SEBI has amended the Issue and Listing of Municipal Debt Securities Regulations, 2026 by introducing provisions for **pooled financing through Special Purpose Vehicles (SPVs)**.

Key Changes:

- A new regulation has been inserted to facilitate **pooled financing arrangements** under the **Pooled Finance Development Fund (PFDF) Scheme** of the Government of India.
- Where funds are raised through an **SPV acting as the issuer**, all participating or constituent municipalities must enter into a formal agreement with the SPV before the fund-raising exercise.
- Details of such agreements must be **disclosed in the offer document** issued to investors.
- The amendment aims to strengthen transparency, accountability, and investor confidence in municipal bond issuances through pooled financing structures.

Significance:

- Smaller municipalities that may not independently access the debt market can raise funds collectively through an SPV.
- Pooled financing can improve creditworthiness, reduce borrowing costs, and enable funding of urban infrastructure projects.
- Enhanced disclosure requirements provide greater clarity to investors regarding the obligations and responsibilities of participating municipalities.

Key Takeaway

The amendment enables **municipalities to collectively raise funds through SPVs under the PFDF Scheme**, while mandating formal agreements and disclosure requirements. This is expected to improve access to capital for urban local bodies, promote infrastructure financing, and strengthen the municipal bond market in India.

What is the Pooled Finance Development Fund (PFDF) Scheme?

The **Pooled Finance Development Fund (PFDF) Scheme** is a Government of India initiative launched to help **Urban Local Bodies (ULBs)/Municipalities** access capital markets for funding urban infrastructure projects. The scheme enables multiple municipalities to **pool their borrowing requirements** and raise funds collectively through a **State-level Pooled Finance Entity (SPFE) or Special Purpose Vehicle (SPV)**.

Objectives of PFDF

The scheme aims to:

- Facilitate financing of **urban infrastructure projects** such as water supply, sewerage, roads, drainage and solid waste management.
- Improve the ability of municipalities, especially smaller ones, to access the **bond market and capital markets**.
- Provide **credit enhancement support** to improve bond ratings and attract investors.
- Reduce borrowing costs through pooled financing structures.
- Promote the development of India's **municipal bond market**.

How the Scheme Works

1. Multiple municipalities join together under a **State Pooled Finance Entity (SPFE)/SPV**.
2. The SPV raises funds by issuing **pooled municipal bonds**.
3. The proceeds are distributed among participating municipalities for approved infrastructure projects.
4. The Central Government supports the financing through **Credit Rating Enhancement Fund (CREF)** mechanisms to improve investor confidence.

Relevance of the Recent SEBI Amendment

Under the recent amendment to the **SEBI (Issue and Listing of Municipal Debt Securities) Regulations, 2026**, where an SPV established under the PFDF Scheme acts as the issuer:

- Participating municipalities must enter into a formal agreement with the SPV before funds are raised.

- The agreement must be disclosed in the offer document issued to investors. This enhances transparency and accountability.

Key Takeaway

The **PFDF Scheme** is designed to enable **smaller and medium-sized municipalities** to access long-term funding for infrastructure projects by borrowing collectively through an SPV, supported by credit enhancement measures. The recent SEBI amendment strengthens this framework by requiring formal agreements and disclosures for pooled financing issuances.