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Sebi bars Franklin from offering debt plans for 2 years



Franklin Templeton Mutual Fund had shut six debt schemes with assets of around ₹26,000 crore last year. BLOOMBERG

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MUMBAI: The Securities and Exchange Board of India (Sebi) on Monday barred Franklin Templeton Asset Management (India) Pvt. Ltd from offering debt plans for two years and ordered it to refund management and advisory fees totalling ₹512 crore on six shut debt schemes for violating regulations while closing them.

Franklin Templeton Mutual Fund had shut the six debt schemes with assets of around ₹26,000 crore on April 23, 2020 after they faced unprecedented redemptions.

The market regulator examined the robustness of Franklin's internal systems, compliance, risk management practices, due diligence processes and the method of categorization of schemes.

Sebi said Franklin had committed serious lapses or violations by replicating high-risk strategy across several schemes, pushed long-term papers into short-duration schemes and failed to exercise exit options in the face of emerging liquidity crisis, among others.

"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 stands compromised in the process of the Noticee's single-minded pursuit of reaping high yield," said G. Mahalingam, whole-time member, Sebi, in the order.

Sebi asked Franklin to refund investment management and advisory fees collected from June 4, 2018, till April 23, 2020, for the six debt schemes, along with simple interest at the rate of 12% per year, totalling ₹512 crore.

In the event of non-payment of the said amount, interest at 12% per year will be levied which shall commence from the date the amount becomes payable.

The regulator imposed the penalty of ₹5 crore for violating various sections of the Sebi Act.

"I would expect the disgorgement of the investment management fee to be refunded to investors in proportion to their holdings in the six schemes and this would include investors in 2018 and 2019 who exited the schemes before they were wound up," said Amol Joshi, founder, Plan Rupee Investment Services.

Sebi also directed Franklin Templeton Pacific head Vivek Kudva and his wife Rupa to transfer ₹30.70 crore of redeemed FT units to an escrow account within 45 days.