

Madras HC wants SFIO, ED to probe Franklin Templeton scam: CFMA

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CHENNAI: The Chennai Financial Market and Accountability (CFMA), an investor protection group, said on Thursday that the Madras High Court has proposed a probe by the Serious Frauds Investigation Office (SFIO) and the Enforcement Directorate (ED) into the Franklin Templeton Mutual Fund (FTMF) scam. The investigation would be in addition to the EOW and SEBI probe into the matter, the CFMA said in a statement.

Notably, the FTMF had abruptly shut six debt schemes in April last year involving over Rs 26,000 crore, leaving three lakh unit-holders in the lurch by using Covid-19 as an excuse for the mismanagement of the schemes and to escape from its criminality.

While hearing a petition raising concern over whether the officers of the Economics Offences Wing (EOW) in Tamil Nadu are sufficiently trained to investigate the FTMF scam, the Madras High Court observed that even though the SFIO is doing some excellent work, it is also subject to the orders of political masters.

The bench comprising Chief Justice Sanjib Banerjee and Justice Senthilkumar Ramamoorthy of the Madras High Court orally observed on March 29 that it will monitor the probe into the Franklin Templeton case and check whether SEBI, EOW or ED are inquiring the matter.

In its order, the court said, "The investigation into the role of those in control of the six funds be conducted and, at the same time, the Economic Offences Wing in the state police is beefed up, so to say, with appropriate personnel. For the moment, the Securities Exchange Board of India is added as a party to the present proceedings. The Enforcement Directorate is also added as party to the present proceedings as the market regulator and the said investigating agency may be best equipped to delve into the transactions pertaining to the six mutual funds to unearth anything remiss therein."

The Madras High Court observed that the EOW-Tamil Nadu should comprise officers with knowledge in financial matters such as accounting, audits, data analysis and market conditions. The court added both the ED and SEBI as parties to the case and directed the ED and EOW not to do a parallel investigation. It will take up the matter next in four weeks.

The Madras High Court directed the Chief Secretary or the Home Secretary of Tamil Nadu to suggest steps "to introduce a degree of specialisation in the Economics Offences Wing of the state police, particularly in the manner of recruitment or even engagement as consultants or the like".

"(Despite) earlier orders of this court to ensure that the Economic Offences Wing is manned by trained personnel who have experience in or knowledge of accounting, auditing and market conditions, no attempt has been made to either train the personnel or even engage experts as consultants," the court said in its six-page order.

In a petition filed in connection with the six shut debt schemes of FTMF, according to the CFMA, the petitioner raised concerns regarding the state EOW's ability and technical expertise to conduct investigation into the matter.

The petitioner further stated that complaints in this case ought to be investigated by investigative agencies that have the wherewithal and domain knowledge to undertake such tasks. The petitioner said that though an EOW has been created in the state police, no degree of specialisation has been attempted.

The CFMA pointed out that the petitioner is seeking to unearth the flight of capital of Rs 2,000 crore through related party transactions three months before the winding up of the six schemes and a 5,000 per cent increase in related party redemptions hinting at a "classic case of insider trading".

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