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Franklin MF may face Sebi heat as audit sees lapses

Regulator-appointed firm probing closure of six schemes

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Franklin Templeton Mutual Fund (MF), which in April spooked the markets by shutting six debt schemes, could face Securities and Exchange Board of India (Sebi) heat as a forensic auditor has submitted adverse findings against the fund house. According to sources, the audit report, submitted to the markets regulator on Friday, has shown certain lapses in the dealings of the wound-up schemes.

In May, Sebi had appointed Chokshi & Chokshi, an accounting and audit firm, to examine any regulatory violation, for ensuring that the winding up process was done in a fair and transparent manner. "We would not like to comment on unsubstantiated rumours and insinuations around the audit completion and findings. We continue to fully cooperate with and provide all assistance to the auditors," said a Franklin Templeton spokesperson.

Sources said the regulator was reviewing the observations made by the audit firm, and accordingly, may take further action in the case. "The audit mentioned some monetary figures, which raised suspicion that it could lead to adjudication proceedings," said a regulatory source. The findings also indicated discrepancies in the mutual fund's code of conduct.

AUDIT INSPECTION

- Monetary dealings with respect to six wounded schemes
- FT's code of conduct followed in spirit and prejudicial to the interests of investors
- Instances of conflict of interest and collusion with bond issuers

However, the exact amount under regulatory review could not be ascertained. Sources said the audit firm was given a mandate to examine any collusion between the fund house and investee firms or large investors. The auditor had to examine if the fund house had compromised any investors' interest. Also, the role and transactions of trustees of the fund house were looked into.

On April 23, Franklin Templeton MF decided to wind up six of its debt schemes oriented towards high-yield investments with a combined asset base of ₹25,856 crore. It cited continued redemption pressure and lack of liquidity in the debt markets for the closure, amid the lockdown and the pandemic.

These schemes include Franklin India Ultra-Short Bond Fund, Franklin India Short-Term Income Fund, Franklin India Credit-Risk Fund, Franklin India Low-Duration Fund, Franklin India Dynamic Accrual Fund, and Franklin India Income Opportunities Fund.

Since then, investors are not allowed to make fresh purchases or sales with regard to these funds.