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Chennai, March 24 The Chennai Financial Markets and Accountability (CFMA), an investor protection organisation, said on Wednesday that Franklin Templeton Mutual Fund (FTMF) has failed to honour its commitment made before the Supreme Court to distribute Rs 9,122 crore to all the unit-holders of its six closed schemes, and paid 'zero to minuscule' amount to the investors of two shut funds.

Out of the distributable amount, the CFMA noted, the FTMF has not paid a single paisa to the hapless unit-holders of Franklin India Income Opportunities Fund (FIIOF) and paid a meagre 8 per cent to the unit-holders of Franklin India Short Term Income Plan (FISTIP), forcing a write-off of 100 per cent and 92 per cent, respectively, on them.

The investor body alleged that the unit-holders of these two funds have borne the major burnt and are forced to take massive haircuts, contrary to repeated assurances from FTMF.

The CFMA pointed out that the impression was given to the Supreme Court by the FTMF that Rs 9,122 crore out of Rs 26,670 crore will be distributed among three lakh unit-holders of the six shut schemes, which constitutes 32 per cent of the total amount, and the remaining amount would be paid later.

However, the fact that the unit-holders of FIIOF and FISTIP will not be receiving the funds was never disclosed before the apex court.

In the first tranche of pay-out, the unit-holders of FIIOF and FISTIP were being forced to take a haircut of 100 per cent and 92 per cent, respectively, instead of getting an average 32 per cent.

"The data on the FTMF website clearly highlights that lies and truth cannot be hidden for long and strict action should be initiated against FTMF for not disclosing the correct facts," the investor body suggested.

The zero to negligible repayment to the unit-holders of the two schemes clearly indicated how badly the funds were managed. Considering the overall poor investment decisions and bad quality of assets of the six schemes, the CFMA reiterated that three lakh unit-holders will have to bear a minimum haircut of Rs 15,000 crore on their principal amount and described it as a 'Black Swan' event for the entire mutual fund industry, which will set a precedent for others to follow.

Notably, a debt mutual fund is similar to a bank fixed deposit wherein the principal amount always remains secured. The return on investment varies to the return of 10-year treasury bond yield, which is the benchmark for debt funds.

Mutual funds are managed by professional fund managers and, therefore, they are expected to perform better than the benchmark. In case of an increase in bond yield, the returns to unit-holders should be more than the benchmark and in case of falling yields, the returns to unit-holders should fall less than the respective benchmark.

According to the CFMA, it is a wake-up call for market regulator SEBI to investigate the very basis of the distribution mechanism adopted by Franklin Templeton. FTMF secured consent for e-voting from all its unit-holders but has repaid a minuscule amount to the unit-holders of the four shut schemes, while repaying zero to negligible amount to the remaining two schemes.

In the past, the CFMA raised serious concerns about the functioning of SEBI as it failed in its fiduciary duty to protect the interest of its unit-holders after the FTMF shut its six debt schemes, leaving three lakh unit-holders in the lurch.

Despite being a sector regulator with huge powers, including penal provisions, the SEBI did not act to ensure the protection of unit-holders' investments, shrugging off its responsibility and allowing FTMF to use Covid-19 as an excuse for its fund mismanagement and to escape from its criminality, it added.

(With inputs from IANS)

Source: <https://english.lokmat.com/business/ftmf-repaid-zero-to-minuscule-amount-to-unit-holders-of-2-shut-funds-cfma/>