

HC stays voting on Franklin Templeton schemes' closure

Ashish Rukhaiyar

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Fund house's plan to get unit holders' approval for the process hits a roadblock

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Franklin Templeton Mutual Fund's plan to wind up six debt schemes has hit a major roadblock with the Gujarat High Court issuing a stay order against the e-voting process initiated last month to get the unit holders' nod to wind up the schemes.

While hearing a petition filed by three entities who had invested ₹6.55 crore in the schemes, Ms. Justice Gita Gopi issued the notice to the fund house while staying the e-voting process announced by the entity on May 28.

"... by way of ad-interim relief, the operation and implementation of the notice dated May 28, 2020 regarding e-voting and unit holders' meeting sent through e-mail... shall remain stayed," stated the order.

e-voting was the first step in getting the unit holders' nod to proceed with the winding up of the schemes abruptly announced by the fund house in April. At the time, the six schemes had cumulative assets under management of about ₹26,000 crore.

Responding to a query by *The Hindu*, a spokesperson for Franklin Templeton said the fund house will take appropriate steps as may be required. "We continue to follow due process, both in making investment decisions and in the winding up of these schemes. We have acted in the best interest of our investors and in accordance with all regulations," he said.

Incidentally, the fund house had given unit holders two options to proceed with the monetisation of the assets. They can either authorise the trustees along with the fund house to monetise the assets or they can vote for Deloitte to undertake the process. The e-voting window was scheduled to be open from June 9 to June 11. Meanwhile, the petitioners have alleged the fund house did not follow the rules properly before winding up the schemes.

As per the petition, the trustees have to get the consent of the unit holders and repay the money before winding up a scheme but the MF entity did not follow any such process.

"The Gujarat High Court order is on the prima facie view that SEBI regulations require a resolution and consent of unit holders as well as repayment of money before winding up of schemes," said Sumit Agrawal, founder, Regstreet Law Advisors.

“Mutual fund regulations are currently inexact and open to more than one interpretation. This is a question of law and this interim stay is without SEBI’s stand on the issue yet. One thing is sure that it will bring clarity in the process to the investors regarding repayment who are anxious on the amount of haircut or loss they may have to bear and will also accelerate SEBI audit and perhaps an amendment in SEBI regulations.” added Mr. Agrawal, who has earlier served in SEBI’s legal department.

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