

# SC to Franklin: Get investors' nod to wind up debt schemes

Relief for investors whose ₹25,000 crore is stuck in these suspended schemes

SURESH P IYENGAR

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The Supreme Court's interim verdict directing Franklin Templeton (FT) to seek investors' approval for winding up the six suspended debt schemes gives a breather to investors whose investments worth ₹25,000 crore are stuck in these schemes.

If the investors approve the closure of the schemes, Franklin has to again seek their vote for selling the assets held by the suspended schemes. In that case, the investors will have the choice of allowing the Trustee of Franklin Templeton or appointing a third party to process the sale of assets.

On the other hand, if they vote against the closure of the schemes, Franklin will be compelled to reopen the scheme and may see heavy redemption on Day 1, given that it has remained suspended for trading for seven months now.

## Distress sale of assets

To meet the redemption requests, the fund house may resort to a distress sale of debt schemes assets rather than borrowing, said an industry expert.

Though liquidity in the debt market has improved since the Covid pandemic outbreak, the assets held in the debt schemes may not fetch the right value if put on distress sale to meet redemption, the expert added.

On October 24, the Karnataka High Court had said that unit holders' approval was a must for the winding up of any mutual fund scheme.

This was challenged by Franklin in the top court. On Thursday, a Bench of Justices Abdul Nazeer and Sanjiv

Khanna passed an interim order asking Franklin to seek investor consent within one week. The Supreme Court will continue to hear Franklin's plea.

A Franklin spokesperson said that even as it seeks the consent of the unit holders for the winding up of the six schemes, redemptions will continue to be suspended till further notification.

"We believe that the Supreme Court order will be helpful in ensuring orderly monetisation and distribution of scheme assets. We will issue the notice seeking consent of unit holders shortly," said the spokesperson.

Franklin Templeton MF closed these six debt mutual fund schemes on April 23, citing redemption pressure and lack of liquidity in the bond market.

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## What next for FT

- If the investors clear the closure, FT has to seek their votes for selling the assets held by the suspended schemes
- Investors then have to choose between the Trustee and a third party to process the asset sale
- If they vote against the closure, FT has to reopen the scheme and address redemption requests