



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)

