

## Sebi orders special audit in Franklin's shut schemes

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- The schemes allegedly fell in-between Sebi's scheme classification mandate

The market regulator has ordered a special audit in the six debt schemes shut down by Franklin Templeton India. This comes after Securities and Exchange Board of India's (Sebi) initial assessments pointed to certain investments by the fund houses not meeting mutual fund's model code of conduct norms, said two people with direct knowledge of the matter.

"We are in receipt of the audit notice from the regulator and continue to provide information as required," a Franklin Templeton India spokesperson said.

Mint had first reported that market regulator was probing the fund house's shuttering of these schemes on 4 May. The regulator is probing whether the investments were made in best interest of the investors, investment rationale, inaccuracy in classifying the funds as 'income funds', whether the fund's investments met fiduciary requirements, failure of risk management measures among others.

Sebi, last week, ordered its empanelled auditor, Choksi and Choksi to examine these aspects while going through these schemes investments in underlying bond issuers. The report is to be submitted within 30 days.

The special audit will examine the investment rationale and minutes of meetings of the investment committee for the past five years, said the second of the two persons quoted above.

"This is different from the regular annual inspections ... it is specifically examining the investments and conduct of fund house for violations of Sebi rules," said the first person.

The schemes allegedly fell in-between Sebi's scheme classification mandate. Credit risk funds must invest at least 65% of their holdings in securities rated below AA+, according to Sebi norms. Other types of debt schemes, including income funds, are meant to invest in higher-rated bonds.

The six schemes shut were called yield-oriented credit managed scheme by Franklin Templeton and income funds by industry body Association of Mutual Funds in India. Five of these schemes have invested in bonds with ratings ranging from 88% to 100% below AA+.

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The appointment of the auditor comes even as a clutch of High Networth Investors (HNIs) sent a legal notice to Sebi alleging that the fund house was in violation of Sebi norms when in invested in certain set of bond issuers.

Madras High Court has also issued a notice to the market regulator seeking an action taken report on refunding investors.