

SC lets Franklin hold vote

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The Supreme Court on Thursday allowed trustees of Franklin Templeton mutual fund (MF) to conduct a vote among unitholders for permission to wind up six debt schemes.

The court continued the stay on redemptions from the six schemes and gave the asset manager a week to start taking steps to launch the voting process.

The interim order came after Franklin challenged a Karnataka high court order on 24 November that said an MF cannot wind up schemes without unitholders' consent. Franklin challenged the order in the top court, even as it sought permission from the Securities and Exchange Board of India (Sebi) to hold a unitholders' vote.

In case unitholders vote down the proposal, experts said, the bigger investors are likely to beat smaller ones to the exit door,

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cornering most of the value in the funds. Out of 300,000 unitholders in the six schemes, 190,000 have investments below ₹2 lakh, Franklin told the top court.

"An orderly exit is more likely to return an investor's capital than a disorderly exit. In case of a vote against winding up, there may be disorderly exit and the schemes might be forced to sell holdings at steep discounts to meet redemptions. So, on balance, voting for winding up is in investors' interest," said Vishal Dhawan, founder, Plan Ahead Wealth Advisors, a Sebi-registered investment advisor.

The top court, however, declined to go into a forensic audit report on the schemes.

Franklin said it will soon issue a notice seeking unitholders' consent. "We deeply appreciate the support of investors and partners till date and hope to commence distribution of investment proceeds at the earliest," a spokesperson said.

Franklin had frozen redemptions in the schemes with combined assets of around ₹26,000 crore on 23 April, amid severe illiquidity and heavy redemptions in the schemes' underlying securities. The decision sparked a slew of lawsuits across the country, which the top court clubbed and moved to the Karnataka high court.

The HC had barred redemptions and stayed its own order till 5 December. The SC on Thursday extended the freeze on redemptions—an expiry of the stay would have reopened the schemes, possibly leading to disorderly winding-up. The top court listed the matter for further hearing next week, without prejudice to the winding-up vote.