BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
[ADJUDICATION ORDER NO. Order/BS/YK/2023-24/29158]

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) RULES, 1995.

In respect of:

Noticee	PAN
Life Insurance Corporation of India (LIC)	AAACL0582H

FACTS OF THE CASE

1. Securities and Exchange Board of India (hereinafter referred to as **"SEBI"**) conducted an examination in the matter of alleged Non-compliance of Regulation 7B of SEBI (Mutual Fund) Regulations, 1996 (hereinafter referred to as **"MF Regulations"**) by Life Insurance Corporation of India (hereinafter referred to as **"Noticee/LIC"**) with a focus to ascertain if there were any violations of the provisions of the Regulation 7B(1) read with Proviso to 7B(3) of MF Regulations by the Noticee.

APPOINTMENT OF ADJUDICATING OFFICER

2. SEBI appointed the undersigned as the Adjudicating Officer (hereinafter referred to as ‘‘**AO**’’) in the matter vide communique dated May 29, 2023 under Section 15-I of the Securities and Exchange Board of India Act, 1992 (hereinafter referred to as “**SEBI Act**”) read with Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as **“Adjudication Rules”**), to inquire into and adjudge under the provisions of the Section 15HB of the SEBI Act the violation of the provisions of law alleged to have been committed by the Noticee.

SHOW CAUSE NOTICE, REPLY AND HEARING

3. Show Cause Notice ref no. SEBI/EAD-1/BS/YK/22382/1/2023 dated May 31, 2023 (hereinafter referred to as **'SCN/Notice'**) was issued to the Noticee in terms of Rule 4(1) of the Adjudication Rules read with Section 15-I of the SEBI Act to show cause as to why an inquiry should not be held against the Noticee and why penalty be not imposed on it in terms of the provisions of the Section 15HB of the SEBI Act for the violations alleged to have been committed by the Noticee.

4. During the course of examination by SEBI, the following was observed and accordingly the said facts are alleged in the Show Cause Notice:

4.1. It was observed that IDBI Bank Limited (hereinafter referred to as "**IDBI**") is the sponsor of IDBI Mutual Fund and directly holds 66.67% equity stake and 33.33% equity stake through IDBI Capital Markets & Securities Ltd. (Wholly Owned Subsidiary of IDBI Bank) in IDBI Asset Management Limited (hereinafter referred to as "**IDBI-AMC**") which is the Asset Management Company of IDBI Mutual Fund. In addition to the same, IDBI also holds 100% equity stake in IDBI MF Trustee Company Limited.

4.2. It was further observed that LIC is the sponsor of LIC Mutual Fund and holds 45% equity stake directly and 39.3% equity stake through LIC Housing Finance Ltd. (LIC owns 45.24% equity stake in LIC Housing Finance Ltd.) in LIC Mutual Fund Asset Management Limited (hereinafter referred to as "**LIC-AMC**") which is the Asset Management Company of LIC Mutual Fund. In addition to the same, LIC also holds 49% equity stake directly and 35.3% equity stake through LIC Housing Finance Ltd. in LIC Mutual Fund Trustee Pvt. Ltd.

4.3. It was further observed that LIC acquired majority stake of 51% in IDBI on January 21, 2019 by way of preferential allotment of Equity shares. Pursuant to the aforesaid acquisition, LIC (sponsor of LIC Mutual Fund) through their holdings in IDBI indirectly was holding 10% or more of the shareholding and voting rights in the Asset Management Company and the Trustee Company of IDBI MF and thereby triggered

Regulation 7B(1) read with proviso to Regulation 7B(3) of the MF Regulations w.e.f January 21, 2019. The provisions of the said regulations prohibit holding of 10% or more of the shareholding or voting rights in the Asset Management Company or the Trustee Company of any other Mutual Fund by a sponsor of a Mutual Fund, its Associate or Group Company including the Asset Management Company of the Fund. Further, as per the proviso to Regulation 7B(3) of MF Regulations, within a period of one Year from the date of acquisition i.e. January 20, 2020, LIC/IDBI is required to comply with the requirements under Regulation 7B(1) of MF Regulations.

4.4. Vide letter dated December 05, 2019, SEBI received a proposal jointly from IDBI and Muthoot Finance Ltd. (hereinafter referred to as **"MFL"**) seeking SEBI's approval for change in controlling interest and Management of IDBI Mutual Fund, as their board approved sale of entire stake held by IDBI in IDBI MF Asset Management Company and Trustee Company to MFL. However, MFL withdrew its application for change in controlling interest and Management of IDBI Mutual Fund vide letter dated November 23, 2020. Subsequently, IDBI vide letter dated November 27, 2020 sought permission for extension of time till December 31, 2021 for compliance with Regulation 7B of MF Regulations. In the meeting dated November 16, 2021 held with LIC and IDBI, it was informed to SEBI that IDBI and LIC are in the process of merger of IDBI Mutual Fund with LIC Mutual Fund. Subsequently, LIC vide e-mails dated Feb 17, 2022, March 08, 2022, March 29, 2022, July 07, 2022 and July 13, 2022, provided the status on completion of the tasks given in the timelines for the process of merger.

4.5. SEBI vide letter dated November 21, 2022 advised LIC to take necessary steps for complying with Regulation 7B of MF Regulations expeditiously. Subsequently, LIC Mutual Fund vide letter dated January 16, 2023 filed an application with SEBI seeking approval for transfer of schemes of IDBI Mutual Fund to LIC Mutual Fund and for the proposed change in the sponsorship, trusteeship, management and administration of the schemes of IDBI Mutual Fund and the same is under process.

4.6. It is noted from BSE Ltd.'s website that the shareholding pattern of IDBI as on December 31, 2022 is as under: -

Sr. No.	Names of the Shareholders	No. of Equity Shares held	% of Equity Shares held
1	Central Government (President of India)	4,88,98,71,903	45.47%
2	LIC	5,29,41,02,939	49.24%
3	Public Shareholding	56,84,27,333	5.29%

4.7. From the aforementioned, it was alleged that pursuant to the aforesaid acquisition on January 21, 2019, LIC triggered non-compliance of Regulation 7B(1) of MF Regulations and as per the proviso to Regulation 7B(3) of MF Regulations, within a period of 1 Year from the date of acquisition i.e. January 20, 2020, LIC/IDBI is required to comply with the requirements under Regulation 7B(1) of MF Regulations. Hence, considering the fact that the abovementioned non-compliance continued from January 20, 2020 to January 16, 2023, it was alleged that LIC did not ensure compliance with Regulation 7B(1) read with Proviso to 7B(3) of MF Regulations within the stipulated time.

REPLY OF THE NOTICEE

5. Vide Letter dated June 12, 2023, June 16, 2023, June 28, 2023 and August 18, 2023, Noticee made the following major submissions in its reply to the SCN:-

*5.1. IDBI initiated the process of divestment of Mutual Fund Business by obtaining its Board approval and through a transparent process of inviting bids from the interested parties. The process was completed and application for approval to accept the bid & offer the business to M/s. Muthoot Finance Ltd (**"MFL"**) was filed with SEBI on December 05, 2019. IDBI AMC received the approval of Competition Commission of India for the transaction on December 16, 2019. MFL approached SEBI seeking approval to acquire 100% equity stake held by IDBI AMC and IDBI MF Trustee Co. Ltd. and to act as sponsor for IDBI Mutual Fund. MFL was directed by SEBI to obtain* *approval from their primary Regulator i.e. Reserve Bank of India (**"RBI"**). However, RBI vide letter dated October 15, 2020 denied approval to MFL.*

5.2. The above structured process took its time, hence LIC and IDBI Bank as a matter of compliance have kept concerned SEBI Officials in the loop through various meetings and correspondence.

5.3. Following the fall out of MFL deal, IDBI Mutual Fund through a letter dated November 27, 2020 to SEBI sought an extension of time up to December 31, 2021 for initiating a fresh process and identifying a new buyer while exploring all other available options, including seeking interest from LIC Mutual Fund.

5.4. SEBI officials held joint meeting with LIC and IDBI officials on November 16, 2021 to understand the status on pending compliance under Regulation 7B of MF Regulations wherein all possible options were discussed and it was informed to SEBI that IDBI and LIC are in process of merger of IDBI Mutual Fund into LIC Mutual Fund.

5.5. LICMF AMC being a Board driven company with four shareholders initiated a proposal and sought approval from their four shareholders through their respective Boards in a properly conducted Board Meeting. Since the matter was a financial transaction of acquisition of business, decision through a circular resolution was not possible. Since there was a delay owing to the reasons beyond the control of relevant stakeholders, SEBI was kept informed from time to time and extension of time was sought.

5.6. In response to the letter of SEBI dated November 21, 2022 to LIC advising that necessary steps may be taken for complying with Regulation 7B of MF Regulations expeditiously and the steps taken be provided to SEBI by December 15, 2022, a request letter was sent to SEBI to allow time till first week of January, 2023 to file the application of merger/takeover of schemes between IDBI AMC and LIC MF.

5.7. Accordingly, a joint application was filed by IDBI AMC and LICMF AMC for merger/takeover of schemes with SEBI on December 30, 2022. Thereafter, a meeting was held with SEBI joined by the officials of IDBI AMC and LICMF AMC to review the initial application. As instructed, a separate application was filed by LICMF AMC for merger & takeover of schemes of IDBI MF on January 16, 2023.

5.8. *First approval for merger of schemes was given to IDBI AMC & LICMF AMC from SEBI on April 03, 2023. Final approval for merger & takeover of schemes was given to IDBI AMC & LICMF AMC from SEBI on May 16, 2023, to report the status of compliance within 3 months from the date of the final approval which falls due on August 14, 2023.*

5.9. *It is evident from the above that, the compliance requirement of Reg 7(B) was taken with utmost priority and all-out efforts were made by LIC and the relevant stakeholders, however circumstantial developments caused the unexpected delay in completing transaction, which was reported to SEBI from time to time.*

5.10. *Vide Letter dated August 18, 2023, LIC informed that they have submitted the compliance report to SEBI (Investment Management Department) on August 14, 2023 which has to be reported within 3 months from the approval date as per SEBI approval dated May 16, 2023 aforementioned in para 5.8.*

HEARING

6. After receipt of the written reply, in the interest of natural justice, an opportunity of personal hearing was granted to the Noticee on June 23, 2023 which was communicated to the Noticee vide hearing notice dated June 13, 2023. On the scheduled date of personal hearing, the Noticee appeared through their Authorized Representatives (ARs) who made submission primarily on the lines of their written replies filed with SEBI vide letter dated June 12, 2023 and June 16, 2023. ARs were further advised to file their additional submissions, if any latest by June 29, 2023 which had been provided vide letter dated June 28, 2023.

CONSIDERATION OF ISSUES AND EVIDENCE

7. I have carefully perused the charges levelled against the Noticee in the SCN, their replies and the material / documents available on record. In the instant matter, the following issues arise for consideration and determination: -

I. Whether Noticee had violated the provisions of the Regulation 7B(1) read with Proviso to 7B(3) of MF Regulations?

II. **Do the violation, if any, on the part of the Noticee attract monetary penalty under section 15HB of SEBI Act?**

III. **If so, what would be the quantum of monetary penalty that can be imposed on the Noticee after taking into consideration the factors mentioned in section 15J of the SEBI Act?**

Issue I. Whether Noticee had violated the provisions of the Regulation 7B(1) read with Proviso to 7B(3) of MF Regulations?

8. Before adverting to the factual conspectus of the case, I note that the Noticee had been alleged to have violated applicable provisions of MF Regulations. Therefore, the text of the said provisions are reproduced hereunder:

"Norms for Shareholding and Governance in Mutual Funds

7B. *(1) No sponsor of a mutual fund, its associate or group company including the asset management company of the fund, through the schemes of the mutual fund or otherwise, individually or collectively, directly or indirectly, have –*

(a) 10% or more of the share-holding or voting rights in the asset management company or the trustee company of any other mutual fund; or

(b) representation on the board of the asset management company or the trustee company of any other mutual fund.

(2) Any shareholder holding 10% or more of the share-holding or voting rights in the asset management company or the trustee company of a mutual fund, shall not have, directly or indirectly, -

(a) 10% or more of the share-holding or voting rights in the asset management company or the trustee company of any other mutual fund; or

(b) representation on the board of the asset management company or the trustee company of any other mutual fund.

(3) Any person not in conformity with the sub-regulations (1) and (2) of this regulation, as on the date of the coming into force of this regulation shall comply with sub-regulations (1) and (2) within a period of one year from the date of the coming into force of this regulation:

Provided that in the event of a merger, acquisition, scheme of arrangement or any other arrangement involving the sponsors of the mutual funds, shareholders of the asset management companies or trustee companies, their associates or group companies which results in the incidental acquisition of shares, voting rights or representation on the board of the asset management companies or trustee companies, this regulation shall be complied with within a period of one year of coming into force of such an arrangement."

9. I have carefully considered the allegations made against the Noticee in the SCN, its replies and submissions made before me during personal hearing and the material available on record. Before proceeding to deal with the allegations as recorded above against the Noticee, I find it appropriate to mention in brief the context in which MF Regulations were amended and Regulation 7B was inserted in the said Regulations.

10. I find from the agenda papers of meeting of Board of SEBI dated December 28, 2017 that it was felt that the MF Regulations were silent with regard to a sponsor of a mutual fund, also having a stake or representation in the board of AMCs/Trustee Companies of other mutual funds operating in India, which could give rise to situation wherein there could arise a conflict of interest in the decision taken by such sponsor with respect to the two mutual funds, in which it is holding interest concurrently. With a view to avoiding such situations, it was felt that such potential conflict of interest may either lead to economic or business decisions of one or both AMCs or Trustees of such mutual funds which may not be in the best interest of the investors of either the mutual fund.

11. Keeping the possible circumstances of misuse of position by a sponsor of a mutual fund or its associate or its group company that may prejudice the interest of another mutual fund which will have the presence of the same sponsor, or its associate or group company as shareholder, it was felt necessary to restrict a sponsor of a mutual fund, its associate and/or its group company, and its AMC through the schemes,

collectively or individually, to hold not more than 10% stake in the AMC or trustee company of another mutual fund or to have representation in the board of such AMCs/Trustee Companies of other mutual funds.

12. Keeping in line with the decision of the Board of SEBI, Regulation 7B was introduced in MF Regulations w.e.f. March 13, 2018 to prevent the kind of conflict of interest as illustrated/anticipated above.

13. In the present matter, from the material available on record, I note that pursuant to acquisition of majority stake of 51% in IDBI by LIC on January 21, 2019, LIC had triggered non-compliance of Regulation 7B(1) of MF Regulations which prohibit holding of 10% or more of the shareholding or voting rights in the Asset Management Company or the Trustee Company of any other Mutual Fund by a sponsor of a Mutual Fund, its Associate or Group Company including the Asset Management Company of the Fund. This fact is not disputed by the Noticee. Further, as per the proviso to Regulation 7B(3) of MF Regulations, within a period of 1 Year from the date of acquisition i.e. January 20, 2020, the Noticee is required to comply with the requirements under Regulation 7B(1) of MF Regulations.

14. I further note that the LIC Mutual Fund vide letter dated January 16, 2023 filed an application with SEBI seeking approval for transfer of schemes of IDBI Mutual Fund to LIC Mutual Fund and for the proposed change in the sponsorship, trusteeship, management and administration of the schemes of IDBI Mutual Fund. The question to be determined in the context of present case is whether there was any non-compliance on part of the Noticee in adhering to the mandate of the provisions has happened. I note that the alleged default of non-compliance is stated to have continued from January 20, 2020 to January 16, 2023.

15. In this context, it is noted that Noticee in its replies contended that there has been series of events and correspondence between the Noticee and SEBI in order to sort out the compliance with the provisions of Regulation 7(B) of MF Regulations and the crux of such events are enumerated in Para 5 of this order. From the material available on record, I note that the chronology of events occurred in this regard were - in order

to comply with the provisions of Regulation 7(B) of MF Regulations, IDBI initiated a process of divestment of Mutual fund business and along with other parties executed the Share Purchase Agreement (SPA) with MFL. Thereafter, application was made to SEBI on December 05, 2019 well before January 20, 2020 seeking approval for sale of 100% equity stake held by IDBI AMC and IDBI MF Trustee Company Limited to MFL and SEBI had advised MFL to obtain approval from their Primary Regulator i.e. RBI. However, RBI vide letter dated October 15, 2020 denied approval to MFL and the same could not be taken forward.

16. I further note that following the fall out of MFL deal, IDBI had made an application to SEBI seeking extension of time upto December 31, 2021 for the compliance. Thereafter, SEBI held series of meetings with LIC and IDBI on exploring other available options to be compliant of the provisions of MF Regulations wherein it was informed to SEBI that Noticee had opted for the acquisition of schemes of IDBI Mutual Fund by LIC Mutual Fund. It is also noted that the Noticee vide e-mail dated December 23, 2021 informed SEBI about the status of the process of acquisition of Schemes and shared the tentative timelines involved in proposed acquisition of schemes as per which the same had to be completed by June'2022. Thereafter, through subsequent e-mails dated February 17, 2022, March 08, 2022, March 29, 2022, July 07, 2022 and July 13, 2022, SEBI was kept informed about the status of the acquisition of schemes. Further, vide e-mail dated July 13, 2022, it was informed that November 15, 2022 to be the revised completion date. Thereafter, SEBI vide letter dated November 21, 2022 advised Noticee to expedite the steps to be taken for the compliance of Regulation 7(B) of MF Regulations. The Noticee vide letter dated December 02, 2022 informed SEBI that they were expected to file application with SEBI for the approval of takeover of schemes by 1st week of January, 2023. Subsequently, a joint application was filed by IDBI AMC and LIC AMC with SEBI for approval of takeover of schemes on December 30, 2022. Thereafter, as instructed in the meeting on January 05, 2023 held between SEBI, LIC-AMC and IDBI AMC to review the initial application, a separate application was filed by LIC-AMC for takeover of schemes of IDBI Mutual Fund on January 16, 2023.

17. It is an admitted fact that Noticee has not complied with the provisions of the Regulation 7(B) of MF Regulations within stipulated time i.e. January 20, 2020 as alleged in the SCN. However, I also note that Noticee with the intention to comply with the provisions had made an application to SEBI well within the stipulated time i.e. on December 05, 2019 but due to the fact that necessary regulatory approvals could not be obtained, the Noticee had to explore other available options wherein the Noticee had opted for the acquisition of schemes of IDBI Mutual Fund by LIC Mutual Fund. Further, I also note that there are various correspondence exchanged between SEBI and Noticee wherein Noticee had sought extension of time to complete the process of merger and file necessary compliance reports. Moreover, SEBI was kept informed of the developments as the details of progress made towards merger of IDBI Mutual Fund into LIC Mutual Fund was communicated to SEBI by Noticee on regular intervals.

18. I further note that through letter dated May 16, 2023, SEBI had granted No objection for the merger of schemes of IDBI Mutual Fund with LIC Mutual Fund and SEBI had advised the Noticee to submit the Compliance report within 3 months from the date of issue of No-objection letter which falls due on August 14, 2023 and LIC vide their letter dated August 18, 2023 submitted that Compliance report had been submitted to SEBI (Investment Management Department) on August 14, 2023. Hence, the alleged violation on part of the Noticee is to be viewed in the context of the efforts taken by the Noticee to complete the merger of IDBI Mutual Fund with LIC Mutual Fund.

19. Hence, it is gathered from the facts of the case that on request of the Noticee and subsequent to various correspondence and status submitted to SEBI as well as various meetings held with SEBI Officials, the Noticee was granted time to comply with the MF Regulations. Further, letter of SEBI dated May 16, 2023 makes it abundantly clear that in the context of the case, SEBI has granted time till August 14, 2023 to comply with the process of merger of IDBI Mutual Fund with LIC Mutual Fund. In this context, it is quite reasonable to presume that the Noticee is accorded time till August 14, 2023 to comply with all regulatory requirements consequent to the merger.

This is the reasonable and logical inference one can draw from the facts and circumstances attending the case. The present facts and circumstances depicts that Noticee has taken sincere efforts to comply with the Provisions of the MF Regulations. Considering the same, I am inclined to take a lenient view in the present case. I am of the view that this is not a fit case for imposition of monetary penalty on the Noticee as the mitigating circumstances do not warrant imposition of monetary penalty.

ORDER

20. In view of the above observations/findings, after considering all the facts and circumstances of the case and exercising the powers conferred upon me under Section 15-I of the Act and Rule 5 of Adjudication Rules, the adjudication proceedings initiated against the Noticee vide Show Cause Notice dated May 31, 2023 is disposed of without imposition of any monetary penalty.

21. In terms of the provisions of Rule 6 of the Adjudication Rules, copies of this order are sent to the Noticee and also to the Securities and Exchange Board of India.

Date : September 07, 2023
Place : Mumbai

Biju S
Adjudicating Officer