

**BEFORE THE ADJUDICATING OFFICER
SECURITIES AND EXCHANGE BOARD OF INDIA
(ADJUDICATION ORDER NO: Order/SV/GD/2023-24/29352-29353)**

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

In respect of:

Noticee	Name of the Noticee	PAN
1.	Rajat Jain	AACPJ4452H
2.	Ritesh Jain	AAIPJ2472K

In the matter of Principal Mutual Fund

BACKGROUND OF THE CASE

1. The Inspection of Principal Mutual Fund was conducted for the period from April 01, 2019 to March 31, 2021 (hereinafter referred to as Inspection Period/IP) by G.D. Apte & Co, Chartered Accountants (hereinafter referred to as “Auditors”). The Auditors have inter alia observed there was downgrade of rating of DHFL. Prior to the downgrade, two employees in Key Managerial Positions (Noticee 1 and Noticee 2) have switched from one scheme to another thereby avoiding the loss on their investment prior to the period of downgrade.
2. Based on the findings of inspection, Securities and Exchange Board of India (hereinafter referred to as ‘SEBI’) initiated adjudication proceedings against Mr. Rajat Jain (hereinafter referred to as ‘Noticee 1’) and Mr. Ritesh Jain (hereinafter referred to as ‘Noticee 2’) (collectively referred to as “Noticees”) for violating the provisions of the following Regulations and Circulars -

a) Section Reg.3(a), 4(1) and 4(2)(q) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003

(hereinafter referred as PFUTP Regulations) read with Sec.12A(e) of SEBI Act, 1992.

b) Clause-E(3)(d) of Guidelines on Trading /investment by Employees of AMC specified vide SEBI Circular dated November 17, 2016

APPOINTMENT OF ADJUDICATING OFFICER

3. SEBI, vide order dated December 14, 2022 appointed Ms. Asha Shetty, as Adjudicating Officer under Section 19 of SEBI Act read with Section 15-I (1) of the SEBI Act and Rule 3 of SEBI (Procedure for Holding Inquiry and Imposing Penalties) Rules, 1995 (hereinafter referred to as 'SEBI Adjudication Rules') to inquire into and adjudge under the provisions of the Section 15HA and 15HB of the SEBI Act, for the violations alleged to have been committed by the Noticees. Subsequently, upon transfer of Ms. Asha Shetty, vide communique dated April 18, 2023, the matter was transferred to the undersigned.

SHOW CAUSE NOTICE, REPLY AND HEARING

4. Show Cause Notice ref. SEBI/HO/EAD-8/AS/GD/2023/5455/1 and SEBI/HO/EAD-8/AS/GD/2023/5457/1 dated February 08, 2023 (hereafter referred to as "**SCN**") was issued to the Noticee 1 and 2 respectively in terms of the provisions of Rule 4 of the SEBI Adjudication Rules vide speed post and email dated February 09, 2023. I note that SCN was successfully delivered through speed post and email.

5. The allegations levelled against the Noticees in the SCN are summarized as follows:

- a. *One of the Terms of Reference (ToR) for the Inspection of Principal Mutual Fund for the inspection period was as under:*

"Take all the events during the inspection period where there was downgrade of securities and recovery in securities downgraded earlier and check the transactions in these securities before and after the event to see all pattern of transaction. Also check details of investors which had entered the scheme and/or exited the scheme few days before or after the event and comment if any investors appear to have timed the event. Report the same. Also see whether the investor has any connection with the sponsor, AMC, Trustees or the employees/Directors of AMC etc., and give report on the same."

b. The auditors have observed the following with respect to above ToR:

- i. During the period under inspection, there was downgrade of rating of DHFL from AAA to below investment grade on May 14, 2019.*
- ii. On May 07, 2019 and May 13, 2019, two employees in Key Managerial Positions have switched from one scheme to another thereby avoiding the loss on their investment prior to the period of downgrade.*
- iii. The details of the transaction are as follows:*
 - o Noticee 1 holding the post of CIO bearing PAN: AACPJ4452H on May 13, 2019 switched 1308.78 units from his personal portfolio in Principal Low Duration Fund which has exposure to DHFL securities to Principal Small Cap Fund which had got NIL exposure to DHFL securities.*
 - o Noticee 2 holding the post of Group CFO bearing PAN: AAIPJ2472K on May 07, 2019 switched 8489.586 units from his personal portfolio in Principal Low Duration Fund which has exposure to DHFL securities to Principal Cash Management Fund which had got NIL exposure to DHFL securities.*

c. In view of the above, it was alleged that aforesaid act of switching of the units from schemes holding defaulted securities prior to change in valuation, amounts to an act of unfair trade practice on the investors and hence Noticees were alleged to have violated the following provisions and circular:

- i. Regulations 3(a) and 4(2)(q) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 read with Section 12A(e) of SEBI Act, 1992.*
- ii. Clause-E(3)(d) of Guidelines on Trading /investment by Employees of AMC specified vide SEBI Circular dated November 17, 2016*

6. Vide letter dated February 27, 2023, Noticee 1 submitted his reply to the SCN. Further vide letter dated February 28, 2023, Noticee 2 submitted his reply to the SCN.

7. The key submissions made by Noticee 1 vide letter dated February 27, 2023 are as under:
- a. *The auditors have observed that "During the period under inspection, there was downgrade of rating of DHFL from AAA to below investment grade on May 14, 2019". Noticee submitted that this observation is not entirely correct. The rating of debentures was downgraded to BBB- (the lowest notch in investment grade) from A on May 14, 2019, rather than to below investment grade from AAA as mentioned by the auditors.*
 - b. *Noticee also submitted that the observation made by the auditors in S(iii)(a) that "Noticee 1 (i.e. myself, Rajat Kumar Jain} holding the post of CIO bearing PAN:AACPJ4452H on May 13, 2019 switched 1308.78 units from his personal portfolio in Principal low Duration Fund which has exposure to DHFL securities to Principal Small Cap Fund which had got NIL exposure to DHFL securities" is not correct.*
 - c. *Noticee submitted that Point 6 of the notice says "In view of the above, it is alleged that aforesaid act of switching of the units from schemes holding defaulted securities prior to change in valuation, amounts to an act of unfair trade practice on the investors and hence notices are alleged to have violated the following provisions and circular:". Noticee submitted that on the date of redemption, the debentures of DHFL were not below investment grade and were daily being valued at prices provided by the valuation agencies. The fund was not holding defaulted securities whose valuation dropped suddenly on May 14, 2019. Further, the switch out was carried out on May 2, 2019, and not on May 13, 2019 as mentioned.*
 - d. *Noticee submitted that he had no information about DHFL other than what was in the public domain when he gave his redemption request on May 2, 2019 in units of Principal Low Duration Fund. The news about downgrades and the stress about DHFL was well covered in the media. There was no additional information on the stress in DHFL to Noticee that was available other than in speculative media articles. Noticee hence submit that the redemption request was not a result of Noticee possessing any information other than what was publicly available. The switch out was not a result of Noticee having access to any privileged information about DHFL which was very well covered both in electronic and print media.*
 - e. *There was no change at Principal Mutual Fund in the way the securities were valued (basis third party valuation) or with respect to any another facet of running the fund*

like change in terms of redemption, change in accounting policy etc. As such, the question of Noticee having any privileged information with respect to the management of the fund does not arise. Noticee hence respectfully submit that there is no case for the allegations listed in Points 6 and 7 of the Noticee.

8. The key submissions made by Noticee 2 vide letter dated February 28, 2023.
- a. *The auditors have observed that "During the period under inspection, there was downgrade of rating of DHFL from AAA to below investment grade on May 14, 2019". Noticee submit that this observation is not entirely correct. The rating of debentures was downgraded to BBB- (the lowest notch in investment grade) from A on May 14, 2019, rather than to below investment grade from AAA as mentioned by the auditors*
 - b. *Noticee submit that as the Scheme did not hold any defaulted security, nor any security below investment grade, and in fact continued to hold investment grade securities not only on May 7, 2019 but also on May 14, 2019 when it was downgraded, the aforesaid act of switching of units on May 7, 2019 cannot be held as an act of switching from a Scheme holding defaulted securities and thereby being an unfair trade practice on the investors as alleged in the SCN.*
 - c. *On the point about switch 'prior to change in valuation', Noticee submit that as the Scheme did not hold any defaulted securities (or either securities rated below investment grade) either on May 7, 2019 or on May 14, 2019, there was evidently no change in valuation of DHFL securities held by the Scheme during this period, of the nature as envisaged in the SCN in the case of a defaulted security or for that matter even in the case of a security rated below Investment grade. It may be noted that DHFL securities were in Investment grade on both May 7, 2019 and May 14, 2019, and were appropriately valued as per valuation provided by external independent valuation agencies (CRISIL and ICRA) in line with SEBI Regulations as well as PMFs Valuation Policy.*
 - d. *In view of the above points, Noticee submit that the aforesaid act of switching from PLDF on May 7, 2014, was not an act of switching from a scheme holding defaulted securities prior to change in valuation and therefore does not amount to an act of unfair trade practice on the investors. Therefore, violation of the provisions of Regulations 3(a) and 4(1) and 4(2)(g) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003, read with*

Section 12A(e) of SEBI Act, 1992 does not arise. On the date of his switch, there was no communication from the Compliance Officer to employees asking them to refrain from dealing in such schemes for which any of the above actions were being contemplated till the time such information gets communicated to the investors. Infact, there was no intimation from the Compliance Officer even after the downgrade of DHFL securities on May 14, 2019, as the Security continued to remain in Investment grade and none of the provisions were attracted.

- e. For reference of the practice followed at PAMC, it is very important to note here, that there was an event in 2018 when a Security (IL&FS) was downgraded directly from A1 to below investment grade. At that time, communication was immediately sent by the Compliance Officer to employees, restricting employee trades in Schemes (including Principal Low Duration Fund) that were holding securities that were downgraded to below investment grade. The Security was downgraded below Investment grade on Saturday, Sept 8, 2018 and communication restricting employee trades was sent on Sunday, September 9, 2018. Eventually, after significant valuation changes had been carried out and communicated to Investors by September 24, 2018, a second communication was sent to employees on September 28, 2018. By the compliance officer, removing the restriction in employee trades.*
- f. In view of the aforesaid submissions Noticee requested the learned officer to exonerate me from any inquiry/proceedings in terms of Rule 4(1) of SEBI Adjudication Rules and/or penalty under section 15HA & 15HB of the SEBI Act*

- 9. Vide email dated March 02, 2023, Noticees were initially provided hearing opportunities on March 15, 2023. Thereafter, vide email dated March 11, 2023 the Authorized Representative of Noticees viz. Regstreet Law Advisors (hereinafter referred to as 'AR') requested for adjournment of hearing to post inspection of documents. Acceding to the request and in the interest of natural justice, on March 20, 2023 AR was provided with inspection of all the documents which have been relied upon while issuance of SCN and copies were provided thereof. Thereafter vide email dated March 28, 2023, Noticees were provided with an opportunity of hearing on April 06, 2023. AR submitted reply to the SCN vide letter dated April 04, 2023. However, pursuant to change in adjudication officer in the instant matter, the hearing scheduled on April 06, 2023 was postponed. Subsequently, vide email dated May 18, 2023 undersigned, provided opportunity of hearing to the Noticees

on May 30, 2023. On the scheduled date of hearing, the AR appeared on behalf of Noticees and reiterated the contents of reply submitted vide letter dated April 04, 2023.

10. The AR for the Noticees vide letter dated April 04, 2023 submitted similar replies for both the Noticees. Since the allegation is same for both the Noticees for the sake of brevity only key submissions of reply for both Noticee 1 and Noticee 2 are reproduced below:

Key Submissions vide letter dated April 04, 2023

- a. *SEBI has failed to provide documents as sought by Noticee 1 which are necessary in the proceedings and for Noticee 1 to prepare his defence based of full and true facts and has also failed to provide any reasons for not supplying the documents sought vide the Inspection Letter. Further, SEBI has ignored crucial facts, already in their possession, which are further enumerated later in this response on account of which the Show Cause Notice should not have been issued in the first place.*
- b. *DHFL's worsening financial strife along with the downgrades in it's securities began to have an impact on it's securities and thereby the returns of the Principal Low Duration Fund. Monthly returns had not only begun falling but had also become very volatile for a low duration Debt Fund. By April 2019, the monthly return in Principal Low Duration Fund had fallen to as low as 2.2% p.a. Around this time, the monthly returns in Principal Cash Management Fund, a fund with a lower duration risk as well as a lower credit risk compared to Principal Low Duration Fund, were in the range of 6.6% p.a. to 7.1% p.a. and were quite consistent in this range.*
- c. *Noticee 1's investments were spread across various schemes of PMF, including Principal Low Duration Fund. The Noticee 1 also held investments in Principal Arbitrage Fund, Principal Dividend Yield Fund, Principal Credit Risk Fund, Principal Multicap Growth Fund, Principal Global Opportunity Fund, Principal Short Term Debt Fund, Principal Focus Multi Cap Fund, Principal Cash Management Fund, Principal Equity Savings Fund, Principal Hybrid Equity Fund, Principal Tax Savings Fund and Principal Nifty 100 EW Index Fund. Noticee 1 invested in these schemes based on publicly available information and his own understanding of the markets and on basis of his risk appetite. Noticee 1 in accordance with law, from his various investments, redeemed / switched / made further investments in various schemes of PMF from time to time on the basis of his assessment of the future performance of the schemes.*

- d. *The SCN does not contain any jurisdictional fact in support of violation of the provisions of Regulations 3(a), 4(1) and 4(2)(q) of the PFUTP Regulations read with Section 12A(e) of the SEBI Act, 1992*
- e. *Regulation 4(1) prohibits “fraudulent or an unfair trade practice”. However, Regulation 4(2) provides that dealing in securities shall be manipulative, fraudulent or an unfair trade practice if it involves any of the sub-clauses to Regulation 4(2). Hence an act under Regulation 4(1) can be alleged to be an unfair trade practice only if it falls under the sub-clauses to Regulation 4(2).*
- f. *Further, Regulation 4(2)(q) is specifically in relation to “any order in securities placed by a person, while directly or indirectly in possession of information that is not publically available, regarding a substantial impending transaction in that securities, its underlying securities or its derivative”. Further, TK Vishwanathan committee on Fair Market Conduct viewed that “the term transaction refers to trade in a security”. SEBI board realising / recognising that “trading” does not include ‘redeeming and switching’ in Mutual Fund units decided to notify the SEBI (Prohibition of Insider Trading) (Amendment) Regulations, 2022 to include the same in the definition of trading. It cannot be SEBI’s case that the import of ‘trading’ is distinct and discriminatory between the PFUTP Regulations or Insider Trading Regulations, both of which have their origin under Section 12A of the SEBI Act, 1992. Therefore, the transaction alleged in the Show Cause Notice is not amenable to regulation 4(2)(q) of the PFUTP Regulations or Section 15HA of the SEBI Act, 1992.*
- g. *Further, it is submitted that in relation to the present Show Cause Notice, there is no order in securities placed by a person who was in possession of information regarding a substantial impending transaction in that security. Therefore, the allegation of violating Regulation 4(2)(q) cannot be made and as a result, Regulation 4(1) is inapplicable since it is SEBI’s own position in various orders that Regulations 4(1) and 4(2) are connected and to be read in conjunction.*
- h. *Section 12A of the SEBI Act, 1992 is in relation to “Prohibition of manipulative and deceptive devices, insider trading and substantial acquisition of securities or control”. It is submitted that the Show Cause Notice has not even alleged that the Noticee 1 has indulged in any manipulative activity or employed any deceptive device or engaged in insider trading.*
- i. *Further, Section 12A(e) prohibits a person to deal in securities while in possession of material or non-public information. The Show Cause Notice has failed to allege what was the material or non-public information which was in the possession of Noticee 1.*

It is submitted that merely being in “Key Managerial Positions” cannot by itself be sufficient to allege that the Noticee 1 was in possession of material or non-public information. Reliance is placed on the decisions of the Securities Appellate Tribunal in the matters of Mr. Pranshu Bhutra v. SEBI wherein SAT has held that “...burden of proof is always upon the prosecution, namely, SEBI to prove that he had access to UPSI...” and that “...prima facie suspicion or preponderance of probability or reasonably expected to have access to UPSI appears to be farfetched only on the strength that the appellant is an employee in the Company and is expected to have inside information...”.

- j. It is a trite law that an allegation cannot be based on an ipse dixit assumptions of SEBI or merely based on a designation held by a noticee.*
- k. In such circumstances, the charge of violation of Regulations 3(a), 4(1) and 4(2)(q) of the PFUTP Regulations read with Section 12A(e) of the SEBI Act, 1992 is wholly unwarranted and baseless. On this ground alone, the allegation of violation of the provisions of PFUTP Regulations and the SEBI Act, 1992 ought to be withdrawn.*
- l. The allegation in the SCN (paragraph 6) that Principal Low Duration Fund was holding ‘defaulted securities’ is also patently erroneous. DHFL NCDs were not ‘defaulted securities’ as of May 14, 2019. The credit ratings of the DHFL NCDs on May 14, 2019 was downgraded to BBB – which as per the SEBI FAQs on Credit Rating Agencies dated August 30, 2022 are “Instruments with this rating are considered to have moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk.”.*
- m. The SCN has also erroneously alleged that Noticee 1 switched the units from his personal portfolio from Principal Low Duration Fund to Principal Small Cap Fund on May 13, 2019. In fact, Noticee 1 had redeemed his investment in Principal Low Duration Fund on May 2, 2019 itself. A copy of the statement of account of the Noticee 1 showing redemption on May 2, 2019 is enclosed herewith as Annexure I. The documents obtained by the Noticee 1 during inspection also show that SEBI was aware of Noticee 1’s date of redemption of investment in Principal Low Duration Fund being May 2, 2019 as opposed to May 13, 2019. This was informed to SEBI by the email dated September 20, 2022 addressed by the Company Secretary and Compliance Officer of Sundaram Mutual to SEBI.*
- n. At the outset, it must be stated that the SCN does not allege that there was any likelihood of a change in the accounting policy of Principal Low Duration Fund. Therefore, this cannot constitute a basis for the violation of Clause E(3)(d). In any*

event, Noticee 1 submits that there was no change in the accounting policy of Principal Low Duration Fund in May 2019. Specifically, there was no change in the valuation methodology adopted for valuation of securities. The Principal Low Duration Fund was using valuation of securities as provided by the independent third-party valuation agencies, viz. CRISIL and ICRA.

- o. Insofar as the likelihood of significant change in the valuation of asset / class of assets is concerned, it is submitted that there was no such scenario and hence, Clause E(3)(d) is not attracted. As stated above, after the downgrade of DHFL NCDs on May 14, 2019 from A to BBB-, the NAV of Principal Low Duration Fund Direct Plan Growth Option fell only by Rs. 16.6990 (i.e. 0.55%) from Rs. 3,056.2722 on May 2, 2019 to Rs.3,039.5732 on May 14, 2019.
- p. It is also significant to note that Clause E of the Annexure to SEBI Circular dated November 17, 2016 is implemented by Principal Mutual Fund through its own internal guidelines which are accessible to all employees of Principal Mutual Fund. As per Clause 3.2 of these internal guidelines, as soon as the Compliance Officer gets communication of a change in the accounting policy or a significant change in the valuation of any asset or class of assets, the Compliance Officer is required to send out a communication to all employees asking them to refrain from dealing in such schemes till the time such information gets communicated to the investors (by way of public notice / individual communication as the case may be). A copy of Clause 3.2 of these internal guidelines is enclosed herewith as Annexure L. It is a matter of record that during the downgrade of DHFL NCDs from February 2019 till May 2019, the Compliance Officer did not send a communication restraining the employees from dealing in the Principal Low Duration Scheme. Rightly so because there was no unpublished / non-public information in existence. Incidentally the Compliance Officer had restrained the employees from dealing in other schemes in the past when the security of IL&FS had been downgraded. Copies of communications pertaining to IL&FS issued by the Compliance Officer are annexed herewith as Annexure M.
- q. Pertinently, in May 2019, there was no information pertaining to the DHFL NCDs which was proposed to be communicated to the investors or was communicated to the investors. Neither the SEBI Examination Report nor the Show Cause Notice alludes to the same. Therefore, it is impossible that Noticee 1 relied on any information to which only he was privy, or which was unpublished. As stated above, the news about downgrades and the financial strife of DHFL was well covered in the media. There was no additional information pertaining to DHFL NCDs that was

available to the Noticee 1. Thus, Noticee 1's decision to withdraw his investment in Principal Low Duration Fund, which had invested in DHFL NCDs, was a result of the information that he had gathered from public domain.

- r. The Noticee 1 states that the internal disciplinary committee of the AMC has already conducted an enquiry into the redemption of units by Noticee 1 from Principal Low Duration Fund, which is the subject matter of the present proceedings. Pursuant to this enquiry, Noticee 1 was directed to pay a sum of Rs. 5,66,432/- to the AMC. This is the amount which is the purported loss avoided by Noticee 1 as a result of redemption of units from Principal Low Duration Fund on May 2, 2019. The Noticee 1 paid this amount on October 29, 2019 and the AMC informed SEBI of the same. This is categorically recorded in the report of G.D. Apte & Co. dated June 17, 2022.
- s. The Noticee 2 states that the internal disciplinary committee of the AMC has already conducted an enquiry into the redemption of units by the Noticee 2 from Principal Low Duration Fund, which is the subject matter of the present proceedings. Pursuant to this enquiry, Noticee 2 was directed to pay a sum of Rs. 36,78,185.46/- to the AMC. This is the amount which, as per the Company, is the purported loss avoided by the Noticee 2 as a result of redemption of units from Principal Low Duration Fund in May 2019. The Company neither provided details of the Computation nor any personal hearing to Noticee 2. The Noticee 2, without agreeing to any violation, paid this amount to the AMC on October 31, 2019, as Noticee 2 still had 13 more years of employment ahead of him, having already worked with the Principal Financial Group for 19 years with an impeccable record, and continuity of employment was important for Noticee 2 at that time. The AMC remitted the amount to the Investor Education Fund of the AMC, and informed SEBI about the same. This is categorically recorded in the report of G.D. Apte & Co. dated June 17, 2022.
- t. Noticees have relied upon the following judgements of Hon'ble SAT and Hon'ble Supreme Court.
- I. Hon'ble Supreme Court of India in *Reliance Industries v. SEBI*¹
 - II. Hon'ble Securities Appellate Tribunal in *Price Waterhouse & Co. and Ors. v. SEBI*
 - III. Securities Appellate Tribunal in the matters of *Mr. Pranshu Bhutra v. SEBI*
 - IV. Hon'ble Supreme Court in *Balram Garg v. SEBI*, 2022 SCC Online SC 472)

¹ 2022 SCC OnLine SC 979 decision dated August 05, 2022

- V. *Hon'ble Supreme Court in SEBI v. Kanaiyalal Baldevbhai Patel, (2017) 15 SCC 1*
- VI. *Hon'ble Supreme Court in SEBI v. Bhavesh Pabari*
- VII. *Hon'ble Securities Appellate Tribunal in Piramal Enterprises Limited v. SEBI*
- VIII. *In the matter of P.G. Electroplast v. SEBI, the Hon'ble SAT*
- IX. *M/s. DSE Financial Services Limited v. SEBI*
- X. *Hon'ble Securities Appellate Tribunal in Vital Communications Ltd. v. SEBI*

CONSIDERATION OF ISSUES AND FINDINGS

11. I have taken into consideration the facts and material available on record. The issues that arise for consideration in the present case are as follows:

- I. **Whether Noticees have violated provisions of Regulations 3(a), 4(1), 4(2)(q) of SEBI PFUTP Regulations read with Section 12A(e) of SEBI Act, 1992**
- II. **Whether Noticees have violated Clause-E(3)(d) of SEBI Circular dated November 17, 2016**
- III. **Does the violations, if any, attract monetary penalty under section 15HA and 15HB of the SEBI Act, 1992?**
- IV. **If the answer to Issue No. I, II & III is in affirmative, then what should be the quantum of monetary penalty?**

12. Before moving forward, it is pertinent to refer to the relevant provisions which are alleged to have been violated. The said provisions are provided hereunder:

SECURITIES AND EXCHANGE BOARD OF INDIA ACT, 1992

Prohibition of Manipulative and Deceptive Devices, Insider Trading and Substantial Acquisition of Securities or Control

12A. No person shall directly or indirectly—

(e) deal in securities while in possession of material or non-public information or communicate such material or non-public information to any other person, in a manner which is in contravention of the provisions of this Act or the rules or the regulations made thereunder;

SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003

3. Prohibition of certain dealings in securities

No person shall directly or indirectly—

(a) buy, sell or otherwise deal in securities in a fraudulent manner;

4. Prohibition of manipulative, fraudulent and unfair trade practices

(1) Without prejudice to the provisions of regulation 3, no person shall indulge in a manipulative, fraudulent or an unfair trade practice in securities markets.

(2) Dealing in securities shall be deemed to be a ⁶[manipulative] fraudulent or an unfair trade practice if it involves ⁸[any of the following] :—

(g) any order in securities placed by a person, while directly or indirectly in possession of information that is not publically available, regarding a substantial impending transaction in that securities, its underlying securities or its derivative;

⁶Inserted vide Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) (Second Amendment) Regulations, 2020 w.e.f. October 19, 2020.

⁸Substituted vide Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) (Amendment) Regulations, 2018 w.e.f. February 1, 2019. Before the substitution the words read as "fraud and may include all or any of the following, namely"

SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/124 dated November 17, 2016

Investment/Trading in Securities by Employees of AMC(s) and Trustees of Mutual Funds

E. Investments in units of Mutual Fund Schemes

3. Notwithstanding anything mentioned earlier, in the following cases employees of AMC & Trustees shall not purchase or sell /or repurchase or redeem units of any scheme, including Money Market Mutual Fund scheme and liquid scheme of their Mutual Fund
- d. There is a likelihood of a change in the accounting policy, or a significant change in the valuation of any asset, or class of assets and the same has not been communicated to the investors;

13. The gravamen of the allegations made in the SCN is that the Auditors have observed that during the period under inspection, there was downgrade of rating of DHFL from AAA to below investment grade on May 14, 2019 and just prior to that, on May 07, 2019 and May 13, 2019, the two employees in Key Managerial Positions (Noticee 1 and Noticee 2) have switched their holding, from scheme having exposure to DHFL to another, thereby avoiding the loss on their investment prior to the period of downgrade. It was alleged that aforesaid act of switching of the units from schemes holding defaulted securities prior to change in valuation, amounts to an act of unfair trade practice on the investors and hence it was alleged that the Noticees have violated the above mentioned securities laws.

14. At the outset I note that Noticees have mentioned in their preliminary submissions that complete materials/documents in support of the allegations have not been made available to the Noticees for inspection. In this regard, I note that in terms of Hon'ble Supreme court decision in the matter of *T. Takano v/s SEBI* dated February 8, 2022, all the relevant documents and information relied upon while issuing SCN including the inspection report have been provided during the inspection and further copies were also provided thereof. This is also evident from the fact that the Noticees themselves have relied upon certain documents and submitted them as annexures to their reply dated April 4, 2023, which had been provided to them during the inspection. Therefore, the contention of Noticees that denial of the copies of documents as requested is in gross violation of the basic principles of natural justice is untenable.

15. Next I would like to deal with Noticees submission regarding incorrect mention w.r.t the downgrade of rating of DHFL NCDs in the Inspection report and in the SCN and their contention that DHFL NCDs were not 'defaulted securities' at the time of their switch or on May 14, 2019. In this regard, I note that as per CARE ratings, the downgrade of DHFL NCDs on May 14, 2019 was from A to BBB- (credit watch with negative implications). From the submissions, it is seen that the downgrade of DHFL NCDs from AAA started from February 3, 2019 and it was rated as D only on June

5, 2019. Hence I note that on May 14, 2019 DHFL NCDs were not downgraded from AAA to below investment grade and as on that date it also was not a defaulted security.

16. Noticee 1 in its reply has *inter-alia* submitted that the actual date of switch is May 02, 2019 and not May 13, 2019 (one day before the downgrade) as mentioned in SCN. Noticee 1 further averred that the switch was attributed to investing in the New Fund Offer of Principal Small Cap Fund. He submitted that he had switched out his units on May 02, 2019 and was allotted units in the NFO only on May 13, 2019.

17. I note that upon perusal of material available on records viz. account statement of Noticees and transaction statement that 1308 units were switched out from Principal low duration fund to Principal small cap fund based on the NAV on May 02 2019. Thus, I am inclined to accept that the actual date of switch of Noticee 1 from Principal low duration fund was May 02, 2019.

Issue I: Whether Noticees have violated provisions of Regulations 3(a), 4(1), 4(2)(q) of SEBI PFUTP Regulations read with Section 12A(e) of SEBI Act, 1992

18. The Noticees have contended that they did not receive any information in relation to the downgrade of DHFL NCDs which was unpublished or which was not in the public domain. Also there was no information that ever came in possession of Noticees that rating agencies were considering a downgrade of DHFL securities. The Noticees have contended that the switching of units of Principal Low Duration Fund carried out by them was not based on the information which was not in the public domain or not known to investors. The Noticees have contended that since January 2019 information about DHFLs worsening financial position was already out in public domain as seen from various newspaper articles discussing the same. Further, the details of the investment of Principal Low Duration Fund, in DHFL NCDs was also an information that was publicly available in Factsheet / Portfolio Statement on the website of the mutual fund at all times.

19. The Noticees have also contended that DHFL securities were not defaulted securities on May 02, 2019 or May 07, 2019 and they were continually valued using third party (viz. CRISIL/ICRA) valuations as a security rated A and infact the change in the NAV of Principal Low Duration Fund as a result of the downgrade on May 14, 2019 was not very significant. The NAV of Principal Low Duration Fund Direct Plan Growth Option fell by Rs. 16.6990 (i.e. 0.55%) from Rs. 3,056.2722 on May 2, 2019 to Rs.3,039.5732 on May 14, 2019.

20. Noticee 1 has further averred that he had a higher investment in Principal Short Term Fund and as a result higher exposure to the DHFL NCDs. However, he did not switch / redeem the same and in fact continues to hold the same till date. Further, Noticee 1 also had exposure to DHFL NCDs as a result of being invested in Principal Credit Risk Fund and Principal Hybrid Equity Fund but did not switch / redeem the same and continues to hold the same. I note that upon perusal of portfolio of Noticee 1, as on the date of downgrade May 14, 2019, that Noticee 1 was still invested in Principal Short Term Fund, Principal credit risk fund and Principal hybrid equity fund which are having exposure to DHFL NCDs. Notably, the holdings having exposure to DHFL NCDs are higher than the amount switched out of the Principal low duration fund. In this regard, it is logical to construe that any person with prudent mind would try to redeem or switch all or substantial portion of the holdings having exposure to DHFL NCDs when in possession of any privileged information relating to an impending downgrade.

21. For the reason for which switch was done, Noticee 2 has averred that by April 2019, the monthly return in Principal Low Duration Fund had fallen to as low as 2.2% p.a. Whereas the monthly returns in Principal Cash Management Fund, a fund with lower duration risk as well as a lower credit risk compared to Principal Low Duration Fund, were in the range of 6.6% p.a. to 7.1% p.a. and were quite consistent in this range.

22. Noticees have *inter-alia* contended that transactions alleged in the SCN is not amenable to Regulation 4(2)(q) of the PFUTP Regulations or Section 15HA of the

SEBI Act, 1992. Noticees further averred that Regulation 4(1) is inapplicable in the instant case as Regulations 4(1) and 4(2) of the PFUTP Regulations are connected and has to be read in conjunction.

23. Noticees have further submitted that essential requirement to prove fraud under the PFUTP Regulations is “inducement” and in the absence of the element of ‘inducement’ being established, there cannot be said to be a violation of either Regulation 3 or Regulation 4 (or the sub-regulations thereof).

24. Noticees have contended regarding the applicability of violative provisions viz. Regulation 3(a), 4(1) and 4(2)(q) of PFUTP Regulations. Therefore, it is pertinent to elucidate the scope and extent of aforesaid Regulations. PFUTP Regulations inter-alia seeks to address the issues arising out of disparities in access to material information, that is otherwise not legally available to general investors, and to prevent those persons having access to such superior information from exploiting the informational advantage, in order to protect the integrity of the market and maintain investor confidence. In this regard, I note that in accordance with provision of Regulation 3(a) of PFUTP Regulations, said provision imposes a prohibition on buying or selling or otherwise dealing in securities in a fraudulent manner. The definition of securities under section 2(h) of the Securities Contracts (Regulation) Act, 1956, includes units of Mutual Funds, therefore, dealing in securities would include dealing in units of Mutual Funds i.e. switching of units of mutual fund schemes by the Noticees.

25. Here I would like to refer to the definition of fraud as has been defined under Regulation 2 (1)(c) of PFUTP Regulations which states as under:

“

(c) “fraud” includes any act, expression, omission or concealment committed whether in a deceitful manner or not by a person or by any other person with his connivance or by his agent while dealing in securities in order to induce another person or his agent to deal in securities, whether or not there is any wrongful gain or avoidance of any loss, and shall also include—....”

26. Referring to the findings made by the Hon. Supreme Court in *SEBI v. Kanaiyalal Baldevbhai Patel* (Civil Appeal No. 2595 of 2013), which reads as follows, it may be determined what are the fundamental constituents of fraud.

“

50. The definition of 'fraud', which is an inclusive definition and, therefore, has to be understood to be broad and expansive, contemplates even an action or omission, as may be committed, even without any deceit if such act or omission has the effect of inducing another person to deal in securities. Certainly, the definition expands beyond what can be normally understood to be a 'fraudulent act' or a conduct amounting to 'fraud'. The emphasis is on the act of inducement and the scrutiny must, therefore, be on the meaning that must be attributed to the word "induce".

.....”

27. I note from the aforementioned observation of the Hon'ble Supreme Court that it is clear that the inducement plays a significant role in assessing whether a conduct qualifies as "fraudulent". In this regard, it is noted that the material on record does not demonstrate or suggest that the Noticees switching of schemes induced anyone else to deal in securities. It is also noted that details of individual redemptions made in open ended mutual fund schemes would not be available in the public domain; further, in such cases the fund would be the counter party to the redemption as opposed to trades executed over the stock exchange platform where another investor would be the counter party. I also note that the SCN does not allege that the switching of units by Noticees had resulted in inducing or otherwise affecting the conduct of the other unit holders in the said Scheme. In the absence of any material available on record in this regard, I am constrained to give benefit of the doubt to the Noticee. Therefore, I find that the violation of Regulations 3(a) of the PFUTP Regulations by the Noticees could not be established.

28. The term 'unfair trade practice' is not defined under the PFUTP Regulations 2003. However, the Hon'ble Supreme Court in the matter of Kanaiyalal (supra) had observed that the term is broader in scope than the term 'fraudulent' and includes the concept of 'deception' or 'fraud'. The Hon'ble Court has held *that "Broadly trade*

practice is unfair if the conduct undermines the ethical standards and good faith dealings between parties engaged in business transactions. It is to be noted that unfair trade practices are not subject to a single definition; rather it requires adjudication on case to case basis. Whether an act or practice is unfair is to be determined by all the facts and circumstances surrounding the transaction. In the context of this Regulation a trade practice may be unfair, if the conduct undermines the good faith dealings involved in the transaction. Moreover the concept of 'unfairness' appears to be broader than and includes the concept of 'deception' or 'fraud'." Hon'ble Supreme Court also noted that "unfair trade practice, which though not a defined expression, has to be understood comprehensively to include any act beyond a fair conduct of business including the business in sale and purchase of securities."

29. The Hon'ble Supreme Court in this matter had gone on to observe that while *"Regulation 3 prohibits a person from committing fraud while dealing in securities... Regulation 4 prohibits manipulative, fraudulent and unfair trade practices". The Hon'ble Court observed that "It is to be noted that the Regulation 4 (1) starts with the phrase 'without prejudice to the provisions of Regulation 3'. This phrase acquires significance as it portrays that the prohibitions covered under the Regulation 3 do not bar the prosecution Under Regulation 4 (1). Therefore Regulation 4 (1) has to be read to have its own ambit which adds to what is contained Under Regulation 3."*

30. It can therefore be noted that the Hon'ble Supreme Court has observed that the scope of the term 'unfair trade practice' is wider than that of the term 'fraud' and activities which do not satisfy the parameters of 'fraud' could independently be proceeded under Regulation 4(1) if it can be considered as an '*unfair trade practice*'. I note the observations made by the Hon'ble Supreme Court in the matter of Kanaiyalal (supra) in relation to 'unfair trade practice' as contained under the PFUTP Regulations.

31. With regard to the violation of Regulation 4(2)(q) of the PFUTP Regulations, I observe that the provision states that placing a securities order by a person while being directly or indirectly in possession of information that is not publicly available, regarding a substantial impending transaction in those securities, its underlying securities, or its derivative, constitutes a fraudulent or unfair trade practice.

32. At this juncture, I find it pertinent to refer Report of the Committee on Fair Market Conduct ("FMCC Report") and the analysis by SEBI of the public comments on the FMCC Report, on the basis of which Regulation 4 (2)(q) of the PFUTP Regulation was amended, with regard to the interpretation of Regulation 4 (2)(q) of PFUTP and what will be considered a transaction. The relevant extract of the same are given below:

Relevant text of FMCC Report's observation (paragraph 13, page 28-29 of the FMCC Report):

Source: SEBI Website

“

13. The provision at Reg. 4(2) (q) currently makes any trading by an intermediary in advance of a substantial client order as fraud. In the wake of the judgment of Hon'ble Supreme Court in the matter of Kanaiyalal Patel v. SEBI, wherein the ambit of front-running was increased from intermediary to any person, the Committee is of the opinion that if the trading is done by any person based on direct or indirect knowledge about an impending transaction by any person it should be treated a fraud. Further, the provision would cover trading in the security or its derivative. However, considering the fact that some intermediaries are legitimately aware of such information in advance, it was decided that protection may be given to trading which is based on information which is publicly available. Further, the Committee was of the view that the provision should not be construed to bring in the concept of front running one's own trades.

.....”

Relevant text of Analysis by SEBI of the public comments on FMCC Report (Sr. no 2, page 11 of the Analysis report):

Source: SEBI Website

Sr. No	Recommendation / Proposed Amendments	Name of the entity	Public Comments	SEBI comments
	Deeming Provision Regulation 4(2) (q) an intermediary buying or selling securities in advance of a substantial client order or whereby a futures or option position is taken about an impending transaction in the same or related futures or options contract. Any order in securities placed by a person, while directly or indirectly in possession of information that is not publically available, regarding a substantial impending transaction in that security, its underlying security or its derivative		Substantial impending transaction should be defined like potential mergers or acquisitions, change, y- o-y change in EBIDTA by +/- 15%, exit of key management person, etc. on the lines of 2 (n) given in page 76/77. And the gain for the person for any probe should be beyond a sum, say, Rs. 25 lakhs. This omnibus clause does not protect a genuine investor taking a position in market based on information available only in public domain and topping that with her/his bet on the course of events. Then without her/his knowledge a substantial impending transaction take place! This is too onerous for such a person to prove that she/he did not have any information on the 'impending' transaction if an	This provision deals with front running large transactions on the stock exchange which cause changes in price due to the size of transaction. The term transaction refers to trade in a security and not a merger or acquisition transaction.

33. In light of the above, I see that the aforementioned PFUTP rule is relevant to front-running violations and that the phrase "transactions" applies to the trading of securities and not any other transaction like a merger or acquisition transaction. In this regard, the ratings downgrade of DHFL NCDs on May 14, 2019 from A to BBB- cannot be considered as substantial impending transaction in the units of Principal low duration fund vis a vis Regulations 4(2)(q) of the PFUTP Regulations. In the instant proceedings, the material on record does not point to or identify any instance in which the Noticees had knowledge of a substantial impending transaction relating to a trade in securities on the basis of which and ahead of others, the Noticees have switched from one scheme to another scheme. I note that in the absence of the same, I am constrained to give benefit of the doubt to the Noticees. In view of the above, it is not established that the Noticees have violated Regulations 4(1) and 4(2)(q) of the PFUTP Regulations.

34. Section 12A(e) of SEBI Act prohibits a person to deal in securities while in possession of material or non-public information. Other than the Noticees being in Key Managerial Positions, I do not find any other evidence placed on record indicating how or when the Noticees came into or were in possession of material non public information on the basis of which they switched their units to avoid loss. There is nothing on record regarding their attending of any meetings, be it internal or with CRAs, related to rating downgrade or valuation etc. Sans any such evidences and given the above justifications submitted by the Noticees, as well as the various legal points mentioned and dealt with in the above paragraphs, I am constrained to note that the charge that the Noticees acted in a fraudulent or unfair manner is not established. In view of the same, it is not established that switching of units by the Noticees was in violation of Regulation 3(a), Regulation 4(1) and 4(2)(q) of PFUTP Regulations 2003.

35. Accordingly, since the charge of violation of Regulation 3(a), 4(1) and 4(2)(q) of the PFUTP Regulations read with Section 12 A(e) of SEBI Act is not established, other submissions of the Noticees does not require any further consideration.

Issue II: Whether Noticees have violated Clause-E(3)(d) of SEBI Circular dated November 17, 2016

36. According to SEBI MF Regulations "mutual fund means a fund established in the form of a trust to raise monies through the sale of units to the public or a section of the public under one or more schemes for investing in securities, including money market securities." A registered Mutual Fund is required to comply with the provisions of the Regulations. As per the Regulations, mutual fund is required to ensure proper conduct of the assessment management company with reference to the investment activities etc. It is imperative to note that every Mutual Fund registered with SEBI has to conduct its business in compliance with the terms and conditions subject to which registration has been granted and the provisions of the said Regulations and the Circulars issued from time to time. The Key Managerial Personnel of the AMC's are

expected to carry out their respective roles in the interest of the unitholders by complying with all the prudential norms governing the functioning of the MF.

37. The primary purpose for having laws prohibiting trading on the basis of asymmetric access to information is to foster confidence in the securities markets. Prevalence of such trades erodes the confidence of the ordinary investors in the fairness and integrity of the securities markets. Further, such trading by Employees in Key Managerial Positions is also a breach of the fiduciary duty as the insider effectively converted corporate information for private profits to the detriment of the other investors. The Employees in Key Managerial Positions of an AMC acts as a quasi-fiduciary in respect of the investors of the mutual funds managed by the AMC and is expected to serve in the interest of such investors.

38. While the Employees in Key Managerial Positions are not prohibited from trading in units of the schemes managed by the AMC, they should ensure that such trading conforms to ethical and moral standards and legal norms expected to be complied by a person entrusted with quasi-fiduciary responsibilities. Redemption of units by Employees in Key Managerial Positions of the asset management company of a mutual fund while being privy to material non-public information cannot be considered as fair conduct.

39. I note that the internal disciplinary committee of the Principal Asset Management Company AMC had inquired into the matter of the switching transactions by the Noticees and after taking legal reference the AMC had taken action against the Noticees including recovery of profits/loss avoided and issuance of sanction letter.

40. With regards to the charge in the SCN it has been alleged that the Noticees are in violation of Clause-E (3)(d) of SEBI Circular dated November 17, 2016. Hence, it is pertinent to examine the provisions of SEBI Circular dated November 17, 2016. The introductory para states that with an objective to bring about alignment in SEBI circulars dated May 08, 2001, June 20, 2002, July 11, 2003, December 15, 2009 and May 22, 2014 (hereinafter referred to as “related MF circulars”) providing guidelines

for Investment/Trading in Securities by employees of AMC(s) and Trustees with the principles laid down in SEBI (Prohibition of Insider Trading) Regulations, 2015, and to remove difficulty in the implementation of the guidelines. Thus, the aim of the aforesaid circular is that it provides certain guidelines to be followed at the time of Investment/Trading in Securities by employees of AMC(s) and Trustees. Further Para B of the aforesaid circular prescribes Annexure-A for simplicity of reference and for the terms of the amendments of related SEBI circulars. Further Para C states about the applicability of the circular from December 01, 2016.

41. As per Annexure A of the SEBI Circular dated November 17, 2016, it provides that AMC(s) and Trustees are free to set more stringent norms for employee investment and/or trading in securities however, the guidelines enumerated that specify the minimum requirements that must be adhered to. The Board of the AMC and Trustees shall ensure compliance with the guidelines on a continuous basis and shall report any violations and remedial action taken by them in the periodical reports submitted to the Board. The objective and principles of the guidelines as provided under para B is ensure that all securities transactions made by employees in their personal capacity are conducted in consonance with these guidelines and in such manner as to avoid any actual or potential conflict of interest or any abuse of an individual's position of trust and responsibility. Further para C provides the type of investments covered under the aforesaid circular and also provide the exceptions for the same. It is pertinent to mention here that units of schemes floated by Mutual Funds / AMCs where the concerned persons are employed are covered under the circular. Para D provides for investments in shares and/or Debentures and/or Bonds and/or Warrants and/or Derivatives through primary markets and secondary markets and subsequent compliances by the compliance officer such as maintain and keeping track records of preclearance requests. Para D further provides for prohibition of front running. The para E provides for Investments in units of Mutual Fund Schemes, para E further provides for non-obstante clause regarding not to purchase or sell /or repurchase or redeem units of any scheme at specified instances viz. when there is a likelihood of a change in the accounting policy, or a significant change in the valuation of any asset, or class of assets and the same has not been communicated to the investors.

42. Noticees with respect to aforesaid violation have submitted that Clause E of the Annexure to SEBI Circular dated November 17, 2016 is implemented by Principal Mutual Fund through its own internal guidelines which are accessible to all employees of Principal Mutual Fund. As per the internal guidelines, as soon as the compliance officer gets communication of a change in the accounting policy or a significant change in the valuation of any asset or class of assets, the compliance officer is required to send out a communication to all employees asking them to refrain from dealing in such schemes till the time such information gets communicated to the investors by way of public notice / individual communication as the case may be. Noticees further submitted in the instant scenario, compliance officer did not send a communication restraining the employees from dealing in the Principal Low Duration Scheme because there was no unpublished / non-public information in existence unlike in an earlier case with regards to IL&FS when it was downgraded.

43. It is noted from the reply of the Noticees that they have not disputed the switching of units from Principal low duration fund. Noticees have contended that the switching-in of units of Principal mutual fund was not based on information which was not in public domain. It is pertinent to note that upon perusal of various news reports in electronic and print media near the downgrade date, the reports have covered about the worsening conditions of DHFL. Thus the information relating to DHFL were already in public domain. There was nothing on record to show that Noticees are privy to any information which had to be communicated to the unitholders. Further, there was no change at Principal Mutual Fund in the way the securities were valued (basis third party valuation) or with respect to any another facet of running the fund like change in terms of redemption, change in accounting policy etc. Also then, the DHFL securities were not defaulted securities and they were continually valued using third party (viz. CRISIL/ICRA) valuations.

44. Clause E(3)(d) of SEBI circular, is a non-obstante clause that prohibits the employees of the AMC from redeeming or selling units in any scheme, including debt mutual fund schemes, in the event that, among other things, there was likelihood of a change in the accounting policy, or a significant change in the valuation of any asset, or class of assets and the same has not been communicated to the investors. In the instant case, due to the downgrade of DHFL NCDs and Principal low duration fund having exposure of DHFL NCDs, the Noticees have contended that there was no significant change in the NAV of the Principal low duration fund. In this context, I would like to refer the NAV analysis of Principal Low Duration Fund.

Scheme Name	Scheme Plan Description	NAV Date	NAV
Principal Low Duration Fund	Direct Plan Growth	02/05/2019	3056.2722
Principal Low Duration Fund	Direct Plan Growth	03/05/2019	3053.6194
Principal Low Duration Fund	Direct Plan Growth	06/05/2019	3051.7705
Principal Low Duration Fund	Direct Plan Growth	07/05/2019	3052.6711
Principal Low Duration Fund	Direct Plan Growth	08/05/2019	3053.8171
Principal Low Duration Fund	Direct Plan Growth	09/05/2019	3054.6382
Principal Low Duration Fund	Direct Plan Growth	10/05/2019	3055.6008
Principal Low Duration Fund	Direct Plan Growth	13/05/2019	3048.7227
Principal Low Duration Fund	Direct Plan Growth	14/05/2019	3045.5603
Principal Low Duration Fund	Direct Plan Growth	15/05/2019	3039.5732
Principal Low Duration Fund	Direct Plan Growth	16/05/2019	3040.6807
Principal Low Duration Fund	Direct Plan Growth	17/05/2019	3042.1572
Principal Low Duration Fund	Direct Plan Growth	20/05/2019	3044.9343
Principal Low Duration Fund	Direct Plan Growth	21/05/2019	3045.6121
Principal Low Duration Fund	Direct Plan Growth	22/05/2019	3046.3877
Principal Low Duration Fund	Direct Plan Growth	23/05/2019	3048.0955
Principal Low Duration Fund	Direct Plan Growth	24/05/2019	3049.1165
Principal Low Duration Fund	Direct Plan Growth	27/05/2019	3052.4695
Principal Low Duration Fund	Direct Plan Growth	28/05/2019	3053.3042
Principal Low Duration Fund	Direct Plan Growth	29/05/2019	3054.0027
Principal Low Duration Fund	Direct Plan Growth	30/05/2019	3050.4309
Principal Low Duration Fund	Direct Plan Growth	31/05/2019	3051.8621

45. From the above table, it can be inferred that changes of the NAV of the Fund around the downgrade on May 14, 2019 was not significant.

46. Noticees in their reply have contended that as it was downgrade only and security was still in investment grade and not in default, the compliance officer did not send official communication to refrain from dealing in such schemes till the time information gets communicated to investors.

47. Further, in accordance with the circular it is also noted that any material change in the valuation has to be communicated to the unit holders. In this regard, I note that firstly as explained above there was no significant movement in NAV and secondly there was no change in accounting policy to be communicated to the unit holders.

48. Hence, in the instant case, I am constrained to say that after considering all the issues narrated in paragraphs above, in terms of the allegations in the SCN, based on material available on record, violation of aforesaid circular by the Noticees is not established.

Issue III. Does the violation, if any, attract monetary penalty under section 15HB of the SEBI Act, 1992

Issue IV. If the answer to Issue No. I, II & III is in affirmative, then what should be the quantum of monetary penalty?

49. While I find that since the first and second issue has been answered in negative, issue III and IV does not merit consideration. Accordingly, Issue No. III and IV are disposed off.

ORDER

50. In view of the findings noted in the preceding paragraphs, the adjudication proceedings initiated against the Noticees vide SCN dated February 08, 2023 are disposed of.

51. In terms of Rule 6 of the Adjudication Rules, 1995, copy of this order is sent to the Noticees and also to the SEBI.

Place: Mumbai

Date: September 20, 2023

SHASHI KUMAR VALSAKUMAR

ADJUDICATING OFFICER