

MISMANAGEMENT OF 6 DEBT SCHEMES

Franklin AMC to return ₹460-cr advisory fees

Regulator bars MF from launching debt scheme for 2 years

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Mumbai, June 7

Franklin Templeton Asset Management Company (FTAMC), one of the country's largest fund houses, was found guilty by market regulator SEBI of wrongful conduct and causing loss and hardship to the investors of its six debt schemes.

On Monday, SEBI asked FTAMC to return nearly ₹460 crore it had collected as management and advisory fees from the investors of the debt schemes since June 2018 with 12 per cent interest. Further, SEBI banned FTAMC from launching any new debt schemes for two years and imposed a fine of ₹5 crore on the fund house.

The SEBI order brings to the fore a culture of mismanagement, reckless investment decisions and even unfair trading by senior officials of FTAMC. Under SEBI laws, dis-

Takeaways

- FTAMC asked to return ₹512.50 crore to investors which was charged as management fees to these six schemes
- Cannot launch debt scheme for 2 years
- Additional ₹5 crore penalty
- Vivek Kudva and Roopa Kudva to pay ₹7 crore penalty. Cannot access securities market for 1 year



gorgement (return of fees) can be ordered in case of gains made from illegal or unlawful activities. It was found that FTAMC had entered into terms of investment that were ambiguous and without offering equal rights to the issuer and the investor. Valuations were not done as per set methods and there were several incorrect disclosures.

"The noticee (FTAMC) has been found seriously wanting insofar as its conduct as an AMC is concerned. There are findings of breaches of the Mutual Funds Regulations and various SEBI circulars. Income derived out of wrongful conduct, which ultimately

resulted in loss and caused hardship to the investors, is liable to be disgorged. For the impropriety committed while functioning as an AMC, imposition of penalty is also justified," the SEBI order said.

FTAMC abruptly shut six debt schemes on April 23, 2020 and suspended redemptions in them citing losses due to the Covid-19 situation. No consent was sought from investors. Later, it was found that the fund house had for long been struggling to keep afloat the six debt schemes, which had more than ₹50,000 crore (as per early 2019 Net Asset Value) and around ₹26,000 crore as per its last NAV before they were

shut. SEBI ordered a forensic audit into the dealings of FTAMC after media hue and cry and investor complaints.

SEBI said that it had found several irregularities in the running of the debt schemes, contrary to the interest of the unit holders. SEBI found dubious investments into Future Group, ReNew Power, OPJ Trading, Northern Arc Capital, Reliance Big Private Ltd, and Essel Infra Projects by FTAMC.

"The irregularities also extend to failure to exercise adequate due diligence, carry out valuation of securities as per the Principles of Fair Valuations and ensure robust risk management framework. The employees of FTAMC may be liable for irregularities arising during the course of business. SEBI has initiated adjudication proceedings against certain employees of FTAMC including the Chief Executive Officer, the Chief Compliance Officer and the Directors," SEBI said in its order.

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SEBI bans Vivek Kudva, Roopa Kudva from market for one year in FT case

Also imposes a fine of ₹7 crore on them

OUR BUREAU

Mumbai, June 7

Vivek Kudva, senior official of Franklin Templeton AMC, and his wife Roopa Kudva were found guilty of violating sections of prevention of fraudulent trading practices (PFUTP) by market regulator SEBI. They were held guilty for sections related to unfair trading practices.

Both have been banned from stock markets for one year by SEBI. Market regulator has also imposed a penalty of ₹4 crore on Vivek Kudva and ₹3 crore on Roopa Kudva.

Vivek Kudva was in possession of non-public confidential information when he and his

wife redeemed nearly ₹30 crore from among the debt schemes run by the fund house. FTAMC shut the debt schemes on April 23, 2020, and suspended redemptions in them. However, the Kudvas' redeemed a huge portion of their investments between March and April 2020.

"The Noticees (Kudvas) by redeeming their units ahead of the other investors have enjoyed an unfair advantage by having access to their investments; whereas the unit holders who remained invested were left in the lurch as their investments were locked up for a considerable amount of time," said SEBI in its order issued on Monday.

₹22.64 cr to escrow account

Both have been banned from



Vivek Kudva, Senior official of Franklin Templeton AMC

stock markets for one year and have been asked to return an amount of ₹22.64 crore in an escrow to SEBI, which will be released to them along with the cash being disbursed to other investors. This is the amount they received on redemption before the schemes were shut. Both have been asked to pay in-

terest of 12 per cent on amount they had redeemed. SEBI said that while the directors were not prohibited from trading in units of the schemes managed by the AMC, they should ensure that such trading conforms to ethical and moral standards and legal norms expected to be complied by a person entrusted with quasi-fiduciary responsibilities.

"Redemption of units by a director of the asset management company of a mutual fund while being privy to material non-public information cannot be considered as fair conduct," SEBI order said.

However, SEBI has not pursued fraud against the Kudavas since the regulator believed that there was no inducement on their part to apply fraud.