Under the SEBI (Mutual Funds) Regulations, 1996, a close-ended mutual fund scheme must be fully redeemed and wound up on its maturity date unless it is validly rolled over in the manner prescribed under Regulation 33(4), including necessary disclosures and written consent of unitholders. An AMC/ Fund houses cannot, on grounds of commercial expediency or investor benefit, unilaterally extend the maturity of underlying securities and delay redemption of scheme proceeds

The **Supreme Court** in the case of **Nilesh Shah vs SEBI [Civil Appeal No.6529 of 2026] dated July 13, 2026**, has held that under the SEBI (Mutual Funds) Regulations, 1996, a close-ended mutual fund scheme must be fully redeemed and wound up on its maturity date unless it is validly rolled over in the manner prescribed under Regulation 33(4), including necessary disclosures and written consent of unitholders. An AMC/ Fund houses cannot, on grounds of commercial expediency or investor benefit, unilaterally extend the maturity of underlying securities and delay redemption of scheme proceeds. The Court held that securities regulation is compliance-driven and consequence-neutral, so absence of investor loss, presence of investor gain, bona fide intention, or absence of complaints does not excuse a proven regulatory breach.

The Court further held that where contravention of the SEBI Act and the mutual fund regulations is established, penalty follows and mens rea is irrelevant unless the statute expressly requires otherwise. It reaffirmed that due diligence obligations under Regulation 25(16) and the Fifth Schedule must be strictly observed, and that trustees and senior executives are equally accountable where they fail to ensure regulatory compliance and act in breach of their fiduciary and statutory responsibilities.

The Court made it clear at the outset that in an appeal under Section 15Z of the SEBI Act, its role is confined to substantial questions of law and not to judging the commercial wisdom of the decision taken by market participants. The Bench stressed that the statutory and regulatory framework under securities law is consequence-neutral: compliance is mandatory regardless of whether the impugned conduct ultimately caused gain or loss to investors. Once breach of the SEBI Act or the regulations is established, the only real defence is to show that no breach occurred at all or that the findings are manifestly perverse.

The Court held that the core violation lay in the extension of the maturity dates of the debentures beyond the maturity dates of the close-ended schemes and the resulting delayed redemption of scheme proceeds. Referring to Regulation 33(4) and Regulation 39 of the SEBI (Mutual Funds) Regulations, 1996, the Court said the legal position was plain: a close-ended scheme must be fully redeemed at the end of its maturity period and wound up on expiry of its duration, unless it is rolled over in accordance with the prescribed process and with written consent of unitholders. Since no rollover had been undertaken, the delayed and partial redemption was directly contrary to the regulations.

On disclosures, the Court held that SEBI and the unitholders had been kept in the dark. SEBI was informed of the course actually adopted only on 12 April 2019, after the first maturity dates had already passed and after SEBI itself sought information. The Court found this unacceptable, particularly because the action taken was not in consonance with the regulations and should have been disclosed to the regulator beforehand. It also observed that unitholders were not given any real choice, because the decision to extend the debenture maturity and withhold redemption amounts was imposed on them without the legally required rollover process.

Click here to read/ download the original judgment