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CFMA urges Franklin Templeton unit-holders to vote against 6 shut debt schemes

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The Chennai Financial Markets and Accountability (CFMA), an investor protection body fighting for the cause of investors, today urged unit-holders of Franklin Templeton Mutual Fund (FTMF) to vote against its decision to wind up the six debt schemes and advised them to keep in mind while voting that there could be a write-off of up to Rs 20,000 crore, if the winding-up is allowed to be proceeded due to the fraudulent practices of FTMF.

The investor body said it would urge the Supreme Court again in the next hearing on December 11 to let the Forensic Audit Report be made available to the unit-holders before they are made to vote so that an informed decision can be made.

Notably, on December 3, the Supreme Court directed Franklin Templeton to seek the unit-holders' consent within a week to close the six debt schemes.

In a letter to the unit-holders of FTMF, the CFMA said it was committed to protecting the interest of the unit-holders which ideally should have been done by the SEBI in the capacity as a regulator.

"We have consistently felt that FTMF took a unilateral decision to wind up six schemes to avert inevitable default and consequent regulatory actions against the fund managers and trustees. FTMF has front-ended the lie of COVID-19 excuse to conceal their bad, illegal, improper and risky investments made by their fund managers, whereas how come the Covid-19 reason has not been the case with any other scheme of FTMF or any other mutual fund," it noted.

Meanwhile, FTMF has requested its unit-holders to vote in favour of the trustees' decision to wind up the six debt schemes. Once it initiates the voting, each unit-holder will be given two choices to vote 'Yes' in favour and 'No' against the winding-up of the said schemes.

Based on its assessment and the public debate, the CFMA said it is in the interest of the unit-holders to vote as 'No' in the FTMF voting exercise to be conducted between December 26 and 28.

"The first and foremost is that FTMF and its President Sanjay Sapre are still not committing the amount of loss to the unit-holders in any of their communications by

speaking confusing and convenient English only to mislead them and the media. Shockingly, the regulator, whose silence is speaking a lot of things, has also not demanded the said information from them," the CFMA said, pointing out many unknowns, uncertainty, and risks at the current juncture for giving any consent in favour of FTMF.

It requested the unit-holders to vote against in order to retain the illegality of the winding-up decision of FTMF and continue to hold them responsible for any loss suffered by them.

According to CFMA, FTMF is trying to hide its illegal investment losses by seeking positive consent of the unit-holders on the six shut debt schemes. By giving consent, the illegal winding-up process would get regularised, and a legal sanction. The investigations and criminal cases would not have much meaning for the unit-holders, if the winding-up is allowed.

The investor body pointed out that FTMF was trying to thrust large losses on the unit-holders and, therefore, they were neither disclosing the actual current realizable value of investments nor indicating the time within which they would pay the money back. "It is our estimate that there is a large risk of erosion of principal amount (your amount invested) to an extent of Rs 15,000 crore to Rs 20,000 crore, keeping aside the return on investments. The portfolio has illiquid securities, unlisted securities, almost unknown company securities, defaulting company securities, low rated high-risk securities, etc. How can any consent be given with so many unknown risks?"

The most important and urgent concern is that by approving the winding-up decision, the unit-holders would be deemed to have agreed with the amount of haircut that they would eventually have to suffer or accept an unlimited period and unquantified amount to be received (if at all), which one may never receive. "And FTMF team can pursue their greener pastures by simply resigning from the system, forgetting their crime of making Rs 20,000 crore criminally vanish. The Fund of Funds has admitted that 50 per cent of the capital invested by the unit-holders is lost," the CFMA pointed out.

Interestingly, as per its analysis, it may be seen that none of the six debt schemes shall fetch 100 per cent that too even after two years. In fact, some of the schemes do not even reach 50 per cent.

The CFMA advised the unit-holders not to get lured by vague promises by FTMF, make an informed decision in view of the glaring facts and reasons and vote as 'No' against the winding-up of the six debt funds.

Franklin Templeton is seeking a simple-majority consent of its unit-holders to wind up six debt funds it had shut in April this year, which locked over Rs 28,000 crore in the biggest forced fund closure ever in India.

Source: <https://timesofindia.indiatimes.com/business/india-business/cfma-urges-franklin-templeton-unit-holders-to-vote-against-6-shut-debt-schemes/articleshowprint/79624611.cms>