

Franklin Templeton Mutual Fund to seek clarity from SC on Karnataka HC order

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Franklin Templeton Mutual Fund has approached the Supreme Court to seek clarity on aspects of the Karnataka High Court order on the closure of its six debt schemes.

The fund house will ask for the apex court's interpretation on the mechanism to return money to unitholders of these schemes under the existing laws, said a person familiar with the development.

Earlier, the Karnataka High Court had directed Franklin to obtain the consent of the unitholders before winding up the schemes. In a note to unitholders on Monday, the fund house said it considered seeking their approval among other options.

"However, after detailed deliberations, we have determined that it will be necessary to seek judicial intervention from the Hon'ble Supreme Court to ensure an appropriate implementation of the law in the best interest of unitholders," said the note by Sanjay Sapre, president, Franklin Templeton AMC(India).

The fund house has filed a Special Leave Petition (SLP) to seek clarity in the matter.

The point of contention here is Section 18 (15) (C) of Sebi's mutual fund regulations, which talks about the circumstances under which a fund scheme can be wound up. These are a directive by the Sebi or a decision taken by the unitholders or one taken by the mutual fund house.

While winding up the schemes, Franklin had taken the permission of its trustees, while the High Court's order requires it to approach the unitholders.

"Clauses of Regulation 18 have some ambiguity on the requirement of approval versus requirement to notify Sebi. Regulations are silent on this," said Sumit Agrawal, Partner, Regstreet Law Advisers. "Rejecting Sebi's and Franklin's contentions, the Karnataka HC had harmoniously read the provision in MF regulations and held that the consent of the unit-holders is necessary for winding up or premature redemption."

On October 24, the division bench of the Karnataka High Court, while delivering the order, had observed that Sebi should have played a more proactive role in the matter.

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