

HC: Investors' consent must to wind up 6 Franklin Templeton debt funds

FE BUREAU

Mumbai, October 24

THE KARNATAKA HIGH Court on Saturday ruled that trustees of Franklin Templeton must take the consent of unit-holders by a simple majority for winding up of the six debt funds. However, the court has stayed the operation of this order for six weeks and has also clarified that no redemptions, borrowings or creating liability in the said six schemes can be initiated by the fund house.

A division bench of Chief Justice Abhay S Oka and justice Ashok S Kinagi held, "We hold that, no interference in called for in the decision of the Trustees taken on 23rd April, 2020, of winding of the said six schemes. We hold and declare that the decision of the Trustees to wind up 6 schemes mentioned in paragraph 1 of the judgment, by taking recourse to sub-clause (a) of clause 2 of Regulation 39 of the Mutual Fund Regulations cannot be implemented unless the consent of the Unit Holders is obtained in accordance with sub-clause (c) of clause 15



of Regulation 18."

The court order also said, "hence, we restrain the Trustees from taking any further steps on the basis of the impugned notices dated 23rd April 2020, and 28th May 2020, with the consent of the unit-holders by a simple majority till the decision of winding up is obtained by the Trustees in accordance with sub-clause (c) of clause 15 of Regulation 18 of the Mutual Fund Regulations."

The fund house had wound up six debt schemes collectively worth ₹25,800 crore on April 23 due to the severe market dislocation and illiquidity caused by the Covid-19 pandemic. Later, investors had approached the Supreme

Court, which had transferred the petitions before the HCs of Delhi, Madras and Gujarat to the Karnataka High Court.

Spokesperson of Franklin Templeton MF said, "The Hon'ble Karnataka High Court has upheld the authority and decision taken by the trustees to wind up the schemes under regulation 39(2)(a). As per the judgment, for operationalising such a decision, approval of the unit-holders will be required under regulation 18(15)(c)."

The Karnataka High Court has also stated that the Securities and Exchange Board of India (Sebi) ought to have played a more proactive role and has failed to perform its duties. The court had also given Sebi six weeks to make a decision on the forensic audit report.

"We are considering the order and will take appropriate steps in consultation with our legal experts in the best interest of the unit-holders. Our focus remains on maximising value for unit-holders in these schemes and returning monies as soon as possible," added the Franklin Templeton spokesperson.