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Corporate Debt Market Development Fund (CDMDF)

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Why is in news? Union Finance Minister Smt. Nirmala Sitharaman launches the AMC Repo Clearing Limited (ARCL) and Corporate Debt Market Development Fund (CDMDF)

The Union Minister of Finance and Corporate Affairs inaugurated the Corporate Debt Market Development Fund (CDMDF) and initiated the muhurat trading on Limited Purpose Clearing Corporation mechanism called AMC Repo Clearing Limited (ARCL), in Mumbai.

The Union Finance and Corporate Affairs Minister, in her speech for the **Union Budget of 2021-22**, had **announced the creation of a permanent institutional framework to enhance secondary market liquidity in the Corporate Bond market** during stressed and normal times, thereby instilling confidence amongst participants in corporate bond market.

The Budget announcement has manifested in the form of the Corporate Debt Market Development Fund (CDMDF).

The equity markets have witnessed **broad-based participation from all segments** – retail investors with more than 11.5 crore Demat accounts on one side of the spectrum to Small and Medium Enterprises (SMEs) raising funds through IPOs on the other.

The Finance Minister announced that the Government has taken a decision to **enable direct listing of listed/unlisted companies on IFSC exchanges**, which will be operationalised shortly enabling start-ups and companies of like nature to access global market through GIFT IFSC.

This will also facilitate access to global capital and result in better valuation for Indian companies.

The Minister said that Government's vision for GIFT-IFSC transcends much beyond the realm of traditional finance and ventures into the realm of thought leadership. We envision it as the true embodiment of Atma Nirbhar Bharat, a hub of ingenuity and innovation.

Corporate Debt Market Development Fund:

The 'Corporate Debt Market Development Fund (CDMDF) is a **backstop facility for specified debt funds** during market dislocations.

The fund is intended to **provide liquidity support** in the event of a financial crisis.

It aims to instil confidence amongst the participants in the corporate bond market and to **generally enhance secondary market liquidity**.

The proposed CDMDF will have an **initial corpus of Rs 3,000 crore** contributed by mutual funds.

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The government has approved a 10-time leverage of the fund (Additional corpus), thus CDMDF may raise funds up to Rs 30,000 crore.

Contributions to the fund can be done by the **specified debt-oriented mutual fund schemes and asset management companies of mutual funds.**

This fund is **guaranteed by the National Credit Guarantee Trust Company (NCGTC)** and the backstop facility will be **managed by SBI Mutual Fund.**

Specified mutual fund schemes will have access to the fund for selling securities during market dislocation.

This access is proportional to the contribution made to the fund at a mutual fund level.

Backstop facility:

A backstop is an **act of providing last-resort support or security** in a securities **offering for the unsubscribed portion of shares.**

When a company is trying to raise capital through an issuance, it may get a backstop from an underwriter or a major shareholder, such as an investment bank, to buy any of its unsubscribed shares.

Limited Purpose Clearing Corporation:

As another initiative to deepen corporate bond markets, the **Limited Purpose Clearing Corporation (LPCC)** named as **AMC Repo Clearing Corporation Limited.**

LPCC has been set up with the **purpose of clearing and settlement of corporate bond repo transactions** and to develop an active repo market, which will, in turn, improve liquidity in the underlying corporate bond market.

This institution will create a vibrant corporate bond repo market that allows market makers to access cost effective funding for their inventory, that allows holders of bonds to meet their short term liquidity needs without having to liquidate their assets and the opportunity to entities with short term surpluses to deploy their funds in a safe and efficient manner, can all be achieved through this institution.