

Franklin Templeton fiasco: SEBI levies ₹15-cr fine on trustee, 8 key officials

Market regulator finds dereliction of duties, breach of various norms

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In yet another blow to troubled Franklin Templeton, capital market regulator SEBI has levied a penalty of ₹15 crore on eight top officials and Franklin Templeton Trustee Services for dereliction of duty and breach of various norms.

SEBI has imposed highest fine of ₹3 crore on Franklin Templeton Trustee Services followed by ₹2 crore each on Sanjay Sapre (CEO), Santosh Kamat (CIO); Kunal Agarwal (AVP) and fixed income fund managers Sumit

Gupta, Pallab Roy, Sachin Padwal Desai and Umesh Sharma have to shell out ₹1.5 crore each and Saurabh Gangrade (head of compliance) has to pay ₹50 lakh as penalty. The noticees have to pay the penalty within 45 days, it said.

The SEBI order on Monday comes even as the fund house and its employees have decided to challenge the fine, disgorgement of profit and adverse findings against them in Securities Appellate Tribunal.

Serious lapses

In its latest 151-page order Prasanta Mahapatra, Adjudicating Officer, SEBI, said he has found serious lapses and clear violations to be a fall out of the Franklin Templeton's obsession to run high yield strategies

without due regard from the associated risk dimensions. The fund house should have realised that the past track record in respect of high-risk strategies is no guarantee against future mishaps.

For a fund house which has been in this industry in India for over two and a half decades, it is surprising that its systems to monitor and manage critical risks like liquidity, credit and concentration are less than robust. The effectiveness of these systems stand compromised in the process of the noticee's single minded pursuit of reaping high yield.

Not documented

The noticees have brought out the reasons of 'business judgement' to defend questionable

decisions; however, it is seen that these decisions which involve deployment of public funds are barely documented. Similarly, the terms of investment covenants were apparently not in the interest of investors and the deficiencies in the agreements were sought to be corrected through a 'commercial understanding'.

While it is easy to shift the blame for such mishaps onto black swan events, regulatory changes, the noticees need to seriously introspect and put in place robust risk control and due diligence mechanisms, given that the rest of the industry has been able to cope with the events and survive through the crisis period of the Covid pandemic, without reaching the point of winding up, said SEBI.