



## Corporate Debt Market Development Fund

**For Prelims:** Guarantee Scheme for Corporate Debt, Corporate Debt Market Development Fund, [Securities and Exchange Board of India \(SEBI\)](#), Guarantee Fund for Corporate Debt (GFCD)

**For Mains:** Role CDMDF in corporate bond market, [Securities and Exchange Board of India \(SEBI\)](#)

**Source:** IE

### Why in News?

Recently, the government of India has approved the **Guarantee Scheme for Corporate Debt (GSCD)** to provide a guarantee cover for the debt raised by the **Corporate Debt Market Development Fund (CDMDF)** that aims to **stabilize the corporate bond market** during times of stress.

- The [Securities and Exchange Board of India \(SEBI\)](#) has issued guidelines for the operation and management of the scheme and the fund.

### What is the Guarantee Scheme for Corporate Debt (GSCD)?

- The GSCD provides a complete guarantee cover for debt raised by the CDMDF.
- The primary objective of GSCD is to **enhance investor confidence and provide stability** to the corporate debt market.
- GSCD is managed by the **Guarantee Fund for Corporate Debt (GFCD)**.
  - The GFCD is a trust fund formed by the **Department of Economic Affairs (DEA)** and managed by the **National Credit Guarantee Trustee Company Ltd**, which is a **wholly owned company** of the **Department of Financial Services** under the Ministry of Finance.
- The scheme is designed to support the purchase of **investment-grade corporate debt securities** by CDMDF during market dislocation.
  - Investment-grade corporate debt securities are **bonds or notes issued by companies that have a low risk of default** and a good credit rating.
- The guaranteed cover provided by GSCD ensures that investors are protected from **potential risks associated with investment-grade corporate debt securities**.
- CDMDF's ability to purchase securities with a guarantee under GSCD enhances secondary market liquidity and supports the overall stability of the corporate debt market.

### What is Corporate Debt Market Development Fund (CDMDF)?

- The CDMDF is an **alternative investment fund** established to address the needs of the corporate debt market in India and it will be launched as a **close-ended scheme**.
- CDMDF serves as a **backstop facility for investment-grade corporate debt securities**, providing stability and enhancing investor confidence in the market.
- CDMDF provides a backstop facility of **Rs 33,000 crore** has been established for Mutual Funds. The **government will contribute Rs 30,000 crore**, and the **Asset Management Companies**

**will provide the remaining Rs 3,000 crore.**

- CDMDf aims to enhance secondary market liquidity by creating a permanent institutional framework that can be **activated during periods of market stress**.
- The fund acts as a **safety net for investors during times of market dislocation**, providing support and stability to the corporate debt market.

## What are the SEBI Guidelines for CDMDf?

### ▪ Investment:

- During normal market conditions, CDMDf focuses on dealing in **low duration government securities (G-sec), treasury bills**, and guaranteed corporate bond repo with a **maturity not exceeding seven days**.
- When the market experiences dislocation, CDMDf steps in to purchase **investment-grade corporate debt securities**, providing a safety net for investors.
  - Corporate debt securities sold by mutual fund schemes to CDMDf during market dislocation will be **treated as trade executed on the Request for Quote (RFQ) platform**.

### ▪ Eligible Securities:

- CDMDf is authorized to purchase only listed corporate debt securities with a **residual maturity of up to five years**.

#### ◦ Exclusion Criteria:

- The fund refrains from **acquiring unlisted, below-investment-grade, or defaulted debt securities**.
- Securities that present a material possibility of default or adverse credit news or views are also excluded.

### ▪ Fair Pricing Mechanism:

- CDMDf buys securities at a **fair price**, factoring in liquidity risk, interest rate risk, and credit risk to **ensure transparency and market stability**.
  - Buying or trading is done at a fair price and not at distress price.
- The selling of securities is done at breakeven or for profit as the market stabilizes, aiming to reduce borrowing as soon as possible.

### ▪ Subscription and Contribution:

- Units of CDMDf are subscribed by **Asset Management Companies (AMCs) of mutual funds** and specified debt-oriented mutual fund schemes.
- AMCs of specified debt-oriented mutual fund schemes make a **one-time contribution equivalent to two basis points (bps)** of their assets under management (AUM) to support the functioning of CDMDf.

### ▪ Tenure:

- CDMDf will be launched as a **closed-ended scheme with an initial tenure of 15 years**.
- The possibility of extension lies at the discretion of the **Department of Economic Affairs (DEA) in consultation with SEBI**.

## UPSC Civil Services Examination, Previous Year Question (PYQ)

**Q. Which of the following is issued by registered foreign portfolio investors to overseas investors who want to be part of the Indian stock market without registering themselves directly? (2019)**

- (a) Certificate of Deposit
- (b) Commercial Paper
- (c) Promissory Note
- (d) Participatory Note

**Ans: (d)**

