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RBI Announces ₹ 50,000 crore Special Liquidity Facility for Mutual Funds (SLF-MF)

Heightened volatility in capital markets in reaction to COVID-19 has imposed liquidity strains on mutual funds (MFs), which have intensified in the wake of redemption pressures related to closure of some debt MFs and potential contagious effects therefrom. The stress is, however, confined to the high-risk debt MF segment at this stage; the larger industry remains liquid.

2. The RBI has stated that it remains vigilant and will take whatever steps are necessary to mitigate the economic impact of COVID-19 and preserve financial stability. With a view to easing liquidity pressures on MFs, it has been decided to open a special liquidity facility for mutual funds of ₹ 50,000 crore.

3. Under the SLF-MF, the RBI shall conduct repo operations of 90 days tenor at the fixed repo rate. The SLF-MF is on-tap and open-ended, and banks can submit their bids to avail funding on any day from Monday to Friday (excluding holidays). The scheme is available from today *i.e.*, April 27, 2020 till May 11, 2020 or up to utilization of the allocated amount, whichever is earlier. The Reserve Bank will review the timeline and amount, depending upon market conditions.

4. Funds availed under the SLF-MF shall be used by banks exclusively for meeting the liquidity requirements of MFs by (1) extending loans, and (2) undertaking outright purchase of and/or repos against the collateral of investment grade corporate bonds, commercial papers (CPs), debentures and certificates of Deposit (CDs) held by MFs.
5. Liquidity support availed under the SLF-MF would be eligible to be classified as held to maturity (HTM) even in excess of 25 per cent of total investment permitted to be included in the HTM portfolio. Exposures under this facility will not be reckoned under the Large Exposure Framework (LEF). The face value of securities acquired under the SLF-MF and kept in the HTM category will not be reckoned for computation of adjusted non-food bank credit (ANBC) for the purpose of determining priority sector targets/sub-targets. Support extended to MFs under the SLF-MF shall be exempted from banks' capital market exposure limits.
6. Details are given in the [Annex](#).

Press Release: 2019-2020/2276

(Yogesh Dayal)
Chief General Manager

Annex

- a) This special repo window will be available to all LAF eligible banks against eligible collateral and can be availed only for on-lending to Mutual funds.
- b) The eligible banks may place their bids electronically on the CBS platform between 9 AM and 12.00 Noon every day. An LAF Repo issue will be created every day for the amount remaining under the scheme (Amount remaining = ₹ 50,000 crores-cumulative amount availed up to the previous day). The bidding process, settlement and reversal of SLF-MF repo would be similar to the existing system being followed in case of LAF/MSF.
- c) In case of over-subscription of the notified amount on any given day, the allotment will be done on pro-rata basis. RBI will, however, reserve the right to inject marginally higher amount than the notified amount due to rounding effects.
- d) The minimum bid amount would be Rupees one crore and multiples thereof. The allotment would be in multiples of Rupees one crore.
- e) A market participant can place bids of amount less than or equal to the notified amount of the issue announced on a given day. RBI will reject bids of the participant if the total bid amount submitted by the participant exceeds the notified amount of the issue. The amount utilized as on previous date will be informed to market participants in the Money Market Operations (MMO) press release.
- f) The eligible collateral and the applicable haircuts will remain the same as applicable for LAF.
- g) All other terms and conditions as applicable to LAF operations, including facility for security substitution in terms of extant guidelines dated April 12, 2017 (Cir. Ref.: [FMOD.MAOG.No.120/01.01.001/2016-17](#)), will also be applicable to these special operations, mutatis mutandis.
- h) While banks will decide the tenor of lending to /repo with mutual funds, the minimum tenor of repo with RBI will be for a period of three months.