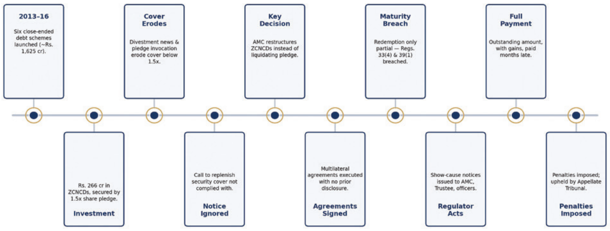

Background

"Horizon Asset Management Company Limited" ("the AMC"), the investment manager of "Horizon Mutual Fund", and "Horizon Trustee Company Limited" ("the Trustee"), which held the fund's assets in a fiduciary capacity, together launched a series of close-ended fixed maturity debt schemes. When two of the underlying debt instruments held by these schemes ran into repayment trouble on the eve of maturity, the AMC — with the Trustee's concurrence — unilaterally extended the maturity of the underlying securities and partially withheld redemption to unitholders, without following the statutory roll-over process. The regulator initiated action for lack of due diligence, unauthorised extension of maturity, and inadequate disclosure. The AMC, the Trustee, and several of the Trustee's senior officers were penalised. The question now before the Appellate Tribunal is whether a regulatory breach committed in what is claimed to be the investors' own interest — and which ultimately caused no demonstrable loss — can still attract penalty.

Facts

- Horizon Mutual Fund was sponsored by a scheduled commercial bank. The Trustee held the fund's assets on behalf of unitholders, and had appointed the AMC, its group affiliate, to manage the schemes on a day-to-day basis.
- Between 2013 and 2016, Horizon Mutual Fund launched six close-ended fixed maturity plans ("the Schemes"), collectively raising approximately Rs. 1,625 crore, each with a fixed maturity date falling between April and May of the relevant year.
- Under the applicable regulatory framework, a close-ended scheme is required to invest only in instruments maturing on or before the scheme's own maturity date, and must be fully redeemed and wound up at the end of that period unless it is "rolled over" through a statutory process involving prior disclosure to unitholders, filing with the regulator, and the unitholders' express written consent.
- Of the funds collected, Rs. 266 crore was invested in zero-coupon non-convertible debentures ("ZCNCDs") issued by two group companies of a large conglomerate ("the Issuer Group"). The investment was secured by a pledge over shares of a listed media company ("the Listed Entity") equal to 1.5 times the exposure, with an obligation on the pledgor to top up the cover if the share value fell.
- In November of the relevant year, the Listed Entity announced its intention to divest a substantial part of its promoter shareholding. This announcement, coupled with invocation of pledges by other lenders, caused the share price to fall sharply, eroding the security cover well below the mandated 1.5 times.
- Despite notices calling for replenishment of the security cover, no additional shares or funds were furnished by the pledgor group.
- Faced with an imminent default, the AMC — instead of liquidating the pledged shares or proceeding to wind up the maturing schemes — chose to enter into a restructuring arrangement with the Issuer Group and other lenders, extending the maturity of the ZCNCDs beyond the maturity dates of the underlying Schemes. The Trustee was informed of, and concurred with, this course of action.
- When the first two Schemes matured, only a part of the amount due was paid to unitholders; the balance (invested in the restructured ZCNCDs) was withheld. A similar partial withholding occurred when the remaining four Schemes matured. The entire outstanding amount was eventually paid to unitholders several months after the respective maturity dates, along with the gains that had accrued in the interim.

- Neither the regulator nor the unitholders were informed of the restructuring decision before it was implemented. The regulator learned of the extension only after making specific inquiries following the delayed payouts.
- The regulator issued show-cause notices to the AMC, the Trustee, and several senior officers of the Trustee, and eventually imposed monetary penalties on all of them for (i) lack of due diligence in the original investment, (ii) unauthorised extension of maturity without following the roll-over procedure, and (iii) inadequate and belated disclosure.
- On appeal, the Appellate Tribunal upheld the finding of violation against all parties, though it set aside a direction requiring the AMC to disgorge a portion of its investment management fees. The AMC, the Trustee, and its senior officers have now filed further appeals.

Arguments on behalf of the Appellants (AMC, Trustee and Senior Officers)

- The decision to restructure rather than liquidate the pledged shares was a bona fide commercial judgment taken to protect unitholders from a steep, immediate loss estimated at over Rs. 376 crore, and was not motivated by any personal or corporate gain.
- The ZCNCDs were structured obligations; the investment decision was reasonably based on the reputation and repayment track record of the Issuer Group and the strength of the pledged collateral, rather than solely on the standalone financials of the issuing entities. At least twenty-two other market participants, including several other mutual funds, had similarly invested in the same Issuer Group.
- No unitholder ultimately suffered any loss; on the contrary, the delayed payout included accrued gains, meaning unitholders were financially better off than they would have been under an immediate liquidation.
- The Trustee, in advising the AMC to obtain a personal guarantee from the promoter, exercised independent oversight and did not merely rubber-stamp the AMC's decision.
- Penalising conduct that was disclosed to unitholders by email (even if not placed on formal record) and that was undertaken transparently within the group structure is disproportionate, particularly where the regulatory framework itself contemplates flexibility through mechanisms such as segregated portfolios.
- The absence of a single unitholder complaint throughout the episode is a relevant mitigating factor that should inform both the finding of violation and the quantum of penalty, especially as against the individual senior officers.

Arguments on behalf of the Regulator

- The regulatory framework governing close-ended schemes is consequence-neutral: a close-ended scheme must be fully redeemed and wound up at maturity, and the only lawful alternative is a roll-over strictly following prior disclosure to unitholders, filing with the regulator, and unitholders' express written consent — none of which occurred here.
- Once a contravention of a statutory obligation is established, penalty follows irrespective of intention; whether the breach was undertaken in good faith, or fortuitously resulted in gain rather than loss to investors, is beyond the scope of scrutiny in an appeal confined to substantial questions of law.
- The plea that other market participants also invested in the same Issuer Group cannot dilute the AMC's own liability — there is no principle of "negative equality" in regulatory law, and a collective lapse does not cure an individual breach.
- The AMC's own internal records reveal that its Investment Committee approved the original investment without adequately examining the issuing entities' financial health, in a manner that fell short of the due diligence standard mandated by the applicable regulations.
- The Trustee, holding unitholders' funds in a fiduciary capacity, was independently obliged to verify that the AMC's course of action complied with the regulatory framework and served unitholders' interests — merely concurring with, or "following behind," the AMC's decision does not discharge that independent fiduciary duty.
- Neither the regulator nor unitholders were informed of the restructuring before it was implemented; the regulator learned of it only after the delayed payouts prompted inquiry, and this delay itself constitutes an independent disclosure violation.
- Senior officers of the Trustee, being domain experts well versed in securities law, cannot claim ignorance of the consequences of the regulatory infraction; the absence of investor complaint or loss does not, by itself, entitle them to a waiver of penalty.

Core Legal Issues

- Whether the unilateral extension of the maturity of underlying debt securities beyond the maturity of a close-ended scheme, without following the statutory roll-over procedure, constitutes a regulatory violation irrespective of whether it ultimately resulted in gain rather than loss to investors?
- Whether the absence of investor loss, absence of investor complaint, and the existence of similar conduct by other market participants can operate as a defence — or only as a mitigating factor — against a finding of regulatory contravention and the consequent penalty?

Now Decide

Now decide the above legal issues in light of the facts and submissions, and determine whether the penalties imposed on the AMC, the Trustee, and its senior officers ought to be sustained, modified, or set aside.

Disclaimer

This case study has been framed based on publicly available information and knowledge with necessary modifications and fictionalisation of names, entities, and identifying details, to enable professionals to apply their analytical skills. Any resemblance to actual persons, companies, or cases is purely coincidental.

Winner of Case Study – July 2026

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