Memorandum to the Board

Subject: Framework for "Corporate Debt Market Development Fund"

1. **Objective**

1.1. This Board Memorandum proposes to facilitate constitution of an Alternative Investment Fund (AIF) under the SEBI (Alternative Investment Funds) Regulations, 2012 (hereinafter referred as "AIF Regulations") 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 Bond 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, as proposed in the Union Budget 2020-21. Accordingly amendments to AIF Regulations is proposed. It also proposes to amend the SEBI (Mutual Funds) Regulations, 1996 (hereinafter referred as "MF Regulations") to provide for enablement of contribution by the specified debt oriented Mutual Fund schemes towards building corpus of the aforesaid CDMDF.

1.2. In order to operationalize the aforesaid backstop facility, the framework for trigger mechanism and the standard operating procedure (SOP) are also proposed.

2. **Background**

2.1. For countries in need of long term capital for the development of industry and the economy, a well-developed corporate bond market offers an important avenue for such long-term funding, and supplements the lending activity of banks. In March 2020, the Indian corporate bond market witnessed unprecedented risk aversion and mutual funds (MFs) simultaneously faced significant redemption pressure. Many countries facing similar pressures, including the US, announced asset purchase programs to calm the debt markets.

2.2. In times of market dislocation such as disruptions caused due to COVID-19, when redemption pressure builds up on open ended debt schemes of MFs, the schemes especially, those holding relatively lower rated (even though it is investment grade papers), face difficulties in meeting the redemption requirements on account of lack of liquidity in such papers in the corporate debt market.

2.3. Unlike Banks, MFs do not have access to liquidity support from RBI on an ongoing basis. While MF Regulations permit MFs to borrow upto a limit to meet temporary liquidity requirements such as for redemption requests, if the crisis continues for a longer period of time, relying on borrowing lines for meeting continuing redemption requirements, may have an adverse impact on the investors remaining in the schemes. Further, due to increased risk aversion in times such as these, investors (especially, corporate investors) may choose to remain in cash, thus, restricting fresh inflows into mutual fund schemes.

2.4. During August-September 2018 when there was a default by a conglomerate (NBFC), there was redemption pressure on debt oriented Mutual Fund Schemes, fearing default by other NBFCs and HFCs. This led to redemption pressure across open ended debt schemes, resulting in a net redemption of approx. INR 80,000 Cr. Further, in the peak of the market dislocation in financial markets (during first wave of COVID-19 in India) i.e. during March & April 2020, the net redemption in debt mutual fund schemes, was about INR 1 lakh Cr (INR 1,03,380 Cr). Thus, redemption pressure has been in the range of INR 1,00,000 Cr, during stress times in recent period.

2.5. Based on experience gained in regulating the debt market over the years and feedback received on the subject from time to time, and particularly in light of the disruption observed in the corporate debt market due to the impact of COVID-19 pandemic, an Internal Task Force was formed by SEBI for the purpose of analyzing the factors impeding development of the debt market and suggesting a way forward. The said Task Force prepared a comprehensive report on “Integration and Development of Bond Markets” which was submitted to the Ministry of Finance in July 2020.

2.6. The Report, inter-alia, recommended developing sustainable structures intended to serve as Backstop Facilities for buying of corporate bonds from investors including MFs, with the objective to alleviate the liquidity shock in times of market dislocation. One of the models proposed was for the government to establish a specialized entity to buy corporate bonds from the secondary market at fair value in order to provide the desired liquidity to the sellers of corporate bonds during times of stress.

2.7. Subsequently, the issue was also deliberated in Mutual Funds Advisory Committee (MFAC) and thereafter a Working Group (WG) with representation from the MF industry, Association of Mutual Funds in India (AMFI) and other stakeholders was constituted to provide recommendations, inter alia, on creation of the Backstop Facility for corporate bonds. Based on the recommendations of the WG, a proposal was drafted which suggested detailed modalities for creation of the Backstop Facility for corporate bonds, to be set up with contribution from specified debt MF schemes and Asset Management Companies (AMCs) with support from the Government of India. The draft proposal after deliberations in MFAC was subsequently submitted to the Government. The said proposal underwent multiple iterations and improvements based on recommendations from other regulatory agencies, Ministry of Finance (MoF), World Bank, etc.

2.8. In this backdrop, with the aim of developing the corporate debt market in India, the Central Government, as part of the Union Budget 2020-21 announced the following regarding developing a Backstop Facility for Corporate debt securities

"To instil confidence amongst the participants in the Corporate Bond Market during times of stress and to generally enhance secondary market liquidity, it is proposed to create a permanent institutional framework. The proposed body would purchase investment grade debt securities both in stressed and normal times and help in the development of the Bond market".

2.9. In light of the Budget announcement and based on discussions with the Department of Economic Affairs (DEA), MoF, the MF industry and internal deliberations, it has been proposed that the aforementioned Backstop Facility for corporate debt securities namely Corporate Debt Market Development Fund (CDMDF) be set up in the form of an Alternative Investment Fund (AIF).

2.10. Availability of a buyer of last resort for corporate bonds as envisaged above is expected to provide stability to the debt market during times of market dislocation. The proposed CDMDF will function as a fund on standby and is envisaged to facilitate liquidity in the corporate debt market and to respond quickly in times of market dislocation, similar to the mechanisms available in developed markets globally in order to achieve the following:

(i) To build confidence of market participants.

(ii) To bring liquidity and stability.

(iii) To address risk aversion during times of market dislocation including for securities rated below AAA.

(iv) To create liquidity options for investors at large.

2.11. Department of Economic Affairs (DEA), MoF vide letter dated December 26, 2022 informed that the draft proposal on the CDMDF has been approved. Subsequent to meeting with DEA, NCGTC and SBI AMC, a revised draft with minor changes on CDMDF Framework has been submitted to DEA, which is placed at **Annexure A**. The DEA is in the process of issuing the final framework for CDMDF based on the revised draft. NCGTC (National Credit Guarantee Trustee Company Limited) is a wholly owned company of the Department of Financial Services, Ministry of Finance, Government of India which has been selected for the purpose of extending a guarantee for CDMDF.

2.12. NCGTC after consultation with SEBI, DEA and SBI AMC (the proposed Investment Manager for CDMDF) has shared the draft scheme for extending the guarantee called Guarantee Scheme for Corporate Debt (GSCD). In terms of this scheme, DEA will set up a trust Guarantee Fund for Corporate Debt (GFCD) to be managed by NCGTC. A copy of the draft scheme is placed at **Annexure B**.

3. **Details of DEA approved framework for CDMDF**

3.1. **Structure and Tenure**:

(i) CDMDF to be set up as an AIF in the form of a Trust under AIF Regulations.

(ii) CDMDF shall be launched as a close ended scheme with an initial tenure of 15 years from the date of its initial closing (date on which contribution from all AMCs and specified schemes is received by CDMDF). Based on the requirements of the corporate bond market, the tenure 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.

(iii) The Investment Manager-cum-Sponsor of the Fund shall be SBI Funds Management Ltd., the Asset Management Company of SBI Mutual Fund ("SBI AMC").

(iv) The AMC floated by PSU Banks gets covered under the provisions of the Companies Act, 2013, being what in common parlance is known as 'Deemed Government Companies' which are owned and controlled directly or indirectly by the Government. As per the audited accounts as on March 31, 2021, SBI holds ~63% stake in SBI Funds Management Limited (SBI AMC) and ~37% stake is held by AMUNDI Asset Management through a wholly owned subsidiary, AMUNDI India Holding. SBI AMC will be the settlor of the Fund. A new trustee company will be set up by SBI with 2/3rd independent directors on its Board. Unit holders of the Fund shall be the beneficiaries.

(v) ***This has been excised.***

The fees and expenses of CDMDF shall be reviewed by Board from time to time. The rationale for above expenses is placed at **Annexure P**.

(vi) To begin with, units of CDMDF shall be subscribed by Asset Management Companies (AMCs) of MFs 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).

(vii) ***This has been excised.***

(viii) Specified debt oriented MF Schemes shall invest 25 bps of their AUM in the units of CDMDF. Further, AMCs shall make a one-time contribution equivalent to 2 bps of the AUM of specified debt-oriented MF Schemes managed by them. Contribution from specified debt oriented MF schemes and AMCs, including the appreciations on the same, if any, is to 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.

(ix) The Fund shall remain open for additional contributions by;

a. AMCs and specified debt-oriented MF Schemes of new MFs.

b. New schemes of the said categories of existing MFs.

c. All MF Schemes of the said categories due to increase in AUM.

d. ***This has been excised.***

3.2. **Activities:**

(i) In normal times, the CDMDF shall deal only in liquid and low-risk debt instruments such as low duration G-Secs, T-bills, Tri-party Repo on G-sec, AAA debt securities etc. using only its corpus. The Fund may also be permitted to undertake various activities related to corporate debt market including repo, Securities Lending and Borrowing Mechanism (SLBM), etc., as may be permitted by SEBI Board from time to time, subject to suitable risk management measures.

(ii) In times of market dislocation, CDMDF shall purchase and hold eligible corporate debt securities from the participating investors (i.e. specified debt-oriented MF schemes to begin with) and sell as markets recover. Since the objective is to provide liquidity at times of market dislocation it shall be ensured that the fund is ready for such scenarios in future, if any.

(iii) CDMDF 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. However, the above timeline may be extended with the approval of SEBI Board.

(iv) The securities purchased by CDMDF need to have an investment grade credit rating and residual maturity not exceeding 5 years on the date of purchase. CDMDF 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 or views.

3.3. **Funding:**

(i) Contribution to the Fund shall be mandatory for specified debt oriented MF Schemes and AMCs.

(ii) Specified debt oriented MF Schemes shall contribute 25 bps of their AUM to the Fund (~INR. 2,860 Cr. based on AUM as on December 31, 2022).

(iii) AMCs shall make a one-time contribution equivalent to 2 bps of the AUM of their specified debt-oriented MF schemes (~ INR. 228 Cr. based on AUM as on December 31, 2022). Further, AMCs of new MFs 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.

(iv) 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 NCGTC up to a maximum of INR 30,000 Cr.

(v) The specified debt-oriented MF Schemes shall provide additional incremental contribution as their AUM increases, on half-yearly basis. However, if AUM decreases there shall be no return or redemption from CDMDF.

(vi) 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 in accordance with para (v) above.

3.4. **Access to the Fund**

(i) 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) in accordance with detailed guidelines as may be approved by SEBI. The access to the fund be capped to the amount of debt securities that may be sold to CDMDF, 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. The cap in turn can be logically linked to the contribution by individual schemes (aggregated at MF level) as has been proposed in the framework.

(ii) The Fund shall be available to specified mutual fund Schemes during market dislocation, utilization of which shall be voluntary.

(iii) ***This has been excised.***

3.5. **Governance Mechanism for CDMDF**

3.5.1. **Board of Trustees/ Trustee Company:**

i. At the time of constitution of the trust, the Board of Trustees/Trustee Company, shall be appointed with prior approval of the SEBI Board. The Directors of the Trustee Company shall be appointed with prior approval of SEBI.

ii. Board of Trustees/ Trustee Company to comprise two-third of Independent Directors. Of the remaining one-third, one member shall be nominated by AMFI. The activities of the Board of Trustees/ Trustee Company would be to approve governance standards and policies of the Investment Manager (IM)(i.e. SBI AMC) and monitor activities of the Fund and the IM.

iii. The role and responsibilities of trustees would be similar to the role and responsibilities assigned to trustees under SEBI (Mutual Funds) Regulations, 1996 (MF Regulations). An Audit Committee of the Board of Trustee shall be constituted, which shall review compliance with the provisions of Private Placement Memorandum (PPM) as required under AIF Regulations along with other responsibilities as may be specified.

iv. Any change in investment strategy of the CDMDF may only be with the prior approval of SEBI.

3.5.2. **Governance Committee (GC):**

i. GC will be appointed by the Investment Manager and shall comprise corporate bond market experts including academicians, CEOs or CIOs of AMCs, risk management professionals, independent market experts, etc.

ii. All the policies of the Fund shall be jointly approved by the GC, Board of IM and Board of Trustee/Trustee Company.

iii. GC, while also approving the policies of the Fund, would take a more hands-on approach to supervise the activities of the Fund and oversight of the Investment Committee, especially relating to management of conflict of interest, if any.

iv. GC will also have oversight on management of asset liability mismatches during times of market dislocation as borrowed money would be used to purchase assets of the scheme at that stage.

3.5.3. **The Investment Committee (IC)** shall be internal to the Investment Manager and would perform various activities of the Fund, including the actual buy and sell decisions of the Fund.

3.5.4. **Management Team** would be a part of IM which includes the fund management, trading, risk and research team etc. and comprises experienced professionals (such as fund managers and risk managers).

3.6. **Trigger of Market Dislocation**

(i) As the Sectoral Regulator for Corporate Debt Market, the Board shall decide the trigger of debt market disruption warranting the Backstop Facility to operate in times of market dislocation and consequently the need for activation of guarantee by the NCGTC.

(ii) The broad parameters of the model (i.e., Financial Stress Index (FSI)) shall use India Fixed Income & Forex comprising of 10 indicators pertaining to Indian Bond market and Forex market and as may be modified from time to time based on learnings, in consultation with the Government of India and the broad indicators shall be placed in public domain. In case of trigger of the index (FSI), it should be immediately brought to the notice of the SEBI Board and accordingly, the Board will make a comprehensive assessment of the situation. In order to take this decision, the SEBI Board shall consider various parameters reflecting the status of the market and the need for intervention including the output of a model which has been prepared for this purpose to identify signals of stress in the Indian corporate bond market as well as the qualitative factors. The detailed model for trigger and end of market dislocation is covered at Part 7 below.

(iii) Further, during times of market dislocation, the period for which the Backstop Facility will be open shall be as decided by the SEBI Board and which can be extendable. The market dislocation period shall be considered to have ended, if no alert from the aforesaid model appears for a continuous period of 3 months, unless otherwise determined by the SEBI Board.

(iv) The activities of the fund during times of market dislocation shall be reported to the FSDC and DEA - MoF, Government of India.

(v) Since SEBI Board has representatives from Department of Economic Affairs (DEA), Ministry of Corporate Affairs (MCA), Reserve Bank of India (RBI) and other independent professional, thus SEBI would be benefited from their perspectives at the time of such assessments.

3.7. **Mechanism of Borrowing based on Guarantee through NCGTC**

(i) The NCGTC will give the guarantee as a standing facility, initially for 15 years. Based on the requirements of the corporate bond market, the guarantee can be extended subsequently upto 5 years at a time. The guarantee cover shall be valid from the first day of each declaration of market dislocation for a period upto 5 years from the last day of respective market dislocation. However, in case of claim, guarantee cover shall be valid upto the date of payment of claim.

(ii) The guarantee would be given to Member Lending Institutions (MLIs) directly for the purpose of lending by them to CDMDF. MLIs means lending institutions viz. Scheduled Commercial Banks/other financial intermediary approved by Guarantee Fund for Corporate Debt (GFCD) for providing funds to CDMDF and who have entered into agreement with GFCD/NCGTC for availing guarantee under the scheme.

(iii) The guarantee shall become operative immediately upon trigger of bond market dislocation. Borrowing shall be drawn by the Fund as required, against the said guarantee.

(iv) However, at no point in time, guarantee will be more than the specified amount of INR 30,000 Cr.

(v) Guarantee fee, as decided by the Government of India, shall be paid at the time of availing the guarantee facility on an annual basis on the outstanding loan amount daily pro rata.

This has been excised.

(vi) Over the tenure of the Fund there could be multiple instances of trigger.

(vii) The recovery from sale of assets held shall be settled against the claim from borrowing.

(viii) Shortfall, if any, will be absorbed in accordance with the waterfall mechanism for loss absorption as laid down in para 3.9.2 of this Board Memorandum.

(ix) If recovery is greater than the borrowing, excess shall be retained by the Fund

(x) In case of invocation of guarantee, underlying outstanding bank loans/debt obligations, would be paid by the NCGTC.

(xi) During the period when borrowing against the guarantee is outstanding, no payouts (wherever permitted) to unitholders should be made.

3.8. **Mechanism of investment during times of Market Dislocation**

(i) The Fund shall buy single or basket of listed investment grade corporate debt securities with tenure not exceeding residual maturity of 5 years only from the secondary market from the contributing MF schemes at fair price determined as per existing norms of valuation (adjusted for liquidity risk, interest rate risk and credit risk). The principle on fair pricing for purchase of securities by CDMDF is placed at **Annexure C**. At a portfolio level, the sellers of debt securities would be paid 90% of the consideration in cash and 10% in terms of units of CDMDF.

(ii) The Fund can hold the corporate debt securities till maturity or can sell the same in the secondary market when the market dislocation eases out. Since the objective is to provide liquidity at times of market dislocation and ensure that the fund is ready for such scenarios in future, if any, CDMDF 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.

(iii) The Fund may charge a transaction fee from the seller(s) of the corporate debt securities during market dislocation and the same will be credited to the Fund.

No fee to be charged to buyers of debt securities from the Fund. The policy in this regard shall be approved by GC, the Board of IM and Trustees.

(iv) Trading Price will be as per the policy approved by the GC, Board of IM and Trustees based on the following Principles:

a. Buy at a fair price (adjusted for liquidity risk, interest rate risk and credit risk) but not at distress price.

b. Sell at breakeven/ profit as markets stabilize, to reduce borrowing as soon as possible.

(v) The Valuation of the portfolio by the Fund shall be governed by the existing norms on valuation as applicable under the extant MF Regulatory framework. The valuation policy shall be approved by the GC, Board of IM and Trustees.

(vi) In case the rating of the debt securities forming part of the CDMDF portfolio is downgraded below investment grade, the same shall be reflected in daily NAV.

3.9. **Moral Hazard Mitigation**

3.9.1. **Prudential Norms**

(i) The Fund shall not buy unlisted or below investment grade or defaulted debt securities or such securities in respect of which there is a material possibility of default or adverse credit news or views.

(ii) Further, either a list of investment grade debt securities of eligible issuers shall be disclosed on the website of the IM or a transparent mechanism to be followed for purchasing of debt securities of various issuers from specified mutual fund schemes.

(iii) Prudential limits shall be as decided by the SEBI Board from time to time. To begin with the following would be the prudential limits:

a. Single issuer limit - 5% of the aggregate of the corpus and maximum permissible debt;

b. Group limits - 7.5% of the aggregate of the corpus and maximum permissible debt

(iv) Limit for buying debt securities from a single MF shall be in proportion to aggregate contribution by all the schemes of the said MF to the Fund in accordance with detailed guidelines as may be approved by SEBI.

3.9.2. **Loss Absorption Waterfall**

(i) The issue of moral hazard is addressed by way of skin in the game from AMCs and the contributing MF schemes. The CDMDF shall buy securities at fair price adjusted for liquidity risk, interest rate risk and credit risk. Further, the risk of first loss shall rest with MF schemes selling to the Fund. Details of the same areas under:

Level of loss absorption	**Particulars**	**Amount. (INR)**
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)	~ Upto INR 3,600 cr.*
2nd	Contribution of specified debt oriented MF Schemes and AMCs	~ Upto INR 3,088 cr.*
3rd	Government Guarantee	~ Upto INR 30,000 cr.

*Based on AUM of specified debt oriented MF Schemes as on December 31, 2022 and may vary depending on AUM

To give effect to above loss waterfall, different classes of units would be allotted to contributing AMCs and schemes vis-à-vis’ selling schemes. The details of proposed valuation of different classes of units of CDMDF is placed at **Annexure D**.

3.10. **Reporting and Monitoring Mechanism**

(i) CDMDF being an AIF will be regulated by SEBI under AIF Regulations. Considering the strategic importance of the entity, a mechanism shall be developed for periodic reporting (monthly basis) to SEBI.

(ii) The reporting to the DEA - MoF, Government of India shall be made on quarterly basis regarding investment and operational affairs of the CDMDF.

(iii) During times of market dislocation, if securities are purchased by borrowings under guarantee from NCGTC, there shall be daily reporting of the portfolio and the remaining available headroom for purchase of debt securities, to NCGTC, Government of India and SEBI.

(iv) The detailed format for the above reporting shall be prescribed by SEBI.

(v) The Government of India may at any time call for any information from the CDMDF through SEBI with respect to any matter relating to its activities as an Alternative Investment Fund or for the assessment of systemic risk or prevention of frauds.

3.11. **Role of SEBI**

(i) CDMDF 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. However, the above timeline may be extended with the approval of SEBI Board.

(ii) Appointment of the Trustee Company shall be subject to prior-approval by the SEBI Board. The appointment of directors of the Trustee Company shall be subject to prior approval of SEBI.

(iii) Change in investment strategy of the CDMDF would only be with the prior approval of SEBI.

(iv) The SEBI Board shall decide the trigger of debt market disruption warranting the Backstop Facility to operate in times of market dislocation and consequently the need for activation of guarantee by the NGCTC. Further, the period for which the Backstop Facility will be open shall also be as decided by the SEBI Board.

(v) CDMDF being an AIF will be regulated by SEBI under AIF Regulations.

(vi) Periodic reporting (monthly basis) of the activities of the Fund to SEBI. Further, the activities of the Fund during times of market dislocation shall be reported to the SEBI Board, FSDC and the Government of India on daily basis. The detailed format for the above reporting shall be prescribed by SEBI.

(vii) Once the backstop facility is activated, SEBI will review its continuation internally and confidentially every fortnight. While making such reviews, the number of Watch Lists/ Alerts/ Triggers from the FSI during the fortnight would be factored in by SEBI. Subsequent to such fortnightly review, if the SEBI Board comes to a view that backstop facility could be withdrawn, the facility can then be withdrawn with two days' notice to the market.

(viii) The market dislocation period may be considered to have ended, if no alert from the aforesaid model appears for a continuous period of 3 months, unless a view is taken other-wise, by the SEBI Board based on a comprehensive review including qualitative factors.

3.12. **Disclosures**

(i) There shall be a mechanism for daily disclosure of NAV to the unitholders.

(ii) The portfolio of the Fund would be disclosed to the unitholders on fortnightly basis.

(iii) The norms applicable to AMCs and MF schemes for disclosure in respect of their investments in CDMDF shall be specified appropriately under the regulatory framework for MFs.

3.13. **Audit of CDMDF by CAG**

(i) CDMDF being floated by SBI AMC may be audited by auditors appointed by C&AG, provisions relating to the same shall be appropriately incorporated in the trust deed of CDMDF. Department of Economic Affairs (DEA) would request C&AG to appoint auditors for the Fund.

4. **Framework for CDMDF**

4.1. The objective of CDMDF is to undertake such transactions as would provide stability to the Indian Corporate Bond Market in times of market dislocation. Undertaking such transactions in the capacity of an AIF would require certain relaxations from, as well as certain restrictions on, the investment framework currently applicable to other AIFs.

4.2. Based on proposed mechanism as mentioned at para 3 above, a comparison of the regulatory norms/ restrictions that are proposed for CDMDF and those currently applicable to other AIFs of various categories are given below:

Investment Condition	**CDMDF**	**Category I AIFs**	**Category II AIFs**	**Category III AIFs**
Investment in listed debt securities	100% of investable funds	Up to 25% of investable funds	Up to 49% of investable funds	Up to 100% of investable funds
Minimum Investment	For MF schemes and their AMCs - as specified by the Board. For other investors - as may be specified by the concerned regulators in due course.	INR 1 Crore		
Single Issuer Limit	5% of Fund Capital	25% of investable funds	25% of investable funds	10% of investable funds
Continuing Interest of Sponsor/ Manager	INR 5 Cr	2.5% of corpus or INR 5 Cr, whichever is less		5% of corpus or INR 10 Cr, whichever is less
Minimum Corpus	~INR 3,088 Cr	INR 20 Cr		

Investment Condition	**CDMDF**	**Category I AIFs**	**Category II AIFs**	**Category III AIFs**
Leverage	Up to 10 times of corpus using guarantee extended by the Government	Not Permitted (except borrowing for temporary funding)		Up to 2 times of NAV
Valuation Norms	In line with norms specified under MF regulatory framework	As specified under the AIF regulations		
Disclosure of NAV to unitholders	Daily	6-monthly/ yearly, as agreed with unitholders		Monthly (Open ended schemes)/ Quarterly (Closed ended schemes)
Overseas Investment	Not Permitted	Up to 25% of investable funds, subject to overall limit of USD 1500 Million across the industry.		

4.3. As can be seen from the table above, to set up the CDMDF under one of the existing categories of AIFs would require significant changes in respect of leverage, portfolio concentration, valuation, disclosure requirements, etc.

4.4. Regulation 19 of the AIF Regulations provides that the Board may lay down the framework for AIFs other than the fund(s) falling in the categories specified in the AIF Regulations. As CDMDF is envisaged to be a fund, one of its kind where no new applications for registration would be considered, it is not necessary to introduce a new category or sub category of AIFs. Thus, it is proposed to provide a framework specifically for CDMDF under the AIF Regulations.

5. **Proposed Regulatory Framework for CDMDF**

To provide the regulatory framework for CDMDF, SEBI (Alternative Investment Funds) Regulations, 2012 and SEBI (Mutual Funds) Regulations, 1996 need to be amended appropriately. Various operational details as mentioned in paragraph-3 above would be covered in the Fund documents including PPM. Details of the proposed amendments are given below:

5.1. **Broad Framework**

CDMDF may be created by inserting a separate Chapter III-B in the AIF Regulations and may be granted registration under Regulation 6 of the AIF Regulations as “Corporate Debt Market Development Fund”.

Further, for enabling contribution by Mutual Fund schemes and AMCs in units of CDMDF, it is proposed to insert Regulation 43A in SEBI (Mutual Fund) Regulations, 1996.

It is proposed that the basic principles underlying the framework of the CDMDF shall be provided in the Regulations under the aforesaid chapter. Additionally, various guidelines may be required to be issued in relation to adherence with various requirements of NCGTC guarantee. Moreover, given that many features of CDMDF are unique to it and unlike other products or funds available in the market, many operational details or illustrations, clarity on applicability of certain norms or prudential requirements for participating mutual fund schemes etc. would be provided through issuance of circulars.

5.2. **Legal form of CDMDF**

5.2.1. CDMDF may be constituted in the form of a trust and the instrument of trust shall be in the form of a deed, duly registered under the provisions of the Indian Registration Act, 1908.

5.2.2. The Board of Trustees/Trustee Company of CDMDF shall be appointed with prior approval of the SEBI Board. The Directors of the Trustee Company shall be appointed with prior approval of SEBI. The roles and responsibilities of the trustee of CDMDF would be similar to that of the trustees of MFs in terms of MF Regulations and will be specified in Chapter III-B of the AIF Regulations.

5.3. **Manager of CDMDF**

Manager of the CDMDF may be appointed with prior approval of the Board in consultation with the Government.

5.4. **Tenure of CDMDF**

5.4.1. CDMDF may be set up as a close ended fund, with an initial tenure of fifteen years from the date of its first closing. Based on the requirements of the corporate bond market, the tenure can be extended with prior approval of the Government of India in consultation with SEBI.

5.4.2. CDMDF may be wound up only with the prior approval of the Board in consultation with the Government.

5.5. **Investment conditions for CDMDF**

5.5.1. During market dislocation CDMDF may invest in investment grade corporate debt securities listed on recognized Stock Exchanges in India, and at other times, CDMDF may invest in liquid and low-risk debt instruments and undertake any other activity related to corporate debt market, as may be specified by the Board from time to time. During market dislocation, the maximum investment by the CDMDF in the debt securities of a single issuer and a group shall be as stipulated by SEBI from time to time. To begin with, the investment limits may be 5% and 7.5% respectively of the "Fund Capital" of the Fund at the time of investment.

5.5.2. "Fund Capital" of CDMDF shall be the aggregate of the corpus of the Fund and the maximum permissible borrowing of the Fund.

5.5.3. During times of market dislocation, the CDMDF may purchase securities only from mutual fund schemes and entities as specified by the Board.

5.6. **Investment in Associates**

5.6.1. In terms of Regulation 15(1)(e) of the AIF Regulations, an AIF shall, inter-alia, not invest in associates, except with the approval of seventy five percent of investors by value of their investment in the AIF. AIF Regulations define 'associate' as "a company or a limited liability partnership or a body corporate in which a director or trustee or partner or Sponsor or Manager of the AIF or a director or partner of the Manager or Sponsor holds, either individually or collectively, more than 15 percent of its paid-up equity share capital or partnership interest, as the case may be".

5.6.2. As the investment process of CDMDF is pre-defined and as transactions involving conflict of interest are overseen by a Governance Committee as mentioned at Para 3.5.2, the restriction in Regulation 15(1)(e) shall not be applicable to CDMDF.

5.7. **Investment in overseas Venture Capital Undertakings (VCUs)**

In terms of Regulation 15(1)(a) of the AIF Regulations, AIFs may invest in securities of companies incorporated outside India subject to conditions stipulated by the Reserve Bank of India and the Board from time to time. However, considering the purpose for which CDMDF is proposed to be set up, i.e. to intervene in the Indian corporate debt market in times of market dislocation, in a timely manner, with a view to introduce stability in the corporate debt market and boost investor confidence, it may not be appropriate to utilize the corpus of CDMDF for investments outside India. Accordingly, Regulation 15(1)(a) of the AIF Regulations shall not be applicable to the CDMDF.

5.8. **Investors in CDMDF**

To begin with, CDMDF may raise funds only from AMCs of MFs and specified open ended debt-oriented MF Schemes.

This has been excised.

5.9. **Investment and Corpus**

5.9.1. The investments by debt oriented MF Schemes may be enabled by inserting a new regulation under SEBI (Mutual Funds) Regulations, 1996. The details with regard to specific categories of debt mutual fund schemes, percentage contribution, Contributions from AMCs, and other operational details may be specified through issuances of a circular. Since investment by specified debt-oriented MF Schemes would be mandatory, therefore such investment shall not be treated as a change in fundamental attributes of those schemes.

5.9.2. ***This has been excised.***

5.9.3. In accordance with the proposed regulatory mandate for AMCs and MF schemes regarding investment in CDMDF, initial contribution of specified debt-oriented mutual fund schemes may be approximately INR 2,860 Crore and the one time contribution of AMCs shall be approximately INR 228 Crore. Therefore, the initial capital contribution to CDMDF may be approximately INR 3,088 Crore, as compared to the minimum corpus of INR 20 Crore which is applicable to other AIFs. Accordingly, there may not be a need to separately specify a minimum corpus for launching the investment activities of the CDMDF.

5.10. **Leverage**

CDMDF may undertake leverage in the form of borrowings up to ten times the corpus of the Fund, subject to conditions specified by the Board.

5.11. **Minimum Capital Commitment by Sponsor or IM**

To ensure that the interests of the Sponsor and Manager of CDMDF are aligned with that of the investors in CDMDF, either Sponsor or IM or a combination of Sponsor and IM shall invest INR 5 Crore in the CDMDF.

5.12. **Change in Investment Strategy**

Any change in investment strategy of the CDMDF may only be with the prior approval of the Board. Therefore, Regulation 9(2) of the AIF Regulations, which specifies that AIFs may materially modify their investment strategy with the consent of not less than two-thirds of unit holders by value of their investment, shall not apply to CDMDF.

5.13. **Valuation**

Valuation of investments of CDMDF shall be governed by the valuation norms applicable to MF schemes under the extant MF regulatory framework. CDMDF shall ensure that calculation of NAV is independent from the fund management function and such NAV shall be disclosed to the unit holders on a daily basis.

5.14. **NCGTC Guarantee and Periodic Reporting**

5.14.1. 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 NCGTC up to a maximum of INR 30,000 Cr. The guarantee from NCGTC may become operational immediately upon trigger of market dislocation as notified by the Board.

5.14.2. Once the guarantee is operational, CDMDF shall on a daily basis, report information in a specified manner regarding its portfolio and the remaining available headroom for purchase of securities, to NCGTC, DEA-MoF, Government of India and SEBI.

5.14.3. The portfolio of the Fund shall be disclosed to the unitholders on fortnightly basis.

5.15. **In-specie Distribution to Unitholders**

In specie distribution of assets of the CDMDF may be made only at the time of winding up of CDMDF subject to consent of not less than seventy five percent of the unitholders by value of their investment in CDMDF. Accordingly, Regulation 29(8) of the AIF Regulations which specify that in-specie distribution of assets of the AIF may be made by the AIF at any time, after obtaining necessary investor consent, shall not apply to CDMDF.

5.16. **Listing of units of CDMDF**

In terms of Regulation 14 (1) and (2) of the AIF Regulations, units of closed ended AIFs, which have declared their final closing, may be listed on stock exchange subject to a minimum tradable lot of INR 1 crore. Considering that only regulated entities/schemes are meant to be investors in CDMDF the purpose and intent of CDMDF and requirement of lock-in of mandatory contribution by MFs and AMCs, it may not be desirable to permit listing of units of CDMDF. Accordingly, Regulation 14(1) and (2) of the AIF Regulations shall not apply to CDMDF.

5.17. **Filing of Placement Memorandum (PPM)**

5.17.1. In terms of Regulation 12 (2) of the AIF Regulations, with effect from November 11, 2021, the PPM for launch of schemes by AIFs shall be filed with SEBI through a Merchant Banker. Further, as per Regulation 12(3) of AIF Regulations comments of the Board on the PPM, if any, shall be communicated to the Merchant Banker and the same shall be incorporated in the PPM before launch of the scheme.

5.17.2. As the constitution and operations of the CDMDF are pre-defined and are finalized in consultation with the Government and the Board, the requirements at Regulation 12 (2) and (3) may not apply to CDMDF. However, the various operational features and modalities of the CDMDF which are not stated specifically in the AIF Regulations may be appropriately covered in the PPM.

5.18. **Application for Registration**

The application may be granted registration under Regulation 6 of the AIF regulations. The CDMDF shall be required to pay a one-time registration fee of INR 5 Lacs.

6. As the constitution and operations of the CDMDF are pre-defined and have been finalized in consultation with the Government, for any material changes to the framework, if required, SEBI may consult the Government.

7. **Framework for triggering of Corporate Debt Market Development Fund**

This has been excised.

8. **Proposals**

8.1. The Board may consider and approve the proposals at paragraph 3 & 5. The draft amendment to SEBI (Alternative Investment Funds) Regulations, 2012 by inserting a new chapter and SEBI (Mutual Funds) Regulations, 1996 are placed at **Annexure E**.

8.2. The Board may also consider and approve the proposal at paragraph 7 on Framework for triggering of Corporate Debt Market Development Fund.

8.3. The draft notifications for amendments to SEBI (Alternative Investment Funds) Regulations, 2012 and SEBI (Mutual Funds) Regulations, 1996 are placed at **Annexure F**.

8.4. The Board is requested to consider and approve the proposals as in the Memorandum and authorize the Chairperson to make consequential and incidental changes and take necessary steps to give effect to the decisions of the Board.

Addendum to Memorandum

Subject: Framework for "Corporate Debt Market Development Fund"

9. **Further to the proposals mentioned in the Board Memorandum No. 12/2023, Item No. 13 (hereinafter referred as "Board Memorandum"), the following are also proposed:**

9.1. The Guarantee fee payable by CDMDF referred at paragraph 3.7(v) of the Board Memorandum shall be 0.5% p.a. on the outstanding loan amount daily pro rata at the time of availing the guarantee facility on an annual basis.

9.2. It is not the intent of the government to induct other regulated entities such as pension funds, insurance companies, banks etc. in the CDMDF now or even later. Therefore, paragraph 2.1(vii), 2.1(ix)(d) and 2.4(iii) of Annexure A and consequently paragraph 3.1(vii), 3.1(ix)(d) and 3.4(iii) of Board Memorandum may be treated as deleted.

9.3. With respect to the principle on fair pricing for purchase of securities by CDMDF referred at paragraph 3.8(i), various indicative factors for determining purchase price of corporate debt securities that shall be incorporated in the investment policy of CDMDF are provided in **Annexure C**. Any deviation from the aforementioned factors for the purpose of purchase, sale and valuation of the corporate debt securities shall only be with the prior approval of the Investment Committee.

9.4. Fees and Expenses of CDMDF referred at 3.1(v) and **Annexure P, it is decided that, to start with, the fees and expenses of CDMDF shall be:**

e. During Normal times: (0.15% + tax) of the Portfolio Value charged on daily pro-rata basis.

f. During Market stress: (0.20% + tax) of the Portfolio Value charged on daily pro-rata basis.

g. "Portfolio Value" means the aggregate amount of portfolio of Investments including cash balance without netting off of leverage undertaken by the Fund to be considered.

10. **Proposals for consideration and approval of the Board**

10.1. The Board may consider and approve the proposals at paragraph 8 of the Board Memorandum and paragraph 1 of addendum to the Board Memorandum.

Annexure A

This has been excised.

Annexure B

This has been excised.

Annexure C

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 D

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.

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	-					
Part A								
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	
Number of additional units	-	-	19.96					
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			Post gains apportioned to A3 balance MTM gain gets apportioned to all the unit class	
Distribution of balance profits	3.92	3.92	1.29	9.13				
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

Annexure E

This has been excised.

Annexure F

This has been excised.

Annexure P

This has been excised.

Annexure Q

This has been excised.

Annexure R

This has been excised.