

Cloud over Franklin's wind-up move amid legal challenges

Delhi HC notice to fund house and Sebi on investor's petition

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Franklin Templeton Mutual Fund's (MF's) move to wind up six of its debt schemes has led to a clutch of investors approaching courts, leading to uncertainty over the process that was slated to start on Tuesday through e-voting by the unitholders.

On Monday, the Delhi High Court (HC) issued notice to Franklin MF, the Securities and Exchange Board of India (Sebi), following a writ petition filed by an investor challenging the wind-up notice and the subsequent e-voting notice issued by the fund house.

The petition challenged Franklin MF's contentions that cited the Covid-19 pandemic for the wind-up move and that this was the only viable option to preserve value for the unitholders. It also claimed the trustees have failed to make prudent investments and faulted on the proper administration of the fund.

In other allegations, it was claimed the fund house fell short of following Sebi's circulars and invested in securities which were of low "credit transparency of investment rating".

The Delhi HC said that all decisions on winding up

WHAT'S IN THE PLEA

- Challenges Franklin MF's contention that winding up was the only viable option to preserve value for the unitholders
- Claims the trustees failed to make prudent investments
- Alleges the fund house invested in securities which were of low "credit transparency of investment rating"

would be subject to the outcome of the writ petition. However, the court's stance on the voting process could not be ascertained at the time of going to press.

The petition was filed by Abhinav Shrivastava, partner at GSL Chambers. It was moved advocate Manish Yadav.

Some investors have also filed a writ petition at Supreme Court seeking intervention.

Meanwhile, more investors have joined the plea against Franklin MF in the Gujarat HC, which has given an ad-interim relief through a stay on the e-voting process. The fund house has moved a plea in the Gujarat HC to vacate the stay.

With the legal process ini-

tiated by some investors, others are worried over the payout timelines. "We were hoping that some payments could get released sooner as some of the schemes had turned cash positive," said an investor in one of the six wound-up schemes.

In their voting notices to investors, the trustees had advised investors to vote 'Yes' to the authorisation as a rejection may result in a delay of the asset monetisation process.

In the four-day voting process, the investors were to be given three options. The unitholders could give authorisation to the trustees to monetise the scheme assets. The trustees would be assisted by debt capital markets (DCM) team of Kotak Mahindra Bank and supported by the fund house.

The other option was to authorise the audit and consulting firm Deloitte to monetise the scheme assets, assisted by the fund house, which was being advised by DCM of Kotak Bank.

The third option was to opt for 'No' to reject both authorisation processes. However, the fund house in past communications has clarified to investors that 'No' would not change the winding-up status of the scheme.