भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India

CIRCULAR

SEBI/HO/IMD/PoD2/P/CIR/2023/128 **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)/
Stock Exchanges/
Clearing Corporations

Sir / Madam,

Subject: Framework for Corporate Debt Market Development Fund (CDMDF)

1. Chapter III-C has been inserted vide amendments to SEBI (Alternative Investment Funds) Regulations, 2012 vide Gazette notification no. SEBI/LAD-NRO/GN/2023/132 dated June 15, 2023 in order to facilitate constitution of an Alternative Investment Fund namely, Corporate Debt Market Development Fund ("CDMDF" or "the Fund"), to act 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.

2. CDMDF shall comply with the Guarantee Scheme for Corporate Debt (GSCD) as 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. In addition to the abovementioned scheme as mentioned at para 2 above, CDMDF shall comply with following:

   3.1. The fund shall deal only in following securities during normal times:

   - Low duration Government Securities
   - Treasury bills
   - Tri-party Repo on G-sec
   - Guaranteed corporate bond repo with maturity not exceeding 7 days.

   3.2. The fees and expenses of the Fund shall be as follows:

   - During Normal times: (0.15% + tax) of the Portfolio Value charged on daily pro-rata basis.
   - During Market stress: (0.20% + tax) of the Portfolio Value charged on daily pro-rata basis.
   - "Portfolio Value" means the aggregate amount of portfolio of investments including cash balance without netting off of leverage undertaken by the Fund.

Clarification:

i. *The taxes as mentioned above shall include all kinds of taxes.*
ii. *Transaction costs on securities such as brokerage, clearing charges etc. shall be charged within the limit of fees and expenses.*
iii. *Financing charges pertaining to borrowings made by CDMDF (such as interest, guarantee fees, other fees like bank charges, processing fees etc.) may be separate from fees and expenses of the fund as provided above.*

3.3. Corporate debt securities to be bought by CDMDF during market dislocation include listed money market instruments. The long term rating of issuers shall be considered for the money market instruments. However, if there is no long term rating available for the same issuer, then based on credit rating mapping of CRAs between short term and long term ratings, the most conservative long term rating shall be taken for a given short term rating.

3.4. CDMDF shall follow the Fair Pricing document as placed at Annexure A while purchase of corporate debt securities during market dislocation.

3.5. CDMDF shall follow the loss waterfall accounting, as prescribed at Annexure B.

3.6. CDMDF shall disclose Net Asset Value (NAV) of the fund by 9:30 PM on all business days on website of its Investment Manager and AMFI. For times when CDMDF would have exposure to corporate debt, such NAV shall be disclosed by 11 PM on all business days.

3.7. Purchase allocation and trade settlement of corporate debt securities bought by CDMDF during market dislocation:

- Keeping in view the prudential limits and various other guidelines as prescribed in scheme as mentioned at para 2 above, AMFI shall specify the detailed guidelines for purchase of securities by CDMDF in consultation with SEBI. Stock exchanges shall provide a separate window on the existing Request for Quote (RFQ) platform to facilitate the purchase as per AMFI issued guidelines, within 3 months of issuance of this circular.

- Clearing Corporations shall provide required infrastructure to facilitate the trade settlement of corporate debt trades by CDMDF during market dislocation, within 3 months of issuance of this circular.

4. 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.

5. This Circular is available at www.sebi.gov.in under the link “Legal > Circulars”.

Yours faithfully,

Lakshaya Chawla
Deputy General Manager
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Annexure A

Approach to purchase pricing:

1. While it may not be possible to pre-empt the events and scenarios prevailing at the point of time when purchase of securities is being undertaken by CDMDF, the investment policy may provide for following indicative factors for determining purchase price of corporate debt securities:
   a. Valuation policies prescribed for Mutual Funds (based on the principles of fair valuation).
   b. Previous day's valuation of securities by valuation agencies before the date of Purchase.
   c. Average 10 days valuation prior to start of market dislocation.
   d. Mark-up in yield over previous day may be limited to arrive at floor price.
   For eg: it may be 25/50/75 bps over AAA/AA/Below AA securities respectively.
   e. Consideration of Spread over benchmark/ spread over sovereign yields.
   f. Qualitative factors that may have bearing on arriving at fair price.

2. The investment policy shall be duly approved & reviewed periodically by the Board of Trustee, Investment Committee & Governance Committee. CDMDF shall adhere to investment framework laid down in the investment policy & the fund documents.

3. However, in case the Investment Manager is at variance from the aforesaid factors, they may, after recording reasons in writing and approval from Investment Committee, take such price as deemed fit with an objective of

achieving the fair pricing (adjusted for liquidity risk, interest rate risk and credit risk). Such instances shall be apprised to Governance Committee and Board of Trustees on a regular basis.

4. Investment framework of CDMDF:
   (i) CDMDF would buy securities from secondary market of only investment grade, listed and having residual maturity of upto 5 years.
   (ii) CDMDF shall not buy any unlisted, 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. The rationale for the same shall be documented.
   (iii) Purchase of securities to be done as per the above fair pricing guidelines to be adjusted if considered appropriate by the IM for liquidity risk, interest rate risk, and credit risk. Buying/trading to be at fair price but not at distress price.
   (iv) Selling at breakeven/profit as market stabilize, to reduce borrowing as soon as possible.
   (v) Valuation of portfolio shall be governed by existing norms on valuation under the Mutual Fund regulatory framework.

Annexure B

Loss Waterfall accounting for CDMDF

Based on deliberations with Mutual Fund industry, the following shall be the approach for reflection of waterfall in the NAV of units of CDMDF

A. There shall be three classes of units to be allotted by CDMDF, which shall be as follows:
   1. Class A1 and Class B units shall be allotted to AMCs and Sponsor/IM respectively (against one time contribution of 0.02% of AUM of specified debt schemes and Sponsor/IM commitment). Class A1 units and Class B units are treated at par and referred as Class A1 units only.
   2. Class A2 units shall be allotted to specified debt schemes (contributing 0.25% of AUM of specified debt schemes)
   3. Class A3 units shall be allotted to Mutual Fund schemes selling debt securities to the Fund (where 10% of the consideration is in the form of units of CDMDF, called A3 units)

B. Daily NAV should reflect the fair value of each unit class including the effect of differential treatment of A3 unit class. The loss waterfall based on CDMDF Framework is as follows:

Level of loss absorption	**Particulars**	**Hereinafter referred as**
1st	Up to 10% by MF schemes selling debt securities to the Fund (i.e., equivalent to the units outstanding of the selling MF schemes issued to them against sale of securities to CDMDF)	Class A3 units
2nd	Contribution of specified debt oriented MF Schemes and AMCs	Class A1 and A2 units
3rd	Government Guarantee	NA

C. The following process shall be followed:

1. All profits/losses/income/gains/expenses to be apportioned to A1 and A2 unit class in ratio of their AUM during the normal times.
2. A3 units to be allotted at the same NAV as that of A1 & A2 at the time of opening of market dislocation.
3. All profits/losses/income/gains/expenses (including cost of leverage) to be apportioned to all the 3 class of units during the market dislocation and subsequently till A3 units exits (i.e A1/A2/A3), except that the NAV of A1 and A2 should not drop below their opening NAV (opening NAV at the time of market dislocation). Since A1 and A2 units are to be protected at their opening NAV to that extent the excess/unabsorbed loss/expense would be debited to only A3 unit class. This would mean the NAV of A3 units could drop below the NAV of A1&A2
4. Any subsequent profits/gains/income will be first credited to the A3 unit class to an extent that they come back at par with A1 & A2 NAV, and then the balance to be apportioned to all the three unit class.

5. A3 units will not get any exit till there is an outstanding portfolio from market dislocation and leverage is completely paid.
6. Any subsequent allotment of A3 units would be at the same NAV as that of the existing A3 units (if they exist), otherwise at opening NAV of A1 and A2. There will be only one class/bucket of A3 units irrespective of whether they were issued in subsequent tranche of purchase during a particular phase of market dislocation or were issued during another phase of market dislocation. Therefore any adjustment for loss/expense will be carried out to the entire bucket o A3 units irrespective of when they were allotted.
7. There will not be any segregation of portfolio linking to different phase or tranches of purchase during the market dislocation, entire portfolio will be one common pool, both during the normal times or during the market dislocation including if there is any security that exist from normal times and is continued during the market dislocation
8. The accounting of A3 and certain adjustments of NAV may require manual workings by the fund accountant and will not be completely system driven. Such manual workings can be subject to second check by the concurrent auditor.

D. The above is as per various scenarios that have been envisaged currently. There may be a need that may arise with some other scenarios emerging and the same would be dealt with appropriately through relevant committee.

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Loss Waterfall accounting for CDMDF

Allocation Mechanism					Investment			
INR	**A1**	**A2**	**A3**	**Total**	**GSEC/CBLO**	**MD-INVT A3**	**Situation**	**System**
Subscription	1,000	1,000	-	2,000				
Face value	10.00	10.00	-					
Number of units	100	100	-					
[redacted]								
Scenario - 1				**2,000**	**2,010**		**Investment in Government Securities and T-Bills**	**System driven calculation**
MTM Gain	5	5	-	10			MTM Gain is proportionately allocated to all the unit holders (except A3 doesn't exist as of now)	
NAV of the unit	10.05	10.05	-					
NAV of the Corpus	**1,005**	**1,005**	**-**	**2,010**				
Scenario - 2					**2,002**		**Investment in Government Securities and T-Bills**	**System driven calculation**
MTM Loss	-4	-4	-	-8			MTM loss is proportionately allocated to all the unit holders (except A3 doesn't exist as of now)	
NAV of the unit	10.01	10.01	-					
NAV of the corpus	**1,001**	**1,001**	**-**	**2,002**				
Scenario - 3					**2,006**		**Investment in Government Securities and T-Bills**	**System driven calculation**
Realised gain	2	2	-	4			Gain is proportionately allocated to all the unit holders (except A3 doesn't exist as of now)	
NAV of the unit	10.03	10.03	-					
NAV of the Corpus	**1,003**	**1,003**	**-**	**2,006**				
Scenario - 4					**2,004**		**Investment in Government Securities and T-Bills**	**System driven calculation**
Realised loss	-1	-1	-	-2			loss is proportionately allocated to all the unit holders (except A3 doesn't exist as of now)	
NAV of the unit	10.02	10.02	-					
NAV of the corpus	**1,002**	**1,002**	**-**	**2,004**				
Scenario - 5					**204**	**2,000**	**Market Dislocation triggered**	**System driven calculation**
Opening NAV of the Corpus	1,002	1,002	-	2,004				
Number of opening units	100	100	-					
Opening NAV of the unit	10.02	10.02	-					
Additional Capital	-	-	200	200				
NAV at the which the units to be allotted	10.02	10.02	10.02				A3 NAV assumed to be same as A1 and A2 while allotting the units. A1 and A2 NAV will be the opening NAV for the market dislocation trigger	
[redacted]								
Total corpus (NAV)	**1,002**	**1,002**	**200**	**2,204**				

Part B

Scenario - 6					**214**	**2,000**	**MTM profit**	**system driven except the FA needs to now start monitoring the NAV of A1 and A2 should not drop below their opening NAV of Rs. 10.02 till A3 NAV is positive**
MTM Gain	4.5	4.5	0.9	10			MTM gain gets apportioned to all the unit class	
NAV of the unit	10.07	10.07	10.07					
NAV of the Corpus	**1,007**	**1,007**	**201**	**2,214**				

Scenario - 7					**206**	**2,000**	**MTM Loss**	**system driven except the FA needs to now start monitoring the NAV of A1 and A2 should not drop below their opening NAV of Rs. 10.02 till A3 NAV is positive**
MTM Loss	-3.6	-3.6	-0.7	-8			MTM gain gets apportioned to all the unit class, however the NAV of A1 and A2 should not drop below opening NAV of 10.02	
NAV of the unit	10.03	10.03	10.03					
NAV of the corpus	**1,003**	**1,003**	**200**	**2,206**				

Scenario - 8					**710**	**1,500**	**Realised Gain**	**system driven except the FA needs to now start monitoring the NAV of A1 and A2 should not drop below their opening NAV of Rs. 10.02 till A3 NAV is positive**
Realised gain	1.8	1.8	0.4	4			Realised gain gets apportioned to all the unit class	
NAV of the unit	10.05	10.05	10.05					
NAV of the Corpus	**1,005**	**1,005**	**201**	**2,210**				

Scenario - 9					**908**	**1,300**		
Realised loss	-0.9	-0.9	-0.2	-2			**Realised Loss**	system driven except the FA needs to now start monitoring the NAV of A1 and A2 should not drop below their opening NAV of Rs. 10.02 till A3 NAV is positive
NAV of the unit	10.04	10.04	10.04					
NAV of the corpus	**1,004**	**1,004**	**200**	**2,208**			**Realised Loss gets apportioned to all the unit class**	

Scenario - 10					**888**	**1,300**	**Significant MTM loss**	**Manual working and intervention required**
MTM loss	-9.1	-9.1	-1.8	-20				
NAV of the unit	9.95	9.95	9.95				with the loss getting apportioned to all the 3 unit classes, the NAV of A1 and A2 is falling below their opening NAV of 10.020	
NAV of the corpus	**995**	**995**	**199**	**2,188**				

Manual working and adjustment to be carried out					**888**	**1,300**		
Current NAV of units	**10.04**	**10.04**						
Less: Protection to opening NAV	10.02	10.02						
Surplus to absorb the w/off	0.02	0.02						
Number of units	100	100						
Loss to be absorbed by A1 and A2	**1.82**	**1.82**		**3.64**				
NAV post the loss absorption	10.02	10.02					which is same as the opening NAV	
Unabsorbed loss entirely to A3			-16.36	-16.36				
Corpus NAV of A3 units post absorbing the waterfall loss			184					
A3 class unit NAV post absorbing the waterfall loss			9.22				Now A3 unit NAV drops below the NAV of A1 and A2. this is manual adjustment to be done in the system where there should be transfer of value between the unit class based on such workings	
Closing corpus(NAV)	**1,002**	**1,002**	**184**	**2,188**				

Scenario - 11					**1,858**	**300**	**Significant cash loss (realised loss)**	**Manual working and intervention required**
Cash loss	-13.7	-13.7	-2.5	-30				
NAV of the unit	9.88	9.88	9.09				with the loss getting apportioned to all the 3 unit classes, the NAV of A1 and A2 is falling below their opening NAV of 10.020	
NAV of the corpus	**988**	**988**	**181**	**2,158**				

Manual working and adjustment to be carried out								
Current NAV of units	**10.02**	**10.02**						
Less: Protection to opening NAV	10.02	10.02						
Surplus to absorb the w.off	-	-						
Number of units	100	100						
Loss to be absorbed by A1 and A2	**-**	**-**		**-**				

NAV post the loss absorption	10.02	10.02					which is same as the opening NAV	
Unabsorbed loss entirely to A3			-30	-30				
Corpus NAV of A3 units post absorbing the waterfall loss			154					
A3 class unit NAV post absorbing the waterfall loss			7.72				Now A3 unit NAV drops below the NAV of A1 and A2. this is manual adjustment to be done in the system where there should be transfer of value between the unit class based on such workings	
Closing corpus(NAV)	**1,002**	**1,002**	**154**	**2,158**				
Scenario -12					**1,038**	**1,300**	**Additional Security of Rs 1000 purchased and A3 units issued for 10% & MTM Gain of 80**	**Manual working and intervention required**
Current NAV of units	10.02	10.02	7.72					
Number of units	100	100	19.96					
Additional units			12.96					
Additional Capital	-	-	100	100				
Shortfall in A3 NAV Corpus			2.30					
Cash profit to be first adjusted to bridge the shortfall			75.87	80				
Corpus NAV post bridging the gap	**1,002.00**	**1,002.00**	**329.87**	**2,333.87**				
Balance Cash profit to be distributed				4.13				
Distribution of balance profits	1.77	1.77	0.58	4.13				
Closing corpus NAV	1,003.77	1,003.77	330.45	2,338				
Number of units	100	100	32.92					
NAV per unit	**10.04**	**10.04**	**10.04**					
Scenario -13					**1,313**	**1,000**	**A3 portfolio sold of Rs 300 at Realised loss of Rs 40 & MTM of Rs 15**	**Manual working and intervention required**
MTM Gain	-	-	-	15				
Cash Loss				-40				
Current NAV of units	10.04	10.04	10.04					
Less: Protection to opening NAV	10.02	10.02						
Surplus to absorb the w/off	0.02	0.02						
Number of units	100	100						
Loss to be absorbed by A1 and A2	**-1.77**	**-1.77**		**-3.55**				
NAV post the loss absorption	10.02	10.02						
Unabsorbed loss entirely to A3			-21.45	-21.45				
A3 class unit NAV post absorbing the waterfall loss			9.39					
NAV of all unit holders post loss allocation	10.02	10.02	9.39					
Number of units across unit holders	100.00	100.00	32.92	232.92				
Corpus NAV post bridging the gap	**1,002**	**1,002**	**309**	**2,313**				
	-							
Scenario -14					**1,343**	**1,000**	**MTM gain gets apportioned to A3 until the Opening NAV and then to all remaining unit holders**	**Manual working and intervention required**
MTM Gain				30				
NAV of the unit	10.02	10.02	9.39					
Shortfall in A3 (2)NAV Corpus			0.63					
Cash profit to be first adjusted to bridge the shortfall			20.87					
Corpus NAV post bridging the gap	**1,002.00**	**1,002.00**	**329.87**	**2,334**				
Balance Cash profit to be distributed				9.13				
Distribution of balance profits	3.92	3.92	1.29	9.13			Post gains apportioned to A3 balance MTM gain gets apportioned to all the unit class	
Corpus AUM post bridging the gap	1,005.92	1,005.92	331.16	**2,343**				
Units Held by unit holders	100.00	100.00	32.92					
NAV after distribution	**10.06**	**10.06**	**10.06**					

Notes:

1. Post achieving parity in NAV again the normal accounting would start