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Sebi bans Franklin Templeton MF from launching new debt funds for 2 years

Synopsis

The regulator said that the ban on the launch of new debt schemes will be applicable from the date that the mutual fund had ceased those schemes.

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The Securities and Exchange Board of India has banned Franklin Templeton Asset Management Company from launching debt mutual fund schemes for the next two years, said the final order of the regulator in the investigation of six debt funds wound up by the mutual fund.

Further, the regulator in its final order also said that the ban on the launch of new debt schemes, in the categories of the six schemes that were wound up by the mutual fund, will be applicable from the date that the mutual fund had ceased those schemes.

The regulator has imposed a monetary fine of Rs 5 crore on Franklin Templeton AMC, which has also been ordered to refund the investment management and advisory fees collected in the six debt schemes between June 4, 2018 and April 23, 2020.

According to the order, Franklin Templeton AMC made Rs. 451.6 crore as investment management and advisory fees on the six debt schemes wound up by it in April 2020. The company will now have to refund the entire amount along with interest of 12 per cent per annum.

In April 2020, Franklin Templeton informed its unitholders that it was winding up six debt schemes: Franklin India Ultra Short Bond Fund, Franklin India Low Duration Fund, Franklin India Short Term Income Fund, Franklin India Income Opportunities Fund, Franklin India Dynamic Accrual Fund, and Franklin India Credit Risk Fund.

Sebi had later initiated an investigation and a forensic audit based on complaints by several market participants and media articles, the order noted. Based on the audit's findings, Sebi had sought an explanation from Franklin Templeton MF on 13 allegations including running funds in a manner that conflicted with the funds' strategy and non-disclosure of the strategy of certain investments among other things.

“The noticee (Franklin Templeton AMC) has been found seriously wanting in so far as its conduct as an AMC is concerned. There are findings of breaches of the Mutual Funds Regulations as also the SEBI Circulars, brought out above, under various heads,” the Sebi order said.

As a result of the irregularities in the running of the debt schemes inspected, a loss has been caused to the investors. Franklin Templeton AMC was under a statutory obligation to abide by the provisions of the Mutual Fund Regulations and circulars issued, which it failed to do, the order said.

Sebi's investigation said that Franklin Templeton AMC failed to exercise adequate due diligence, carry out valuations of the securities owned by the schemes under the Principle of Fair Valuations, and ensure a robust risk management framework.

“In my view, the employees of FT-AMC may be liable for the aforementioned irregularities arising during the course of business of the Noticee. From the records made available before me, I note that SEBI has initiated adjudication proceedings against certain employees of FT-AMC including the Chief Executive Officer, Chief Compliance Officer and the Directors,” Whole-time SEBI Director G Mahalingam said in his order.

Source:

<https://economictimes.indiatimes.com/markets/stocks/news/sebi-bans-franklin-templeton-mf-from-launching-new-debt-funds-for-2-years/printarticle/83310631.cms>