Note to Finance Ministry, SEBI, Reserve Bank of India and AMFI

Date: April 30, 2020

Respected Madam / Sirs,

Subject: Request for intervention/support to prevent deepening of the crisis in the Mutual Fund Industry following Closure of 6 Open ended schemes by Franklin Templeton

The announcement of winding up by Franklin Templeton Mutual Fund of 6 of its debt fund schemes is an unprecedented move in the history of the Indian Mutual Fund history. That to by a fund house which has been in India for 25 years and had earned the trust of its investors. This event has shaken up the confidence and belief of the investors ranging from corporates to high net worth to retail investors especially retail investors who have chosen to invest under the direct option with no recourse to sensible handholding in such times.

The most important and attractive feature of investing in mutual funds is its professional management, transparency and liquidity. The concept of an open ended scheme is that there is liquidity when needed.This perception has taken a hard beating. The belief of the investors and also majority of the other stakeholders was that in open ended funds it was a right of the investor to ask for redemption at current NAV's whenever the investor chose to do so. This belief has been shattered and all investments are now looked at suspiciously. The ***"Mutual Fund Sahi Hai"*** tag line is being doubted and the investors are now questioning ***"Kya Mutual Fund Sahi Hai?"***

Investors are shocked that inspite of investing in open ended funds, their investments are locked in and there is uncertainty as to the when will get their money back and how much will they get. This has resulted in panic redemptions across other credit funds and also other liquid and debt funds as investors worry that the like the Franklin Templeton funds other debt funds will also have similar problems and the same precedent would be followed whereby the mutual fund could prohibit redemptions and their money would be stuck .

The current unprecedented lockdown has created a huge requirement and demand for additional liquidity for all investors, institutions and corporates.

The mutual fund industry on the whole has a small percentage of illiquid papers which are concentrated in credit risk funds like the papers in the wound up schemes of Franklin Templeton Mutual Fund.

The Reserve Bank of India has stepped in to provide liquidity to banks and also reduced interest rates in line with what global central banks are doing. However, liquidity has been provided via banks and the banks have provided liquidity to AAA segment of the market and not to the space which is stressed and facing liquidity issues. Subsequent to the announcement of winding up of the schemes of Franklin Templeton, the RBI announced further liquidity measures to provide liquidity to mutual funds but this too has been provided via the banks.

The non AAA segment has to be given greater and direct liquidity support in these times otherwise there will be a large number of bankruptcies leading to economic loss as well as social unrest. A liquidity crisis would be converted into a solvency crisis unless targeted measures are taken to address the woes of the non AAA segment.

There is an urgent need to provide direct liquidity by the Government /Reserve Bank of India or its agencies by buying these papers / securities from the Mutual Funds at fair values to enable them to meet their redemptions and in turn enable investors meet their liquidity requirements. This will instill a great sense of confidence and comfort in a deeply stressed market and environment.

These entities could also buy the papers of the wound up Franklin Templeton schemes and provide liquidity to the more than 3.25 lakh investors who's approximately Rs 25,000 crores is stuck.

If the crisis escalates the belief and confidence of the investors about the benefits of investing in open ended mutual funds will be shattered and halt the process of financial inclusion and democratization of investing that has been taking place over the last decade. Savings mobilized by mutual funds from households and retail investors via systematic investment plans have enabled us to withstand the unrelentless selling by foreign institutional investors over the last two years. Any reversal in this trend should be arrested in the interest of financial and capital market stability.

We therefore request:

(i) An SPV be set up for the purpose of taking over the portfolios of these schemes at a fair value. The investors are paid off by the SPV on takeover of the schemes. The underlying investments can subsequently be liquidated by the SPV or held to maturity withthe portfolios currently having double digit yield to maturities.

(ii) In the alternative,

(a) The Government /RBI/ Insurance Cos/ Banks buy non AAA debt / securities from the Mutual funds at reasonable prices and enable the schemes to meet their redemptions and in turn enable investors meet their liquidity needs and expenses.

(b) Franklin Templeton mutual fund should be urged to liquidate the portfolios at the earliest so that the investors are returned the funds lying locked in these schemes.

(c) Franklin Templeton Mutual Fund should provide time lines for the payments of amounts due to investors;

(d) Banks/ financial institutions should provide some liquidity to investors by advancing loans against pledging of the units held in the said Franklin Templeton schemes.

Debt funds are important vehicle to mobilize saving of investor and helps in deepening bond market. FT winding down scheme will dissuade investor to access bond market.

India is in its initial stage of developing debt funds and like developed world over a period investors will be aware of nuances of debt funds.

We urge the Government, SEBI, and RBI to take the appropriate direct measures to prevent deepening of the crisis and help crores of investors in the Mutual Fund Industry and to calm the situation.

Thanking you.

Warm Regards,

Dhruv Mehta
Chairman

FIFA

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