

Franklin gets 2-yr ban on debt scheme launch

Sebi asks MF to return ₹512 cr as advisory fees

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The Securities and Exchange Board of India (Sebi) on Monday slapped a penalty of ₹5 crore on Franklin Templeton Mutual Fund (FT MF) for "several irregularities" in the running of its six debt schemes that were wound up in April 2020.

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The market regulator directed the fund house to disgorge ₹451 crore (₹512 crore after interest) it collected

as investment management and advisory fees between June 2018 and April 2020.

Further, the US-headquartered asset manager has been prohibited from launching any new debt scheme for a period of two years.

"The findings in the instant pro-



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- Franklin MF slapped with a fine of ₹5 cr for "several irregularities" in running the 6 shuttered schemes
- Separate adjudication proceedings against CEO, directors

ceedings have brought on record several irregularities in the running of the debt schemes inspected, contrary to the interests of the unitholders in such schemes," Sebi said in an order.

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As brought out above, the irregularities also extend to failures to exercise adequate due diligence, carry out valuation of securities as per the principles of fair valuations and ensure a robust risk management framework," Sebi said in an order.

In the order, the regulator said it has initiated adjudication proceedings against the chief executive officer, chief compliance officer, and directors of the fund house as they too are liable for the irregularities.

Franklin MF in a statement said, "We strongly disagree with the findings in the Sebi order and intend to file an appeal with the Securities Appellate Tribunal."

On April 23, 2020, FT MF announced that it had decided to wind up its six debt schemes, citing liquidity issues due to the Covid-19 outbreak. The move had hit over 300,000 investors and locked up over ₹25,000 crore of investments.

Based on complaints, Sebi initiated a forensic audit against the fund house to

ensure that it was in compliance with regulations. After studying the report, Sebi in November 2020 issued show-cause notices to Franklin seeking explanation on a slew of violations, including allowing a Sebi-barred entity from redeeming units.

Sebi's investigation found, for instance, that the fund house had not documented in credit notes the basis of scrip-wise investment decisions and also detailed credit analysis. It also had not collected end-use certificates from companies it had invested in. Sebi also found lapses in the security selection process.