit	Qty	Price per Unit	Qty	Price per Unit	Liquid	UST	IF
HDFC BANK LTD CD 13-SEP-2013	Op Balance As on 31/01/2013	31-Jan-13	-	-	-	-	-	-	-	-	-
	New Purchase	14-Jun-13	1,00,00,000.00	98.0012	1,00,00,000.00	98.0002	-	-	98.0217	98.0217	-
	Additional Purchase	17-Jul-13	3,00,00,000.00	98.4743	-	-	-	-	98.4826	-	-
		23-Jul-13			6,00,000.00	98.6548	6,00,000.00	98.6548	98.6806	98.6806	98.6806
		30-Jul-13	2,50,00,000.00	98.6913	-	-	-	-	98.6956	98.7726	98.7726
		06-Aug-13	6,00,000.00	98.9400	-	-	-	-	98.9192	98.9679	-
		07-Aug-13	2,00,000.00	98.9679	-	-	-	-	98.9488	98.9958	-
		13-Aug-13	20,00,000.00	99.1352	-	-	-	-	99.1267	99.1631	-
		20-Aug-13	2,00,000.00	99.3305	-	-	-	-	99.3311	99.3584	-
		27-Aug-13	2,00,000.00	99.5258	-	-	-	-	99.5351	99.5537	-
INDUSIND BANK LTD 16SEP13 CD	Op Balance As on 31/01/2013	31-Jan-13	-	-							
	New Purchase	18-Jun-13	1,25,00,000.00	97.9769	75,00,000.00	97.9779			97.9994	97.9994	-
	Additional Purchase	02-Jul-13	2,50,00,000.00	98.3257					98.3596	98.3596	-
		08-Jul-13	50,00,000.00	98.5568					98.5561	-	-
		18-Jul-13	1,05,00,000.00	98.4563	70,00,000.00	98.4563			98.4564	98.4563	-
		22-Jul-13	-	-	5,00,000.00	98.5325			98.5611	98.5608	-
		31-Jul-13	50,00,000.00	98.6143					98.6143	98.6294	-
		05-Aug-13	60,00,000.00	98.7557					98.7925	98.7784	-

The rest 7 transactions were with residual maturity of 60 days and less. As per SEBI Circular no. SEBI/IMD/CIR No.16/193388/2010 dated February 02, 2010 and subsequent circular no. Cir/IMD/DF/6/2012 dated February 28, 2012; these securities were amortized on cost/last valuation price within +/- 0.10% of the reference price provided by the entrusted agencies like CRISIL/ICRA.

			Liquid		UST		Income Fund		Closing Price		
Security	Particulars	Date	Qty	Price per Unit	Qty	Price per Unit	Qty	Price per Unit	Liquid	UST	IF
PUNJAB NATIONAL BANK 25JUN13 CD	Op Balance As on 31/01/2013	31-Jan-13	-	-	-	-	-	-			
	New Purchase	29-Apr-13	1,50,00,000.00	98.7744					98.7959	-	-
	Additional Purchase	06-May-2013	80,00,000.00	98.9240	20,00,000.00	98.9240			98.9458	98.9455	-
		13-May-13	5,00,000.00	99.0895					99.0982	99.0962	-
		16-May-2013	1,00,00,000.00	99.1624					99.1774	99.1607	-
CHENNAI PETROLEUM CORP LTD 03MAR-14 CP	Op Balance As on 31/01/2013	31-Jan-13	-	-	-	-	-	-	-	-	-
	New Purchase	03-Jan-2014	1,25,00,000.00	98.6384	-	-	-	-	98.6615	-	-
	Additional Purchase	06-Jan-2014	45,00,000.00	98.6649	5,00,000.00	98.6649	-	-	98.7154	98.6887	-
INDIAN OIL CORP LTD 18-FEB-2013 CP	Op Balance As on 31/01/2013	31-Jan-13	1,25,00,000.00	99.6040	50,00,000.00	99.6045					
	Additional Purchase	01-Feb-13	-	-	75,00,000.00	99.6172			99.6273	99.6349	-
BERGER PAINTS INDIA LTD 30DEC13 CP	Op Balance As on 31/01/2013	31-Jan-13	-	-	-	-	-	-	-	-	-
	New Purchase	17-Dec-13	45,00,000.00	99.6822	5,00,000.00	99.6822			99.7066	99.7066	
	Additional Purchase	18-Dec-13	35,00,000.00	99.7033					99.7298	99.7311	
		19-Dec-13	40,00,000.00	99.7280					99.7538	99.7555	
CANARA BANK 26MAR13 CD	Op Balance As on 31/01/2013	31-Jan-13	-	-	-	-	-	-	-	-	-
	New Purchase	18-Feb-13	60,00,000.00	99.2164	40,00,000.00	99.2162	-	-	99.2382	99.2380	-
CANARA BANK 28FEB14 CD	Op Balance As on 31/01/2013	31-Jan-13	-	-	-	-	-	-	-	-	-
	New Purchase	27-Dec-13	50,00,000.00	98.5381					98.5600		
	Additional Purchase	30-Dec-2013	45,00,000.00	98.6056	5,00,000.00	98.6056			98.6289	98.6288	
VIJAYA BANK 03FEB14 CD	Op Balance As on 31/01/2013	31-Jan-13	-	-	-	-	-	-	-	-	-
	New Purchase	05-Dec-2013	50,00,000.00	98.5565	-	-	-	-	98.5798	-	-
	Additional Purchase	31-Dec-13	-	-	50,000.00	99.1824	-	-	99.2056	99.2064	-

As may be noted herein above, all new trades were posted at the same trade price across schemes (highlighted in Amber Colour) for any given date following the concept of consistency as per SEBI circular no. SEBI/IMD/CIR No. 16/193388/2010 dated February 2, 2010. As certain schemes were holding these securities previously, it considered the weighted average price of that security in its books and then amortized over the holding period whereas the scheme which was not having any prior holding, continued with the traded price (as highlighted in green color). The valuation procedure thus followed was consistent across all schemes of IBMF. Further IBAMC's valuation policy duly approved by the board of IBAMC & IBTCL clearly specifies that the amortized price based on cost or last valuation price may be used for valuation purpose. This clearly demonstrates our compliance with 'Clause (c)' of Principles of Fair Valuation as specified under Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996, which reads as follows "The assets held by the mutual funds shall be consistently valued according to the policies and procedures. The policies and procedures shall describe the process to deal with exceptional events where market quotations are no longer reliable for a particular security".

The Clause (a) of Principles of Fair Valuation as specified under Eighth schedule of SEBI (Mutual Funds) Regulations, 1996 mandates AMC to formulate the valuation policy based on the principle of fair valuation which shall reflect the realizable value of the securities. In case of Indiabulls Mutual Fund, there was no instance of devaluation of security on account of illiquidity, which clearly demonstrates the effective fair value principle being followed by IBAMC and securities being valued consistently across the schemes.

It is our humble submission that IBAMC has followed pre-defined and approved valuation policy consistently. Further the valuation methodology followed during the inspection period is based on the market-wide practice which is still in existence across fund houses in the country.

Further, the highlighted instances do not reflect any inconsistency in valuation methodology. It is thus denied that IBAMC violated the applicable statutory provisions including Regulation 25(19), 47 and Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996 read with SEBI Circular No. SEBI/IMD/CIR No. 16/193388/2010 dated February 2, 2010.

In the facts and circumstances as clearly brought out by us above, any imposition of penalty on us would be unjustified and unwarranted. It is also submitted that over the years we have built a very strong reputation and if any action is proposed against us, the same would adversely affect us and our impeccable reputation.

It is submitted that we have neither made any disproportionate gain nor gained unfair advantage. Further, there's no loss to the investors or group of investors.

It is submitted that the issues pointed out in the inspection report are merely technical, venial and procedural in nature. We are committed to complying with the law and request that the facts stated above also be seen in the context of our overall scale of operations handled by us.

7. In the interest of natural justice and in order to conduct an inquiry as per Rule 4(3) of the said Adjudication Rules, vide Hearing Notice dated December 07, 2016, the noticees were given opportunity of personal hearing on January 10, 2017. The noticees vide letter dated January 09, 2017 stated that they are in process to gather requisite details/data and sought adjournment of hearing for 3 weeks. Acceding the request of the noticees, vide hearing notice dated January 09, 2017 another opportunity of hearing was granted to the noticees on February 08, 2017. However the hearing was rescheduled and the noticees were once again granted an opportunity of personal hearing before the undersigned on March 21, 2017.

8. The noticee vide letter dated March 21, 2017 authorized Mr. Vinay Chauhan, Advocate Corporate Law Chambers, India and Mr. Uday Diwale, Head Compliance, Indiabulls MF to appear for hearing. The Authorised representatives appeared for hearing. The ARs requested for the specific instances w.rt the charge of failure to follow the dividend

distribution procedure and the same were provided to them along with supporting documents.

9. Further, with respect to the charge of different valuation for the same securities in different schemes, the ARs were intimated that in their previous reply dated September 09, 2016, the noticees did not to make replies for the date mentioned in the SCN and for which the ARs had requested for additional time to submit the same. The ARs were granted 15 days' time to submit their additional reply. The noticee submitted their reply vide letter dated April 24, 2017. The noticees made the following submissions-

   During the inspection period, in case of 4 instances, dividend frequency of more than one month was declared as per following details,

Record Date	Scheme Name	Plan/Option	AUM (In Rs.)	Per Unit NAV	Units	Dividend Per Unit	Dividend Amount (In Rs.)
25-03-2013	Indiabulls Income Fund	Direct Half Yearly Dividend	2,26,125.20	10.009969010	22,590.00	0.0237	534.43
		Regular Half Yearly Dividend	19,15,811.18	10.004758370	1,91,490.00	0.0183	3,510.92
25-03-2013		Direct Quarterly Dividend	25,024.90	10.009960000	2,500.00	0.0237	59.19
		Regular Quarterly Dividend	11,33,239.18	10.004760130	1,13,270.00	0.0183	2,076.94
25-03-2014		Direct Half Yearly Dividend	2,32,852.30	10.283431720	22,643.44	0.2218	5,021.86
		Regular Half Yearly Dividend	15,76,515.91	10.153111300	1,55,274.17	0.1199	18,622.35
25-06-2013		Direct Quarterly Dividend	25,915.64	10.341791460	2,505.91	0.2664	667.57
		Regular Quarterly Dividend	3,12,75,961.60	10.310523660	30,33,401.86	0.0116	35,213.38

   It may kindly be noted that the offer document (SID) of Indiabulls Income Fund, offers pre-defined Dividend facility of Monthly, Quarterly and Half-yearly frequency subject to availability of distributable surplus. The SIDs were approved by the Board of Directors of Indiabulls Trustee Company Limited of Indiabulls Mutual Fund on August 05, 2011 and subsequently approved by SEBI prior to scheme launch. On launch of NFO and thereon, SID is available in public domain for wider audience and for information of investors in the scheme. Thus the disclosure regarding the frequency of dividend and trustees approval of the same was in place and there is no violation in this respect. Declaration of dividend was in compliance with Regulation 52(A) of SEBI (Mutual Funds) Regulations, 1996.

Further, it may be noted that referred dividend was paid based on the distributable surplus. There is no instance of adverse observation in this regard in the inspection report.

Also based on investment committee's recommendation, the record date was finalized as the day next to investment committee's decision. It was ensured that no communication in respect of dividend was disseminated to any external or internal entity other than the investment committee members. Further, there is no adverse observation in the inspection report on movement in scheme AUM before and after the record date.

Aforementioned facts clearly highlight that the AMC has followed at all times high standards of service, exercised due diligence, ensured proper care and exercised independent professional judgment while rendering its services to Indiabulls Mutual Fund. As detailed herein above, the amount of dividend distributed was only Rs. 65,706.64 during the given 4 instances against the total AUM of Rs. 3,64,11,445.91 which is a miniscule amount and not offer any undue advantage or gain to any investor or AMC. Dividend payout to each investor was also miniscule as may be observed from the investor pay-out list attached. It is hereby submitted that the AMC has followed terms and conditions of registration of Mutual Fund in letter and spirit without any malafide intent. AMC was thus in compliance with Clause 9 of Code of Conduct as detailed under Fifth Schedule of SEBI (Mutual Funds) Regulations, 1996.

AMC has already put in place the process whereby dividend declaration of more than one month frequency is presented to the Board of AMC and Trustees for their specific approval. On approval, within one day, notice is given in national and local newspaper with the record date and approximate dividend rate for general information to the investors. Respective addendum is also published on the website of the AMC. All investors' holdings as on record date are then eligible for the dividend based on available distributable surplus.

As detailed above, AMC has undertaken measures and has exercised due skill, care and diligence while conducting its business. It is denied that AMC violated Regulation 10, 25(16), 52(A), Clause 9 of Fifth Schedule of SEBI (Mutual Funds) Regulations, 1996 read with SEBI Circular No. SEBI/IMD/CIR NO 1/64057/06 dated April 4, 2006.

Regulation 25(19) of SEBI (Mutual Funds) Regulations, 1996 mandates AMC to value investments in accordance with the investment valuation norms as specified in Eighth Schedule and shall publish the same. It may be noted that the AMC followed the guidelines as detailed under Eighth Schedule as follows,

- *AMC followed defined the valuation policy, duly approved by the board of AMC and trustees*
- *Defined valuation policy was posted at AMC website for general dissemination to all investors*
- *Valuation policy clearly defined the methodology in respect of different asset class, trading type and maturity*
- *All securities during the inspection period were consistently valued as per pre-defined valuation policy*
- *Valuation policy was updated periodically*
- *On any trade date, same/similar security was posted in the account at the deal price consistently*
- *All expenses and incomes accrued upto valuation date were considered for computation of net asset value*
- *NAV of schemes under management was declared/published on regular basis*

It is our humble submission that the AMC had met all its obligations as defined under Regulation 25(19) and 47 read with Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996. It is pertinent to note here that there was no adverse observation in respect of above in the inspection report.

In reference to SEBI Circular No. SEBI/IMD/CIR No. 16/193388/2010 dated February 2, 2010, it is our humble submission that there was no difference in valuation methodology of same security in different schemes. All similar securities were valued consistently across all schemes.

It is once again pertinent to note that subsequent to SEBI Circular dated February 2, 2010 and Gazette Notification of February 21, 2012; AMFI Valuation committee was in discussion within its members and SEBI to seek clarity towards the implementation of valuation guidelines. The same is evident from the mail written by AMFI Chairman on February 29, 2012 to all its members and AMFI Circular no. 135/BP/29/2012-13 dated May 15, 2012. The relevant extract is produced herewith for your kind reference,

- *Mutual Funds were permitted to formulate their own Valuation Policy*
- *Securities below 90 days to be amortized to maturity provided such amortized yield falls within the principles of fair value*
- *The amortized price may be used for valuation as long as it is within +/- 0.10% of the reference price*

It is also highlighted that the Valuation Committee of AMFI engaged both CRISIL and ICRA to get security level fair valuation of debt securities on November 19, 2013. Kindly refer AMFI Best Practice Guidelines Circular No. 42/2013-14 in this respect. The implementation of referred circular was with effect from November 30, 2013, which was further extended till December 31, 2013 on implementation concerns expressed by AMFI members.

It is our humble submission that the whole Mutual Fund industry was debating and evaluating the method to implement the valuation guidelines as issued by SEBI during the period between February 2010 and December 2013. The same was in consultation with SEBI.

Based on referred AMFI guidance, Indiabulls Mutual Fund drafted its own Valuation Policy dated July 1, 2012, which was duly approved by the Trustee Board and *subsequently disclosed on AMC website for general dissemination to the investors, in compliance with Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996. It is reiterated that there is no adverse observation in this respect in the inspection report.*

The then applicable valuation policy of Indiabulls Mutual Fund specifies that "In case of Non-traded/Traded securities of less than 60 days maturity, the amortized price based on cost or last valuation price may be used for valuation as long as it is within +/-0.10% of the reference price." It is humbly submitted that all securities having maturity of less than 60 days were valued as per stated policy and there is no adverse observation in this respect in the inspection report.

The alleged 31 instances as referred in the show-cause refer to the securities having maturity less than 60 days as on date of stated NAV. We submit that in case of all these instances, securities were valued as per approved Valuation Policy which was in compliance with AMFI and SEBI directives. It is pertinent to note here that the stated valuation policy was submitted to the inspection team and there are no adverse observations in respect of Valuation Policy of Indiabulls Mutual Fund. As per referred policy and AMFI/Regulatory guidelines, the securities having maturity less than 60 days were valued based on amortized price across all schemes.

NAV date	Security Name	Scheme Name	Market Price	Security Type as on NAV date	Valuation Method	Variation in Price (in Rs)	% Variation
03-Sep-13	HDFC BANK LTD CD 13-SEP-2013	Indiabulls Liquid Fund	99.7385	Less than 60 days	Weighted Average & amortized on daily basis	-0.0104	-0.010%
03-Sep-13		Indiabulls Ultra Short Term Fund	99.7489	Less than 60 days	Weighted Average & amortized on daily basis		
19-Dec-13	BERGER PAINTS INDIA LTD 30DEC13 CP	Indiabulls Liquid Fund	99.7538	Less than 60 days	Weighted Average & amortized on daily basis	-0.0017	-0.002%
19-Dec-13		Indiabulls Ultra Short Term Fund	99.7555	Less than 60 days	Weighted Average & amortized on daily basis		
31-Dec-13	CANARA BANK 28FEB14 CD	Indiabulls Liquid Fund	98.6522	Less than 60 days	Weighted Average & amortized on daily basis	0.0001	0.000%
31-Dec-13		Indiabulls Ultra Short Term Fund	98.6521	Less than 60 days	Weighted Average & amortized on daily basis		
31-Dec-13	VIJAYA BANK 03FEB14 CD	Indiabulls Liquid Fund	99.2056	Less than 60 days	Weighted Average & amortized on daily basis	-0.0008	-0.001%
31-Dec-13		Indiabulls Ultra Short Term Fund	99.2064	Less than 60 days	Weighted Average & amortized on daily basis		
02-Jan-14	CANARA BANK 28FEB14 CD	Indiabulls Liquid Fund	98.6987	Less than 60 days	Weighted Average & amortized on daily basis	0.0001	0.000%
02-Jan-14		Indiabulls Ultra Short Term Fund	98.6986	Less than 60 days	Weighted Average & amortized on daily basis		
02-Jan-14	VIJAYA BANK 03FEB14 CD	Indiabulls Liquid Fund	99.2538	Less than 60 days	Weighted Average & amortized on daily basis	-0.0007	-0.001%
02-Jan-14		Indiabulls Ultra Short Term Fund	99.2545	Less than 60 days	Weighted Average & amortized on daily basis		
21-Jan-14	VIJAYA BANK 03FEB14 CD	Indiabulls Liquid Fund	99.7111	Less than 60 days	Weighted Average & amortized on daily basis	-0.0003	0.000%
21-Jan-14		Indiabulls Ultra Short Term Fund	99.7114	Less than 60 days	Weighted Average & amortized on daily basis		
22-Jan-14	VIJAYA BANK 03FEB14 CD	Indiabulls Liquid Fund	99.7352	Less than 60 days	Weighted Average & amortized on daily basis	-0.0003	0.000%
22-Jan-14		Indiabulls Ultra Short Term Fund	99.7355	Less than 60 days	Weighted Average & amortized on daily basis		
11-Feb-13	INDIAN OIL CORP LTD 18-FEB-2013 CP	Indiabulls Liquid Fund	99.860227	Less than 60 days	Weighted Average & amortized on daily basis	-0.002867	-0.003%
11-Feb-13		Indiabulls Ultra Short Term Fund	99.863094	Less than 60 days	Weighted Average & amortized on daily basis		
18-Feb-13	CANARA BANK 26MAR13 CD	Indiabulls Liquid Fund	99.238167	Less than 60 days	Weighted Average & amortized on daily basis	0.000195	0.000%
18-Feb-13		Indiabulls Ultra Short Term Fund	99.237972	Less than 60 days	Weighted Average & amortized on daily basis		
25-Feb-13	CANARA BANK 26MAR13 CD	Indiabulls Liquid Fund	99.390533	Less than 60 days	Weighted Average & amortized on daily basis	0.000155	0.000%
25-Feb-13		Indiabulls Ultra Short Term Fund	99.390378	Less than 60 days	Weighted Average & amortized on daily basis		
06-May-13	PUNJAB NATIONAL BANK 25JUN13 CD	Indiabulls Liquid Fund	98.9458	Less than 60 days	Weighted Average & amortized on daily basis	0.0003	0.000%
06-May-13		Indiabulls Ultra Short Term Fund	98.9455	Less than 60 days	Weighted Average & amortized on daily basis		
15-May-13	PUNJAB NATIONAL BANK 25JUN13 CD	Indiabulls Liquid Fund	99.1411	Less than 60 days	Weighted Average & amortized on daily basis	0.0019	0.002%
15-May-13		Indiabulls Ultra Short Term Fund	99.1392	Less than 60 days	Weighted Average & amortized on daily basis		
22-May-13	PUNJAB NATIONAL BANK 25JUN13 CD	Indiabulls Liquid Fund	99.3039	Less than 60 days	Weighted Average & amortized on daily basis	0.0141	0.014%
22-May-13		Indiabulls Ultra Short Term Fund	99.2898	Less than 60 days	Weighted Average & amortized on daily basis		
30-May-13	PUNJAB NATIONAL BANK 25JUN13 CD	Indiabulls Liquid Fund	99.4727	Less than 60 days	Weighted Average & amortized on daily basis	0.0107	0.011%
30-May-13		Indiabulls Ultra Short Term Fund	99.462	Less than 60 days	Weighted Average & amortized on daily basis		
03-Jun-13	PUNJAB NATIONAL BANK 25JUN13 CD	Indiabulls Liquid Fund	99.5571	Less than 60 days	Weighted Average & amortized on daily basis	0.009	0.009%
03-Jun-13		Indiabulls Ultra Short Term Fund	99.5481	Less than 60 days	Weighted Average & amortized on daily basis		
11-Jun-13	PUNJAB NATIONAL BANK 25JUN13 CD	Indiabulls Liquid Fund	99.7258	Less than 60 days	Weighted Average & amortized on daily basis	0.0056	0.006%
11-Jun-13		Indiabulls Ultra Short Term Fund	99.7202	Less than 60 days	Weighted Average & amortized on daily basis		
19-Jun-13	PUNJAB NATIONAL BANK 25JUN13 CD	Indiabulls Liquid Fund	99.8945	Less than 60 days	Weighted Average & amortized on daily basis	0.0021	0.002%
19-Jun-13		Indiabulls Ultra Short Term Fund	99.8924	Less than 60 days	Weighted Average & amortized on daily basis		
31-Jul-13	HDFC BANK LTD CD 13-SEP-2013	Indiabulls Income Fund and Ultra Short Term Fund	98.8005	Less than 60 days	Weighted Average & amortized on daily basis	0.0753	0.076%
31-Jul-13		Indiabulls Liquid Fund	98.7252	Less than 60 days	Weighted Average & amortized on daily basis		
31-Jul-13	INDUSIND BANK LTD 16SEP13 CD	Indiabulls Liquid Fund	98.6143	Less than 60 days	Weighted Average & amortized on daily basis	-0.0151	-0.015%
31-Jul-13		Indiabulls Ultra Short Term Fund	98.6294	Less than 60 days	Weighted Average & amortized on daily basis		
01-Aug-13	HDFC BANK LTD CD 13-SEP-2013	Indiabulls Income Fund and Ultra Short Term Fund	98.8284	Less than 60 days	Weighted Average & amortized on daily basis	0.0735	0.074%
01-Aug-13		Indiabulls Liquid Fund	98.7549	Less than 60 days	Weighted Average & amortized on daily basis		
01-Aug-13	INDUSIND BANK LTD 16SEP13 CD	Indiabulls Liquid Fund	98.6444	Less than 60 days	Weighted Average & amortized on daily basis	-0.0148	-0.015%
01-Aug-13		Indiabulls Ultra Short Term Fund	98.6592	Less than 60 days	Weighted Average & amortized on daily basis		
07-Aug-13	HDFC BANK LTD CD 13-SEP-2013	Indiabulls Liquid Fund	98.9488	Less than 60 days	Weighted Average & amortized on daily basis	-0.047	-0.047%
07-Aug-13		Indiabulls Ultra Short Term Fund	98.9958	Less than 60 days	Weighted Average & amortized on daily basis		
13-Aug-13	HDFC BANK LTD CD 13-SEP-2013	Indiabulls Liquid Fund	99.1267	Less than 60 days	Weighted Average & amortized on daily basis	-0.0364	-0.037%
13-Aug-13		Indiabulls Ultra Short Term Fund	99.1631	Less than 60 days	Weighted Average & amortized on daily basis		
20-Aug-13	HDFC BANK LTD CD 13-SEP-2013	Indiabulls Liquid Fund	99.3311	Less than 60 days	Weighted Average & amortized on daily basis	-0.0273	-0.027%
20-Aug-13		Indiabulls Ultra Short Term Fund	99.3584	Less than 60 days	Weighted Average & amortized on daily basis		
05-Feb-13	INDIAN OIL CORP LTD 18-FEB-2013 CP	Indiabulls Liquid Fund	99.7205	Less than 60 days	Weighted Average & amortized on daily basis	-0.005734	-0.006%
05-Feb-13		Indiabulls Ultra Short Term Fund	99.7262	Less than 60 days	Weighted Average & amortized on daily basis		
26-Feb-13	CANARA BANK 26MAR13 CD	Indiabulls Liquid Fund	99.4123	Less than 60 days	Weighted Average & amortized on daily basis	0.00015	0.000%
26-Feb-13		Indiabulls Ultra Short Term Fund	99.4122	Less than 60 days	Weighted Average & amortized on daily basis		
19-Aug-13	HDFC BANK LTD CD 13-SEP-2013	Indiabulls Liquid Fund	99.3014	Less than 60 days	Weighted Average & amortized on daily basis	-0.0291	-0.029%
19-Aug-13		Indiabulls Ultra Short Term Fund	99.3305	Less than 60 days	Weighted Average & amortized on daily basis		
26-Dec-13	BERGER PAINTS INDIA LTD 30DEC13 CP	Indiabulls Liquid Fund	99.9261	Less than 60 days	Weighted Average & amortized on daily basis	-0.0006	-0.001%
26-Dec-13		Indiabulls Ultra Short Term Fund	99.9267	Less than 60 days	Weighted Average & amortized on daily basis		
07-Jan-14	CHENNAI PETROLEUM CORP LTD 03MAR-14 CP	Indiabulls Liquid Fund	98.7387	Less than 60 days	Weighted Average & amortized on daily basis	0.0261	0.026%
07-Jan-14		Indiabulls Ultra Short Term Fund	98.7126	Less than 60 days	Weighted Average & amortized on daily basis		
07-Jan-14	VIJAYA BANK 03FEB14 CD	Indiabulls Liquid Fund	99.3741	Less than 60 days	Weighted Average & amortized on daily basis	-0.0007	-0.001%
07-Jan-14		Indiabulls Ultra Short Term Fund	99.3748	Less than 60 days	Weighted Average & amortized on daily basis		

The valuation procedure thus followed was consistent across all schemes of IBMF. Further IBAMC's valuation policy duly approved by the board of IBAMC & IBTCL clearly specifies that the amortized price based on cost or last valuation price may be used for valuation purpose. This clearly demonstrates our compliance with 'Clause (c)' of Principles of Fair Valuation as specified under Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996, which reads as follows "The assets held by the mutual funds shall be consistently valued according to the policies and procedures. The policies and procedures shall describe the process to deal with exceptional events where market quotations are no longer reliable for a particular security".

The Clause (a) of Principles of Fair Valuation as specified under Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996 mandates AMC to formulate the valuation policy based on the principle of fair valuation which shall reflect the realizable value of the securities. In case of Indiabulls Mutual Fund, there was no instance of devaluation of security on account of illiquidity, which clearly demonstrates the effective fair value principle being followed by IBAMC and securities being valued consistently across the schemes.

It is our humble submission that IBAMC has followed pre-defined and approved valuation policy consistently. Further the valuation methodology followed during the inspection period is based on pre-defined valuation policy and AMFI Circular dated May 15, 2012 and subsequent clarifications issued on November 19, 2013.

Further, the highlighted instances do not reflect any inconsistency in valuation methodology. It is thus denied that IBAMC has at any point of time violated the applicable statutory provisions including Regulation 25(19), 47 and Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996 read with SEBI Circular No. SEBI/IMD/CIR No. 16/193388/2010 dated February 2, 2010.

Before concluding our arguments, we would like to invite your kind attention to the case of DSE Financial Services Ltd. v/s SEBI (Appeal No.153 of 2012) decided on 11.09.2012 wherein Hon'ble SAT observed under:
[Reference Para 3 of said Order]

"....every minor discrepancy/irregularity found during the course of inspection is not culpable and object of the inspection could well be achieved by pointing out the irregularities/deficiencies to the intermediary at the time of inspection and making it compliant."

Similarly, in case of UPSE Securities Ltd. v/s SEBI (Appeal No. 109 of 2011) decided on 25.07.2011; Hon'ble SAT has once again observed as under:

[Reference Para 5 of said Order]

"...Before concluding we cannot resist observing that the object of carrying out inspection of the books of accounts and records of any intermediary including a stock exchange or its subsidiaries is to ensure compliance with the provisions of the Act, Rules, Regulations, By-laws and circulars issued from time to time which are meant to regulate the securities market. Every little irregularity/deficiency noticed during the course of the inspection is not culpable and does not call for initiation of penalty proceedings. The purpose of inspection in quite a few cases could be better achieved if the inspecting team at the time of the inspection were to advise the erring entity..."

Thus you will kindly observe that the honorable SAT has repeatedly held that the purpose of inspection is only to point out irregularities/deficiencies, if any, in order to make the intermediary compliant.
In the facts and circumstances as clearly brought out by us above, any imposition of penalty on us would not only be unfair but also unjustified and unwarranted.

It is submitted that we have neither made any disproportionate gain nor gained unfair advantage. Further, there's no loss to the investors or group of investors.

It is also submitted that the issues pointed out in the inspection report are merely technical, venial and procedural in nature and do not have any incriminating value. We are committed to complying with the law and request that the facts stated above also be seen in the context of our overall scale of operations handled by us.

Consideration of Issues, Evidence and Findings

10. I have carefully perused the charges levelled against the Noticees, their replies and the material / documents available on record. In the instant matter, the following issues arise for consideration and determination:-
    a. *Whether the Noticees have violated the provisions of Reg. 10 (a) of SEBI Mutual Fund Regulations, 1996, Reg. 25 (16), Reg. 52(A), Clause 9 of Fifth Schedule of SEBI (MF) Regulations, 1996 and SEBI Circular No. SEBI / IMD / CIR No. 1 / 64057 / 06 dated April 04, 2006 & Reg. 25 (19), Reg. 47, Eighth Schedule of SEBI (MF) Regulations, 1996 and SEBI circular no. SEBI/IMD/CIR No.16/ 193388/2010 dated Feb 02, 2010;*
    b. *Do the violations, if any, on the part of the Noticees attract monetary penalty under Section 15 D (b) & 15HB of the SEBI Act,1992 for the alleged violation by the said noticees?; and,*
    c. *If so, what would be the quantum of monetary penalty that can be imposed on the Noticees after taking into consideration the factors mentioned in Section 15J of the SEBI Act,1992;?*

11. Before proceeding further, I would like to refer to the relevant provisions of the SEBI Mutual Fund Regulations, 1996 and SEBI circulars-

SEBI (MUTUAL FUNDS) REGULATIONS, 1996
Terms and conditions of registration
Regulation 10. The registration granted to a mutual fund under regulation 9 shall be subject to the following terms and conditions: -

(a) the trustees, the sponsor, the asset management company and the custodian shall comply with the provisions of these regulations;

Asset Management Company and its obligations

Regulation 25 (16) *The asset management company shall abide by the Code of Conduct as specified in the Fifth Schedule.*

Declaration of dividends

Regulation 52A- *A mutual fund may declare dividends in accordance with the offer document and subject to such Guidelines as may be specified by the Board*

Fifth Schedule SEBI (Mutual Funds) Regulations, 1996
Code Of Conduct

Clause (9) *Trustees and the asset management company shall render at all times high standards of service, exercise due diligence, ensure proper care and exercise independent professional judgment.*

SEBI Circular No. SEBI / IMD / CIR No. 1 / 64057 / 06 dated April 04, 2006 inter-alia states that,

a) *"…Quantum of dividend and the record date shall be fixed by the trustees in their meeting...."*

b) *"…Within one calendar day of the decision by the trustees, AMC shall issue notice to the public communicating the decision including the record date. The record date shall be 5 calendar days from the issue of notice…."*

SEBI (MUTUAL FUNDS) REGULATIONS, 1996
Asset Management Company and its obligations

Regulation 25 *(19) The asset management company shall compute and carry out valuation of investments made by its scheme(s) in accordance with the investment valuation norms specified in Eighth Schedule, and shall publish the same*

Valuation of investments

Regulation 47*. Every mutual fund shall ensure that the asset management company computes and carries out valuation of investments made by its scheme(s) in accordance with the investment valuation norms specified in Eighth Schedule, and publishes the same.*

<u>Eighth Schedule SEBI (Mutual Funds) Regulations, 1996</u>
<u>Investment Valuation Norms</u>

SEBI circular no. SEBI/IMD/CIR No.16/ 193388/2010 dated Feb 02, 2010 on "Valuation of Debt and Money Market Instruments" states that "…All AMC's shall ensure that similar securities held under its various schemes shall be valued consistently…".

FINDINGS:

12. It was observed that Indiabulls has not adhered to Circular No. SEBI/IMD/CIR No.1/64057/06 dated April 04, 2006 on dividend distribution and in Indiabulls Income Fund (Half Yearly / Quarterly dividend) Indiabulls AMC has not obtained trustee approval and not issued addendum as per guidelines on the following 4 instances-

Scheme Name	**Frequency**	**Record Date**
Indiabulls Income Fund	Half Yearly Dividend	25-03-2013
Indiabulls Income Fund	Half Yearly Dividend	25-03-2014
Indiabulls Income Fund	Quarterly Dividend	25-03-2013
Indiabulls Income Fund	Quarterly Dividend	25-06-2013

13. In this regard I note that the noticees have admitted before inspection team that inadvertently, the trustee approval was not sought and addendum was not published for declaring the dividend in above four instances. The noticees have submitted in the instant proceedings that the scheme Information document (SID) of Indiabulls Income Fund, offers pre-defined Dividend facility of Monthly, Quarterly and Half-yearly frequency subject to availability of distributable surplus. SIDs were approved by the Board of Directors of Indiabulls Trustee Company Limited of Indiabulls Mutual Fund on August 05, 2011 and subsequently approved by SEBI prior to launch of scheme. On launch of NFO and thereafter, SID is available in public domain for wider audience and for information of investors in the scheme. Thus the disclosure regarding the

frequency of dividend and trustees approval of the same was in place and there is no violation in this respect. Declaration of dividend was in compliance with Regulation 52(A) of SEBI (Mutual Funds) Regulations, 1996. The noticee also submitted that the amount of dividend distributed was only Rs. 65,706.64 during the given 4 instances against the total AUM of Rs. 3,64,11,445.91 which is a miniscule amount and not offer any undue advantage or gain to any investor or AMC. Dividend payout to each investor was also miniscule.

14. I find from the submission of the noticee that the amount of dividend distributed was Rs. 65,706.64 only during the given 4 instances against the total AUM of Rs. 3,64,11,445.91. The noticee has also submitted that Indiabulls AMC has already put in place the process whereby dividend declaration of more than one month frequency is presented to the Board of AMC and Trustees for their specific approval. On approval, within one day, notice is given in national and local newspaper with the record date and approximate dividend rate for general information to the investors. Respective addendum is also published on the website of the AMC. All investors' holdings as on record date are then eligible for the dividend based on available distributable surplus. Though there has been a procedural lapse on part of Indiabulls of not taking approval of trustee and not publishing addendum for declaring the dividend on 4 instances, I do not find from the inspection report that it is a repetitive irregularity on part of the noticees. Further the observations made in inspection report are procedural in nature and corrective measures are taken by Noticees on being pointed out by the inspection team. No observations are made in inspection report as to whether investors' interests have adversely affected on account of procedural lapse on the part of Noticees.

15. It was further revealed from inspection that the Indiabulls AMC is not valuing the securities consistently across schemes and in 31 instances a single security was valued at different prices in different schemes in violation of Reg. 10 (a) of SEBI Mutual Fund Regulations, 1996, Reg. 25 (19), Reg. 47, Eighth Schedule of SEBI (MF)

Regulations, 1996 and SEBI circular no. SEBI/IMD/CIR No.16/ 193388/2010 dated Feb 02, 2010 and circular no Cir/IMD/DF/6/2012 dated February 28, 2012.

16. In this regard the noticee has submitted that subsequent to SEBI Circular dated February 2, 2010 and Gazette Notification of February 21, 2012; AMFI Valuation committee was in discussion within its members and Regulator to seek clarity towards the implementation of valuation guidelines which was evident from the email written by AMFI Chairman on February 29, 2012 to all its members and AMFI Circular no. 135/BP/29/2012-13 dated May 15, 2012. The noticees submitted that as per the same, Mutual Funds were permitted to formulate their own Valuation Policy. Securities below 90 days to be amortized to maturity provided such amortized yield falls within the principles of fair value and the amortized price may be used for valuation as long as it is within +/- 0.10% of the reference price. The noticee also submitted that the Valuation Committee of AMFI engaged both CRISIL and ICRA to get security level fair valuation of debt securities on November 19, 2013. In this regard the noticees also referred AMFI Best Practice Guidelines Circular No. 42/2013-14. The implementation of referred circular was with effect from November 30, 2013, which was further extended till December 31, 2013 in view of its implementation concerns expressed by AMFI members. Based on referred AMFI guidance, Indiabulls Mutual Fund drafted its own Valuation Policy dated July 1, 2012 which was duly approved by the Trustee Board and subsequently disclosed on AMC website for general dissemination to the investors, in compliance with Eighth Schedule of SEBI (Mutual Funds) Regulations, 1996. Then applicable valuation policy of Indiabulls Mutual Fund specifies that "In case of Non-traded/Traded securities of less than 60 days maturity, the amortized price based on cost or last valuation price may be used for valuation as long as it is within +/-0.10% of the reference price." The alleged 31 instances as referred in the show-cause refer to the securities having maturity less than 60 days as on date of stated NAV. As per referred policy and AMFI/Regulatory guidelines, the securities having maturity less than 60 days were valued based on amortized price across all schemes. The noticee submitted that in case of all these instances, securities were

valued consistently as per approved Valuation Policy. It is reiterated that there is no adverse observation in the inspection report with respect to inconsistency in following the disclosed valuation policy by AMC.

17. I note that there appears to be a difference in understanding the mandates of Circular No. SEBI/IMD/CIR No.16/193388/2010 dated Feb 02,2010 and Cir /IMD/DF/6/2012 dated Feb 28,2012 in the Mutual fund industry and AMFI was interacting with members and regulators to clear the same. I note that the noticees were bona fide in adopting the valuation policy as per the AMFI guidelines. I further note that terms of reference to auditors provided that in case of any mistake in NAV calculation by the noticee, its impact on unit holders should be reported, the finding of inspection in this regard was that there was no such instance during the period under inspection

18. It may be noted that that pursuant to Adjudication proceedings, penalty under section 15 D(b) of SEBI Act, 1992 is envisaged agaisnt the noticees. The provisions of Section 15 D(b) reads as under-

Penalty for certain defaults in case of mutual funds. 15D. If any person, who is— (*b*) registered with the Board as a collective investment scheme, including mutual funds, for sponsoring or carrying on any investment scheme, fails to comply with the terms and conditions of certificate of registration, he shall be liable to a penalty which shall not be less than one lakh rupees but which may extend to one lakh rupees for each day during which such failure continues subject to a maximum of one crore rupees

It may be noted that under Section 15D(b), penalty can be levied against a Mutual Funds registered with the Board who fails to comply with the terms and conditions for issuance of certificate of registration. Therefore penalty under section 15 D(b) does not applies to AMC and the Trustee of a Mutual Fund. Penalty may be imposed upon AMC and Trustee of Mutual Fund under section 15 HB of the SEBI Act 1992 which provides for penalty upon whoever fails to comply with any provisions of this Act, the rules or the regulations made or direction issued by the board thereunder for which no separate penalty has been provided.

19. Imposing penalty on Mutual fund under 15 D (b) would be counterproductive as unit holders of Mutual Fund would have to bear the penalty without any lapse on their part. Looking into the role of Indiabulls AMC and Trustee Company, I find that there are observations made in inspection report with respect to procedural lapses while declaration and distribution of dividend in four instances and Noticees have taken rectifying steps for proper compliance in future. Further there are observation in inspection report with respect to valuation of securities and calculation of NAV, it is noted that the noticees had followed market wide practice and abided to guidance issued by AMFI in this regard. There is no observations in inspection report as to whether investors' interests was adversely affected because of action of AMC.

20. In the instant proceedings, I am inclined to be guided by the observation of Hon'ble SAT in the matter of UPSE Securities Ltd. v/s SEBI, wherein the Hon'ble SAT has observed that "*the object of carrying out inspection of the books of accounts and records of any intermediary including a stock exchange or its subsidiaries is to ensure compliance with the provisions of the Act, Rules, Regulations, By-laws and circulars issued from time to time which are meant to regulate the securities market. Every little irregularity/deficiency noticed during the course of the inspection is not culpable and does not call for initiation of penalty proceeding*s. *The purpose of inspection in quite a few cases could be better achieved if the inspecting team at the time of the inspection were to advise the erring entity...*" I do not find it a fit case for imposing monetary penalty, Perhaps notices should be more careful in future in compliance with directives issued by SEBI from time to time.

<u>ORDER</u>

21. Having considered the facts and circumstances of the case, the material available on record, the submissions made by the Noticees, I, in exercise of the powers conferred

upon me under Section 15-I of the SEBI Act, 1992 read with Rule 5 of the Adjudication Rules, hereby dispose of the SCN.

22. In terms of the provisions of Rule 6 of the Securities and Exchange Board of India (Procedure for Holding Inquiry and Imposing Penalties by Adjudicating Officer) Rules 1995, a copy of this order is being sent to the Noticees viz. Indiabulls Mutual Fund (PAN: AAATI8720R) Indiabulls Asset Management Company Limited (PAN: AABCI9149Q) Indiabulls Trustee Company Limited (PAN: AABCI9148R) and to the Board.

Date: June 16, 2017	**Nagendraa Parakh**
Place: Mumbai	**Adjudicating Officer**