

CIRCULAR

SEBI/HO/IMD/PoD2/P/CIR/2023/129

July 27, 2023

**Asset Management Companies (AMCs)/
Trustee Companies/ Board of Trustees of Mutual Funds/
Trustee Company of CDMDF/
Association of Mutual Funds in India (AMFI)**

Sir / Madam,

**Subject: Investment by Mutual Fund Schemes and AMCs in units of Corporate
Debt Market Development Fund**

1. With the objective of development of the corporate debt market from the perspective of Mutual Funds, the Mutual Fund Advisory Committee (MFAC) of SEBI had constituted a Working Group consisting of representatives of various Mutual Funds, Clearing Corporation of India Limited (CCIL) and AMFI for detailed deliberation. The Working Group inter-alia recommended creation of an entity to buy corporate debt securities from MF schemes with support from Government of India.
2. Based on consultation with various stakeholders and as proposed as part of the Union Budget 2021-22, Chapter III-C has been inserted in SEBI (Alternative Investment Funds) Regulations, 2012 vide Gazette notification no. SEBI/LAD-NRO/GN/2023/132 dated June 15, 2023 and regulation 43A has been inserted in SEBI (Mutual Funds) Regulations, 1996 vide Gazette notification no. SEBI/LAD-NRO/GN/2023/134 dated June 26, 2023 to facilitate constitution of Corporate Debt Market Development Fund ("CDMDF" or "the fund"), as a backstop facility for purchase of investment grade corporate debt securities, to

instil confidence amongst the participants in the Corporate Debt Market during times of stress and to generally enhance secondary market liquidity by creating a permanent institutional framework for activation in times of market stress. Further, [Guarantee Scheme for Corporate Debt \(GSCD\)](#) was notified by Ministry of Finance vide notification no. G.S.R. 559(E) dated July 26, 2023, which includes the Framework for Corporate Debt Market Development Fund.

3. CDMDf shall be launched as a close ended scheme with an initial tenure of 15 years (extendable) from the date of its initial closing (date on which contribution from all AMCs and specified schemes is received by CDMDf).

4. Accordingly, the following has been decided:

- 4.1. The units of CDMDf shall be subscribed by AMCs of Mutual Funds and “specified debt-oriented MF Schemes” (i.e., Open ended Debt oriented Mutual Fund schemes excluding Overnight funds and Gilt funds and including Conservative Hybrid funds). Contribution from specified debt-oriented MF schemes and AMCs, including the appreciations on the same, if any, shall be locked-in till winding up of the Fund. However, in case of winding up of contributing MF Schemes, inter-scheme transfers within the same Mutual Fund or across Mutual Funds may be undertaken.

Clarification: Specified debt-oriented MF schemes exclude Index funds and ETFs. Further, the Gilt funds as mentioned above shall mean both Gilt Fund and Gilt Fund with 10 year constant maturity.

- 4.2. Specified debt-oriented MF Schemes shall invest 25 bps of their Assets Under Management (AUM) in the units of CDMDf. The specified MF schemes shall provide additional incremental contribution to CDMDf as their

- AUM increases, every six months to ensure 25 bps of scheme AUM is invested in units of CDMDF. However, if AUM decreases there shall be no return or redemption from CDMDF. New schemes from existing MFs under the specified categories or such schemes of new MFs shall also contribute 25 bps of their respective AUM and make incremental contribution.
- 4.3. AMCs shall make a one-time contribution equivalent to 2 bps of the AUM of specified debt-oriented MF Schemes managed by them. Further, AMCs of new Mutual Funds shall also make a one-time contribution equivalent to 2 bps of their specified debt-oriented MF schemes, based on the AUM at the end of the financial year following the one in which the specified scheme(s) are launched.
- 4.4. The initial contribution, as mandated above shall be based on AUM of the specified MF schemes as on December 31, 2022.
- 4.5. AMFI shall calculate and inform contribution to be made by each MF Scheme and AMC, to CDMDF and the AMCs. The initial contribution shall be made within 10 working days of request from CDMDF. The Half-yearly contributions shall start from December 2023 onwards, which shall be made within 10 working days from end of each half year.
- 4.6. In case of delay in contribution by Mutual Fund Schemes and AMCs, the respective AMCs shall be liable to pay interest at fifteen percent (15%) per annum for the period of delay. Such interest shall be credited to the fund of CDMDF.
- 4.7. In times of market dislocation, CDMDF shall purchase listed corporate debt securities from the specified debt-oriented MF schemes. The trigger and

period for which the Backstop Facility will be open shall be as decided by SEBI.

Clarification: Corporate debt securities include listed money market instruments for the above purpose.

- 4.8. During market dislocation, the securities purchased by CDMDF would be from secondary market, having investment grade credit rating and residual maturity not exceeding 5 years on the date of purchase. CDMDF shall not buy any unlisted or below investment grade or defaulted debt securities or securities in respect of which there is a material possibility of default or adverse credit news or views. As a principle, CDMDF shall buy at a fair price (adjusted for liquidity risk, interest rate risk and credit risk) but not at distress price. The utilization of such facility by specified debt-oriented MF schemes shall be voluntary.
- 4.9. The sellers of debt securities shall be paid 90% of the consideration in cash and 10% in terms of units of CDMDF. Such units paid as consideration (different class of units than units allotted in lieu of contribution made) shall bear the risk of first loss, if any to CDMDF, and can be redeemed during the tenure of scheme, subject to certain conditions.
- 4.10. **Access to the fund:** The respective Mutual Funds shall have access to sell corporate debt securities during market dislocation, held in the portfolio of contributing schemes, to the CDMDF. Access to the Fund shall be in proportion to the contribution made to the Fund at a Mutual Fund level (i.e., in the ratio of total units of CDMDF held by all specified debt schemes of each Mutual Fund).

5. Further, the following has been decided in respect to investment of Mutual Fund Schemes in CDMDF:
- 5.1. Corporate debt securities sold by MF schemes to CDMDF during market dislocation shall be treated as trade executed on Request for Quote (RFQ) platform.
- 5.2. In case Net Asset Value of CDMDF units is not available by 9:30 PM, NAV declaration timing for Mutual Fund Schemes holding units of CDMDF shall be 10 am on next business day instead of 11 pm on same day.
- 5.3. It is clarified that the CDMDF shall not be considered as an “associate” of any Mutual Fund and investment made in units of CDMDF in accordance with this circular shall not be considered as investment in associate or group company of any Mutual Fund.
- 5.4. AMCs shall ensure that the net worth as prescribed under Regulation 21(1)(f) of SEBI (Mutual Funds) Regulations, 1996 shall be maintained over and above the contribution made towards CDMDF.
- 5.5. The calculations of Potential Risk Class (PRC) Matrix, Risk-o-meter, Stress testing and Duration for various purposes shall be done after excluding investments in units of CDMDF. Further, the investments in CDMDF units shall not be considered as violation while considering maturity restriction as applicable for various purposes.
- 5.6. The relevant changes in the Scheme Information Document shall be incorporated by AMCs by way of issuing an addendum prior to contributing to CDMDF. Such changes shall not be considered as a Fundamental

Attribute Change of the scheme in terms of regulation 18(15A) of SEBI (Mutual Funds) Regulations, 1996.

6. The provisions of this circular shall come into force with immediate effect.
7. This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of regulations 77 of SEBI (Mutual Funds) Regulations, 1996, to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.
8. This Circular is available at www.sebi.gov.in under the link “Legal > Circulars”.

Yours faithfully,

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