

RBI's Liquidity Offer for Mutual Funds

Why in news?

The RBI recently announced a special liquidity window of Rs 50, 000 crore to bail out mutual funds hit by the crisis in the debt fund segment.

Click [here](#) to know more on the recent Franklin Templeton Mutual Fund event.

How does the liquidity window work?

- Under the special liquidity facility for mutual funds (SLF-MF), the RBI will conduct repo operations of 90 days tenor at the fixed repo rate.
- The SLF-MF is on-tap (on demand, anytime) and open-ended.
- Banks can submit their bids to avail the funding till May 11, 2020 or up to utilization of the allocated amount, whichever is earlier.
- Funds availed under the SLF-MF will be used by banks exclusively for meeting the liquidity requirements of MFs.

What are the features of the offer?

- The RBI says exposures under this facility will not be reckoned under the *Large Exposure Framework* (LEF).
- It thus gives greater comfort for banks to borrow under this window.
- The face value of securities acquired under the SLF-MF and kept in the *HTM category* will not be counted for *adjusted non-food bank credit* (ANBC) for determining priority sector targets or sub-targets.
- The support extended to MFs under the SLF-MF will be exempted from banks' capital market exposure limits.

What will banks do with this money?

- Banks can extend loans to mutual funds.
- They can undertake the outright purchase of and/or repos.
- This can be offered against the collateral of investment grade corporate bonds, commercial papers (CPs), debentures and certificates of Deposit (CDs) held by MFs.

Why is the offer now?

- There is heightened volatility in capital markets in reaction to Covid-19

pandemic.

- This has imposed liquidity strains on mutual funds.
- The stress is however confined to the high-risk debt funds segment.
- The debt segment has witnessed outflows of Rs 1.94 lakh crore in the month of March 2020.
- The credit risk fund category, notably, has assets of over Rs 55,000 crore.
- The condition has intensified more in the wake of redemption pressures related to closure of six debt schemes of Franklin Templeton.
- The RBI's liquidity offer is thus expected to bring some degree of comfort in the debt market, given such huge redemption pressure.

Source: Indian Express

Quick Facts

Large Exposure Framework (LEF)

- The large exposures framework sets prudent limits to large exposures.
- A large exposure is defined as the sum of all exposures of a bank to a single counterparty that is equal to or above 10% of its Tier 1 capital.

HTM category

- The investment portfolio of banks is classified under three categories:
 1. Held to Maturity (HTM)
 2. Available for Sale (AFS)
 3. Held for Trading (HFT)
- Banks normally hold securities acquired by them with the intention to hold them up to maturity under HTM category.
- Only debt securities are permitted to be held under HTM with a few exceptions, e.g., equity held in subsidiaries.
- Holding securities under HTM provides cushion for banks from valuation changes.
- However, holding in HTM book is subjected to a ceiling.

Adjusted non-food bank credit

- This includes non-food bank credit and total non-statutory liquidity ratio (SLR) investments of banks in commercial papers, shares and bonds/debentures.



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