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Apex court disallows Franklin to hold e-voting

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IN A SETBACK to Franklin Templeton, the Supreme Court on Friday refused to allow it to hold e-voting and unitholders' meeting for seeking approval for winding up six of its debt schemes.

A Bench led by Justice Arun Mishra refused to vacate the Gujarat HC's June 3 order that had stayed its order on e-voting process, which according to Franklin, is necessary for "liquidation of the assets of the schemes and distribution of proceeds" to its 20 lakh unitholders. While disposing of its pleas, including the transfer petition, the apex court transferred the petitions pending before the high courts of Delhi, Madras and Gujarat to the Karnataka High Court, which the judges said, would not be in any way influenced or privileged as it will hear the issue afresh. It said a division bench of the HC will hear the case and decide it expeditiously, preferably in the next three months.

Frankin had filed a plea seeking transfer of all the petitions to one of the high courts hearing the case so as to avoid multiplicity of proceedings and divergent verdicts. Even the Sebi's plea on interpretation of winding up rules, pending before the Gujarat HC, will now be heard by the Karnataka HC.

Challenging the Gujarat HC's June 3 order that stayed the e-voting process, Franklin Templeton Trustee Services in other appeal said it had on April 23 decided to scrap its six debt schemes and also put on hold redemptions indefinitely due to severe liquidity and redemption pressures. The fund house had later sent notices to unitholders announcing that the e-voting windows would open between June 9 and 11. Both the winding up and the e-voting process were challenged by investors in different HCs.

Company was also not allowed to hold unitholders' meeting to seek approval for winding up six of its debt schemes

Counsel Pratap Venugopal represented Sebi in the SC.

Senior counsel Harish Salve and CA Sundaram on Friday told the SC that it was necessary that the unitholders' meeting and e-voting be allowed to proceed in accordance with the Sebi's mutual fund regulations to ensure small investors are paid at the earliest. According to the petition, Franklin took the decision to wind up the six schemes "after all other avenues were exhausted since that was the only responsible course of action and was considered absolutely necessary to protect the interests of investors in an unprecedented economic environment."

"This decision was necessitated on account of the Covid-19 crisis, which led to a dramatic and sustained fall in liquidity in certain segments of the corporate bonds market. Mutual funds, particularly in the fixed incomes segment, were faced with severe and sustained liquidity challenges as bond yields spiked and liquidity in the bond market collapsed. At the same time, MF schemes were facing massive and sustained redemptions, also precipitated by the economic shocks and uncertainty caused by the Covid crisis," the plea said.

Given these unprecedented economic conditions, there was a risk of disorderly liquidation of schemes, which would have resulted in significant value losses for investors, it added.