

# FIMMDA AGM Speech– 23rd September 2020

Good afternoon ladies and gentlemen.

On behalf of the Board of Directors of FIMMDA and myself, I extend a warm welcome to all of you at the 22nd Annual General Meeting of our Association. The Directors Report for the year 2019-20, and the related financial statements were sent to the members, and with your consent, I shall take them as read.

The last six-seven months have been all about COVID-19. What started off as a health issue, transformed into a global financial crisis. We have seen many crises in the past; be it the South East Asian crisis in 1997 or the glitches due to Y2K in 2000 or the subprime crisis of 2008. But this one has been different – which none of us would have imagined.

Its impact has been more profound on both our personal as well as professional lives than anything else in recent memory. Its impact can be gauged from the fact that we are now using terms like pre-COVID and post-COVID. We saw a significant dip in trading volumes in the debt markets in April as market participants adjusted to reduced staff and work from home requirements to maintain social distancing, but the volumes appear to have jumped back to their normal levels by end May. It is a sign of the resilience and strength of our markets that we are seeing such volumes despite the continued curtailed trading hours.

Let me just digress a bit here and take a few minutes to talk about the global markets. Post the 2008 crisis, major Central Banks had expanded their toolkit with a significant addition of QE or quantitative easing. This proved useful this time as economic activity was shut down in economies across the world, starting from China and parts of Asia, then Europe, US and Latin America. Eventually all major economies have had some type of shut down, followed by partial easing of restrictions. Central Banks have pumped in liquidity, either through QE, various types of repos or Open Market Operations (OMOs). For example, US Federal Reserve’s balance sheet, which had reduced from USD 4.5 trillion to USD 3.8 trillion between October 2017 and August 2019, and was back to around USD 4 trillion before COVID, has now expanded to more than USD 7 trillion. Similarly, ECB’s balance sheet has increased to EUR 6.47 trillion from EUR 4.66 trillion in 2020, and BOJ’s from Yen 0.58 quadrillion to Yen 0.68 quadrillion.

We have seen some recovery over the past few months and forecasts for most major economies show that growth has bottomed out. On the other hand, economists are calling this a K shaped recovery. For those who have not mastered the economic lexicon, K-shape refers to the fact that it has been a two-paced recovery. Some parts of the economy have recovered significantly, while others have lagged. The latest view, as also confirmed by US Fed’s projections last week, is that while GDP contraction this year will be lower than earlier expected, it may last longer with little growth seen next year beyond the favourable base effect.

Coming back to India, RBI has also taken a leaf or two out of these tools used by FED and ECB, and have used LTROs, TLTROs and Operation Twists, in addition to its usual tools like OMOs. As a result, RBI’s balance sheet has increased from Rs. 44.65 trillion in the beginning of 2020 to Rs. 54.48 trillion, a jump of 22%. While this dwarfs in comparison to the massive 75% hike in the FED’s balance sheet and the 39% increase in that of ECB’s, it is higher than the 17% increase witnessed in the balance sheet of BOJ.

Unlike the impact of the crisis in 2008-09, the impact of COVID crisis is likely to be higher on India than on the major economies. We are facing one of the biggest outbreaks and are probably the only major country which has not seen a single peak till now. India’s GDP fell by 23.9% YoY in Q1 this year, and the forecasts for the whole year indicate that we will end up with a negative growth of around 8-11%. Our fiscal weakness means that we cannot dole out money the way US has done. Monetary policy in such times is generally less effectively as demand for funds is lower.

On the other hand, due to the easy liquidity conditions globally, Indian equity markets have zoomed, with significant investments from FPIs. If we include the equity investments in the unlisted space as well, this has probably been a record year till now for FPI equity investments, leading to a 3.7% appreciation of the Rupee against USD since March. On the trade front, current account deficit has reduced as imports fell more than exports on the back of lower crude prices and weak domestic demand. RBI’s foreign exchange reserves have also increased by close to USD 64 Bn over March to touch a high of USD 541.7 bn.

Inflation has become a worry in recent months, mainly due to increased prices of essentials which make up for a significant portion of the consumption basket in current times. This has tied up RBI’s hands in terms of reducing rates further. Markets are also concerned about the large upcoming security issuance by Central and State Governments which is likely to be announced in a couple of days. We are all hoping that RBI will continue to provide support to help absorb the issuances at reasonable yields.

Now I would like to highlight the activities undertaken by FIMMDA during the year ended 31st March 2020.

1. **Dispute Resolution Committee:**  During the financial year ended 31st March 2020 21 cases with disputed amount of Rs. 4.71 crore were settled. In the current financial year, a further 13 cases have been settled.
2. **Pre policy consultations & interaction with RBI and DEA, GOI is an ongoing practice.** RBI held pre-policy consultations with FIMMDA to know our views on the market. One such meeting is scheduled for 25th September 2020 with the Governor RBI.
3. **Interest Rate Futures:**  We have permitted more products on the exchanges during the financial year ended 31st March 2020.
4. **Interest Rate Options at Exchanges:** We permitted two products, single bond options in exchanges. IRF was also available for these products.
5. **Interest Rate Options (OTC)**: We held four con calls with the new products committee to discuss various aspects of the product. These discussions are likely to continue till the details are finalised.
6. **Interest rate derivatives**: Latest RBI circular of September 2020 will be further discussed to finetune and update FIMMDA handbook.
7. **Operational guidelines on Commercial Paper**: Revised operational guidelines for Commercial Papers were published on 31st March 2020. Owing to COVID-19 pandemic, we took up with the regulators and were able to get relaxation in the guidelines.
8. **Operational guidelines on Certificates of deposits**: Revised operational guidelines on Certificates of Deposits were published on 17th March 2020.
9. **COVID-19 pandemic:**  During March 2020 when complete lock down was announced, we took up the matter with regulators to reduce market hours to give respite to employees of our Member Institutions as they were working with truncated staff strength.
10. **Regulatory relaxations:** Wealso **t**ook up with the regulators for reduction of CRR as well as maintenance of daily average CRR from 90% to 80% and have in the recent past been successful in having a dialogue with the regulators (RBI) for increase in HTM limit from 18% to 22%.
11. **FIMMDA** continues to be the Calculating Agent for G Sec and SDL valuations with FBIL as the Administrator. Have actively contributed to SDL valuation methodology introduced in April 2019 and for the proposed new G Sec methodology which is now hosted on the website of FBIL in September 2020 inviting comments from market participants.
12. **Training programmes:** During the financial year ended 31st March 2020, FIMMDA conducted 9 training programmes benefitting 174 participants from member as well as non-member institutions.

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| --- | --- | --- | --- |
| **Faculty** | **Training** | **Number of Programs** | **Number of Participants** |
| D & B | Bond Mathematics | 8 | 156 |
| Hedging Tools for Interest Rate Risk Management | 1 | 18 |
| TOTAL |  | 9 | 174 |

**Virtual training programmes:** Due to the current pandemic and with a view to maintaining social distancing, we have switched to e-training sessions for the participants who can avail the opportunity from the comfort of their homes / offices and on weekends as well. We have conducted 3 such trainings till now.

1. **Annual Conference in May 2020:** We had planned for our annual conference in Barcelona on 1st May 2020 and the same was to be inaugurated by the Governor, RBI. However, the same had to be cancelled due to COVID-19 and the resultant restrictions on travel etc.

**Way Forward:**

1. FIMMDA Board held a special meeting to discuss the “Way Forward” and decided on various matters to strengthen the organisation as well as expand its activities to make it more useful to the markets and add value to its services. Separate committees have been formed to deal with these matters.

* Widening our Horizon: To enhance our membership to other segments as may be identified by the committee.
* New Products Committee: Introduction, laying down of guidelines, introduction to markets, dialogue with the Regulator in connection with the introduction of new products.
* Skill development committee:
  + Introduce new training programs in related topics.
  + Introduce on-line programs in association with established institutions/entities.
  + To hold financial literacy sessions among business schools of eminence to increase awareness of the money markets.
  + To attend the Valuation Committee Meetings and also for audit.

2. To look at the needs for infrastructure and manpower at FIIMDA.

3. Outreach programs:

Organize either bi-monthly or quarterly seminars / conclaves with 1-2 panel discussions on the latest topics that matter to the debt markets in addition to the annual conferences.

4. More Benchmarks /streamlining existing benchmarks: Will continue to work with FBIL in developing new benchmarks, improving, existing benchmarks and in general to work towards development of benchmarks useful / needed for markets.

I am thankful to FEDAI, AMFI and IBA who are associated with our activities. I would like to thank and appreciate the services rendered by my colleagues on the Board and all employees of FIMMDA secretariat for the efforts put in by them in keeping the association strong and responsive to the needs of the markets and its participants.

I would also like to place on record the excellent services rendered by Mr. D V S S V Prasad, CEO FIMMDA during the last 6 years. Mr. Prasad would be demitting the office of CEO FIMMDA towards the end of this month. I would also like to welcome Mr. G Ravindranath, incoming CEO of FIMMDA, who has joined us today only. Welcome Ravindranath for an eventful stint as the CEO of FIMMDA.

Finally, I request all the FIMMDA members to actively participate in the deliberations so as to enrich each other and to take FIMMDA to greater heights.

Wish you all the best till we meet next time. Thanks for a patient listening.