Frequently Asked Questions (FAQ's): Corporate Debt Market Development Fund ("CDMDF" or "Fund")

Prepared on: 15th December 2023.

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1. **What is the constitution of the Fund?**

   The Fund is a determinate contributory investment trust organised in India and is registered with the Securities and Exchange Board of India ("**SEBI**") as an Alternate Investment Fund "**AIF**") under Chapter III-C of SEBI (AIF Regulations, 2012 ("**AIF REGULATIONS**").

2. **What's the objective and purpose of this Fund?**

   The objective of the Fund is to help develop the corporate debt market by providing backstop facility at the time of market dislocation to benefit the wider corporate debt market. The primary motive to set up a back stop facility is to instil confidence amongst the participants in the corporate debt/bond market during times of market dislocation and to enhance the secondary market liquidity.

3. **Is it Open Ended or Close Ended?**

   The Fund is close ended with the term of the Fund being 15 (fifteen) years from the date of the Initial Closing (such stated term referred to as the "Stated Term"), provided that, the Stated Term can be extended with prior approval of the Government of India, in consultation with SEBI, subsequent to a review of the entire framework after 12 years from the date of its Initial Closing

4. **Who is the Trustee, Sponsor, and the Manager of the Fund?**

   Trustee of the Fund: SBI CDMDF Trustee Private Limited

   Sponsor of the Fund: SBI Funds Management Limited

   Manager of the Fund: SBI Funds Management Limited

5. **What is the tenure of the Fund, and can it be extended?**

   Refer to item no. 3 above.

6. **What category is the Fund registered under?**

   The Fund is registered under a new chapter introduced recently in AIF Regulations, Chapter III-C and is not part of any of the other categories I, II and III.

7. **Which Schemes of Mutual Funds are supposed to invest? And is it mandatory or an option?**

   Kindly refer SEBI circular no: SEBI/HO/IMD/PoD2/P/CIR/2023/129 dated July 27, 2023. 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).

   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.

   Specified debt-oriented MF Schemes **shall invest** 25 bps of their Assets Under Management (AUM) in the units of CDMDF.

   AMCs **shall make** a one-time contribution equivalent to 2 bps of the AUM of specified debt-oriented MF Schemes managed by them.

   Investing in CDMDF as above is mandatory.

8. **Is the contribution to the capital one-time or would there be additional closing?**

   Specified debt-oriented MF Schemes shall invest 25 bps of their Assets Under Management (AUM) in the units of CDMDF.

   AMCs shall make **a one-time contribution** equivalent to 2 bps of the AUM of specified debt-oriented MF Schemes managed by them.

   Specified debt-oriented MF Schemes Capital Commitment shall stand increased ("**Incremental Contribution**") on a bi-annual basis i.e., 30th June and 31st December of the relevant year ("**Reset Period**") such that their Capital Commitment to the Fund shall stand at 25 bps of their respective AUM or any other percentage as specified by SEBI, provided that the first Reset Period shall be December 31, 2023. Therefore, the Fund shall hold an Additional Closing once in every 6 (six) months or such other period as determined by the Manager in consultation with SEBI.

   AMCs of any new Specified debt-oriented MF Schemes **may make a one-time Capital Commitment under Class A1 Units** based on the AUM of their Specified debt-oriented MF Schemes at the end of the financial year following the one in which the Specified debt-oriented MF Schemes are launched.

9. **Which are the different class of units?**

   There are three classes of units allotted by CDMDF, which are as follows:

- Class A1 and Class B units are 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.
- Class A2 units are allotted to specified debt-oriented schemes (contributing 0.25% of AUM of specified debt-oriented schemes)

- Class A3 units shall be allotted to the 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)

  The class B Units has been allotted to the Manager, in respect of the Manager Commitment of Rs. 5 crores. Class B will be at par with Class A1

10. Are the units of the Fund listed?

No, not listed.

11. Would the Units of the Fund be issued in Demat form or in physical form or statement of account?

Units will be issued in demat form.

12. Who can subscribe or contribute capital to the Fund?

Refer item 7, 8 and 9 above.

13. Can the holder of units' request for redemption or transfer?

The Contributors will not be permitted to withdraw or transfer their interests in the Fund. For the avoidance of doubt, contribution from Class A1 Unitholders and Class A2 Unitholders (including appreciations on the same, if any) shall be locked-in till the winding up of the Fund. Provided however that in the case of winding up of a contributing Specified debt-oriented MF Scheme, inter-scheme transfers within the same mutual fund or across mutual funds may be undertaken.

14. Is there a stamp duty applicable on allotment of units and who would bear or pay for the same?

With effect from 1 July 2020, the issue, transfer, and sale of units of an AIF will be subject to stamp duty at the following rates:

Particulars	**Stamp duty amount**
Issue of units of AIF	0.005%
Transfer of units of AIF	0.015%

It is further clarified that any stamp duties or other taxes payable on allotment of Units and execution of the Contribution Agreement shall be borne by the respective Unitholder and shall be deducted out of their respective Capital Commitments and Units would be allotted for the net value of Capital Commitments post such deduction. Provided that, stamp duties on transfer of Units would be borne either by the seller or the buyer as may be mutually agreed between them.

15. **What happens if any AMC or their eligible debt oriented mutual fund scheme doesn’t contribute to the capital of the fund?**

    Investing in CDMDF is mandatory. Kindly refer item no.7 above

    If as per applicable law, any Class A2 Unitholders fails to contribute any amount towards its Incremental Contribution, within 10 (ten) days or such other number of days the Manager may decide from 30th June and 31st December of the relevant year, then such failure would be considered as a “Default” and such Class A2 Unitholder would be classified as a “Defaulting Contributor”.

    Further, in accordance with the applicable law and the Contribution Agreement, the Manager with the approval of SEBI shall be entitled to take necessary actions against such Defaulting Contributor and decide on accounting of the books and records of the Fund for the same.

    If any Class A1 Unitholder or Class A2 Unitholder delays in making the Capital Contribution or the Incremental Contribution, the respective AMC shall be liable to pay interest at 15% (fifteen percent) p.a. for the period of delay, and such amount shall be credited to the Fund.

16. **Can someone ask for refund or redemption of units if the unit holders AUM in their mutual scheme has dropped?**

    If AUM decreases at any Reset Period, there shall be no return or redemption of Class A2 Units.

17. **What happens if any Mutual Fund Scheme which has contributed capital to the Fund is wound up? Can they apply for redemption of their units?**

    The Contributors will not be permitted to withdraw or transfer their interests in the Fund. For the avoidance of doubt, contribution from Class A1 Unitholders and Class A2 Unitholders (including appreciations on the same, if any) shall be locked-in till the winding up of the Fund. Provided however that in the case of winding up of a contributing Specified debt-oriented MF Scheme, inter-scheme transfers within the same mutual fund or across mutual funds may be undertaken.

18. **When did the Fund achieve its initial closing, and commenced investments?**

    The Initial Closing of the Fund was successfully achieved on 27th October 2023, with capital contribution of Rs. 3093.15 crs (net of stamp duty) from 302 applicants.

    CDMDF commenced investing immediately post that as per the fund documents.

19. **Does the unit holder need to execute the contribution agreement every time he makes the additional contribution to the Fund?**

    Contribution Agreement is to be executed by a unit holder while making the initial contribution or any contribution for the first time.

    However, if there are new specified debt-oriented MF Schemes introduced by the AMC (assuming the existing eligible schemes and AMC are already unit holders of CDMDF), such new specified debt-oriented MF Schemes would need to execute the contribution agreement and submit the application form, prior to making their respective share of capital contribution for the first time.

20. Is the Fund permitted to have leverage?

The Fund may undertake borrowings in accordance with the Fund Documents and the AIF Regulations including a leverage option (during 'market dislocation' times declared by the SEBI) to an extent of 10 (ten) times of the aggregate Capital Commitments received by the Fund from banks or bond market or repo market, which shall be guaranteed by GSCD (Guarantee Scheme for Corporate Debt) up to a maximum of Rs. 30,000 crores (Indian Rupees Thirty Thousand Crores Only).

21. What is the amount of guarantee the Government of India has given for this Fund?

Refer to item no. 20 above.

22. What are the options for taking leverage that the Fund is permitted to exercise?

Refer to item no. 20 above.

23. What are the main terms of the guarantee to be issued by Government of India?

- The guarantee scheme would be initially for a period of 15 years from the initial closing date of CDMDF, extendable at the discretion of the DEA in consultation with SEBI.
- The Fund will be eligible to take leverage of up to 10 times of contribution to corpus, from banks or bond market or repo market which shall be guaranteed by (GSCD/GFCD/NCGTC) up to a maximum of Rs. 30,000 crores
- It is for the purpose of investing in corporate debt securities at times of market dislocation with a view to stabilize the markets.
- The guarantee shall cover the debt raised, along with interest accrued and other bank charges thereon, and shall not exceed Rs. 30,000 crores.
- GFCD shall charge guarantee fee at 0.5% p.a. of outstanding loans on daily pro-rata basis (i.e., for the period for which loans are raised) till a claim is lodged.
- The guarantee shall become operative upon trigger of bond market dislocation.
- The recovery from sale of assets held shall be settled against the claim from borrowing.
- In case of invocation of guarantee, underlying outstanding bank loans/debt obligations, would be paid by the NGCTC.
- During the period when borrowing against the guarantee is outstanding, no payouts (wherever permitted) to unitholders should be made.

24. Can you explain us the investment strategy of this Fund?

- **Under 'normal' scenario:**

  This investment under 'normal' times will be in liquid and low-risk debt instruments such as low duration G-Secs*, T-bills, Tri-party Repo on G-Sec, guaranteed corporate bond repo with maturity not exceeding 7 (seven) days, etc. using the capital commitments ("**Capital Commitments**") received from the holders of Units (i.e., "**Contributors**"). Further, the Fund may also be permitted to undertake various activities related to the corporate debt market including repo, SLBM, AAA debt securities, etc., as may be permitted by SEBI from time to time, subject to suitable risk management measures.

  *Including SDL's

- **Under market dislocation scenario**

  As and when the 'market dislocation' scenario is triggered by SEBI Board, the Manager will use the Capital Commitment paid by the Contributor (i.e., "**Capital Contribution**"), surplus or income generated if any and the leverage (through banks or otherwise backed by Guarantee), if required, to buy and hold (x) eligible corporate debt securities which have a maximum residual maturity of 5 years, or (y) listed money market instruments from Specified debt-oriented MF Schemes.

  The Fund shall not buy 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/views, provided that such securities may be held by the Fund as part of any restructuring, resolution plan etc. SEBI may give further stipulations in this regard, or the Fund may formulate further detailed guidelines on this from time to time if required.

  The Manager will seek to make sector agnostic investments in companies.

  The Fund can hold such eligible corporate debt securities (including listed money market instruments) till maturity or can sell the same in the secondary market when the market dislocation eases out. The Fund will monitor the near normalcy of the market post market dislocation in consultation with SEBI and offload a large part of its holdings within a reasonable time period of 3 months from the end of market dislocation period, while avoiding "fire sales" by the Fund. However, the above timeline may be extended with approval of SEBI Board.

  The Fund will endeavour to sell the purchased securities at breakeven or at profit as market dislocation eases out to reduce headroom/reduce borrowing as per the timelines stipulated by SEBI and/or Government, if not stipulated then as considered appropriate by the Manager to reduce the leverage at the earliest.

25. **Would the fund share the portfolio of the Fund with the unit holders? And at what interval?**

The portfolio of CDMDF is disclosed to investors on a fortnightly basis through portfolio details being uploaded on the website, www.sibfunds.com

26. **What is the process for offering securities to the Fund?**

Either a list of investment grade debt securities or eligible issuers shall be disclosed on the website of the Manager, or a transparent mechanism shall be followed for purchasing of debt securities from various issuers from Specified debt-oriented MF Schemes.

The Fund shall issue a guidance note on the same as and when the market dislocation gets announced or prior to that.

27. **Can you explain to us about the trading platform (RFQ system) which the Fund would use for purchase of securities during the market dislocation?**

Stock exchanges shall provide a separate window on the existing RFQ platform to facilitate the purchase as per the AMFI guidelines within 3 (three) months from issuance of the SEBI circular no. SEBI/HO/IMD/PoD2/P/CIR/2023/128 dated July 27, 2023; and clearing corporations shall provide the required infrastructure to facilitate the trade settlement of corporate debt trades by the Fund during market dislocation within 3 (three) months from issuance of the SEBI circular no. SEBI/HO/IMD/PoD2/P/CIR/2023/128 dated July 27, 2023.

The separate window of RFQ platform would be relevant and used during purchase of securities from the Specified Debt Oriented Mutual Fund schemes during the market dislocation.

28. **Can you explain the basis of allocation of purchase consideration or the funds while purchasing securities from various selling mutual fund schemes?**

During market dislocation times, access to the Fund (in relation to sale of securities by Class A2 Unitholders) shall broadly be in proportion to the contribution made to the Fund at a MF level (i.e., in the ratio of the total Units of the Fund held by Specified debt-oriented MF Schemes of each MF) in accordance with detailed guidelines as may be approved by SEBI, and the detailed guidelines for such allocation shall be as approved by AMFI in consultation with SEBI.

The access to the Fund shall be capped to the amount of debt securities that may be sold to the Fund and shall be kept as such since an unlimited access from the “Buyer of last resort” may incentivize moral hazard and may effectively be used to address single entity (and not market wide) dislocation.

29. **Can you explain the prudential limits applicable to this Fund?**

The prudential limits for ‘market dislocation’ scenario for Portfolio Investments applicable at the time of making such investment are as follows:

(i) Single issuer limit – 5% (five per cent) of the Fund Capital.

(ii) Group limits – 7.5% (seven point five per cent) of the Fund Capital.

If investment in AAA rated debt securities is permitted by SEBI, then for making Normal Investments in AAA debt securities, the prudential limits shall be calculated at the time of making the investment on the amount received against the Corpus.

30. Can you share the valuation policy that the Fund would be followed for the purpose of portfolio valuation?

The Fund follows the valuation norms and guidelines as applicable to Mutual Funds (MFs) and prescribed by SEBI for MFs unless some customisation is required for the Fund with approval of SEBI. The NAV of Units may be accounted for with appropriate adjustments to reflect the first loss absorption by A3 Unitholders.

Kindly visit www.sbifunds.com for accessing a copy of the valuation policy.

31. What is the frequency of declaring the Net Asset Value (NAV) of the units?

NAV is disclosed to the Contributors by 9:30 P.M. on all Business Days on the website of the Manager and AMFI, provided that when the Fund has exposure to corporate debt, NAV shall be disclosed by 11:00 P.M. on all Business Days.

32. Please share the cost structure of the Fund i.e., Fund Expenses/TER?

The Fund Expenses shall be subject to review by SEBI. The Fund Expenses except for those provided under para (a) below shall be calculated as follows:

- During normal time: As 0.15% (zero-point one five percent) of the Portfolio Value (excluding all kinds of taxes) charged on daily pro-rata basis; and

- During market dislocation: As 0.20% (zero-point two percent) of the Portfolio Value (excluding all kinds of taxes) charged on a daily pro-rata basis.

It is clarified that any expense/cost incurred (including applicable taxes) for setting-up of the Fund may be paid by the Manager before the Initial Closing, and the Manager shall be entitled to be reimbursed by the Fund immediately on or after the Initial Closing.

Para (a) Any financing related costs i.e., interest, fees or cost related to monies borrowed by the Fund including towards Guarantee and guarantee fees, bank charges, processing fees, etc.

Please refer Clause 19 "Expenses charged to the Fund" from Section V – Principal Terms of the Fund of the PPM for further details.

33. Is there any set-up fee or one-time cost to be paid by the unit holders?

No set-up fee is being recovered directly from the unit holder except that all costs and expenses incurred (at actuals including taxes applicable) towards setting-up of the Fund that including those incurred towards legal services, compliance, fees and duties for SEBI registration and any filings, tax opinions, printing and designing of fund documents, towards establishment of RFQ platform by stock exchange/s for purchase of securities, other service providers such as rating agencies, valuation agencies, registrar and transfer agent, fund accountant, concurrent auditor etc are part of the Fund Expenses charged to the Fund.

It is clarified that any expense/cost incurred (including applicable taxes) for setting-up of the Fund may be paid by the Manager before the Initial Closing, and the Manager shall be entitled to be reimbursed by the Fund immediately on or after the Initial Closing.

34. Please explain how the loss/shortfall, if any, would be borne by various class of the units' holders and the Government? In other words, please explain the waterfall mechanism the fund would follow for accounting of loss.

The loss waterfall based on the Fund's framework is as follows:

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

For further details refer SECTION X: ACCOUNTING OF UNITS AND SCENARIO ANALYSIS in the PPM

35. Can you share the composition and the role of Investment Committee?

The members of the Investment Committee ('IC') are appointed by the Manager. As the Fund commences activities, additional member/s may be appointed by the Manager on the IC. The IC shall at all times comprise of a minimum of 2 (two) members. The Manager shall have the power to re-constitute the IC from time to time. Notwithstanding anything contained in the Memorandum, the Manager may make any modification in the constitution of the IC at any point of time.

The IC will initially consist of the following members from the Manager:

- Managing Director & CEO (Chairman of IC);
- Deputy CEO;
- Deputy Managing Director and Joint CEO;
- Chief Risk Officer; and
- Executive Vice President – CDMDF; and
- Any other personnel at the discretion of the IC.

The Investment Committee is internal to the Manager and would perform various activities of the Fund, including the actual buy and sell decisions of the Fund.

Kindly refer the Private Placement Memorandum clause no. F(a) of section IV: Governance Structure for further details on role of the IC

36. Can you share the composition and the role of the Governance Committee?

The Governance Committee **('GC')** shall be appointed by the Manager, pursuant to submission of a proposed list of members of the GC with SEBI, and shall comprise of corporate bond market experts including academicians, CEOs or CIOs, risk management professionals, independent market experts etc.

All policies of the Fund shall be jointly approved by the GC, the board of directors of the Manager and a majority of the board of directors of the Trustee. In addition to approving the policies of the Fund, the GC will take a more hands-on approach to supervise the activities of the Fund and oversight of the IC, especially relating to management of conflict of interest, if any.

The GC will also have an oversight of asset liability mismatches during times of market dislocation as borrowed money would be used to purchase assets of a MF scheme at that stage.

37. Please explain the applicability of transaction fees to be paid by the seller of the security to CDMDF?

The Fund may charge transaction fee from Class A3 Unitholders (sellers of eligible corporate debt securities (including listed money market instruments) during the 'market dislocation for each transaction, and the same shall be credited to the Fund. No fee shall be charged from the buyers of debt securities by the Fund. The policy in this regard shall be approved by the GC and the Board of the Manager and the Trustees, and valuation committee (if any).

38. What is the taxability of CDMDF as a Fund?

You are requested to refer Section IX of the PPM for information on taxability of the Fund.

39. Who is the Registrar and Transfer Agent for the Fund? And their contact details?

Computer Age Management Services Ltd

Name of the Person : Mr. Pandichakravarthy C

Contact No. (M) : +91-9384021564

Contact No. (Board line) : +91-44-61092611

Mail ID : pandichakravarthy.c@camsonline.com

40. Who are relevant contact persons at the Fund and their contact details?

Name of the officials	**Manish Makharia**	**Vinaya Datar**	**Nandkishore Talekar /Pranav Maniyar /Ketan Patel**
Designation	Executive Vice President	Chief Compliance Officer	Operations Team (AIF)
Email id	Manish.makharia@sbimf.com; cdmdf@sbimf.com	Vinaya.datar@sbimf.com; cdmdf@sbimf.com	cdmdfops@sbimf.com
Contact numbers	+91-22- 6179 3528	+91-22- 6179 3091	+91- 22-6179 3554
SBI CDMDF Trustee Private Limited **SBI Funds Management Limited** 9th Floor, Parinee Crescenzo Bandra Kurla Complex Bandra – East Mumbai – 400051 Board number: +91-22-61793000			

Notice/Disclaimer:

Please note that the above FAQs are only for ease of reference by the Contributors to the Fund only. The FAQs must be read along with the Fund Documents, SEBI AIF Regulations 2012, SEBI MF Regulations / circulars, Notification by DEA & other applicable regulatory guidelines etc. issued from time to time in this regard. In case of any inconsistencies in the above FAQs, the Fund Documents / the Regulations and notifications would prevail. These views alone are not sufficient and should not be used for the development or implementation of an investment strategy in any manner whatsoever. It should not be construed as investment advice to any party. All opinions and estimates included herein constitute our view as of this date and are subject to change without prior notice. Neither SBI Funds Management Limited / SBI CDMDF Trustee Private Limited, its respective directors, employees, agents nor any person connected with it accepts any liability arising from the use of the information. The user should completely rely on their own investigations. Please refer to the private placement memorandum / contribution agreement / applicable regulations for details on the product and seek independent professional advice.