100th Meeting of the

FINANCE AND INVESTMENT COMMITTEE

[CENTRAL BOARD OF TRUSTEES, EMPLOYEES' PROVIDENT FUND]

ON

25/08/2010 at 11.00 A.M.

VENUE:

Conference Hall,
3rd Floor, EPFO Headquarters,
Bhavishya Nidhi Bhawan,
14, Bhikaiji Cama Place,
New Delhi – 110 066.
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**Item No. 1:** Confirmation of the Minutes of 98th Meeting of the Finance and Investment Committee held on 28.07.2010 at EPFO Headquarter New Delhi.

Minutes of 99th Finance and Investment Committee meeting held on 28.07.2010 was circulated vide letter No. Invest./1/99th/FIC/2010/16265/ dated 05.08.2010. No comments have been received on the minutes of the above said meeting. Copy of the minutes is enclosed as Annexure -'A' , (at page no. 1 to 5).

Minutes may be taken as confirmed.
Draft Minutes of the 99th Meeting of the Finance & Investment Committee held on 28.07.2010

The 99th meeting of the Finance and Investment Committee, Central Board of Trustees, Employees' Provident Fund was held at 11.00 A.M on July 28, 2010, in the Conference Room, 3rd floor, EPFO Head Office, New Delhi.

(a) The following were present in the meeting:

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Position</th>
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<tbody>
<tr>
<td>1</td>
<td>Shri S. Chatterjee</td>
<td>Chairman, Finance and Investment Committee, CBT, EPF, and Central Provident Fund Commissioner, Employees' Provident Fund Organisation, Head Office.</td>
</tr>
<tr>
<td>2</td>
<td>Shri Chaman Kumar</td>
<td>Vice Chairman, Finance and Investment Committee, CBT, EPF, and AS &amp; FA, Ministry of Labour and Employment, Government of India.</td>
</tr>
<tr>
<td>3</td>
<td>Shri S K Verma</td>
<td>Director (Social Security), Ministry of Labour and Employment, Government of India.</td>
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<tr>
<td>4</td>
<td>Dr. G. Sanjeeva Reddy</td>
<td>Member, CBT, EPF (Employees' Representative)</td>
</tr>
<tr>
<td>5</td>
<td>Shri A D Nagpal</td>
<td>Member, CBT, EPF (Employees' Representative)</td>
</tr>
<tr>
<td>6</td>
<td>Shri B N Rai</td>
<td>Member, CBT, EPF (Employees' Representative)</td>
</tr>
<tr>
<td>7</td>
<td>Dr. Ram S. Tarneja</td>
<td>Member, CBT, EPF (Employers' Representative)</td>
</tr>
<tr>
<td>8</td>
<td>Shri Sharad Patil</td>
<td>Member, CBT, EPF (Employers' Representative)</td>
</tr>
<tr>
<td>9</td>
<td>Shri Abhay Kr. Singh</td>
<td>FA &amp; CAO, EPFO and Convener</td>
</tr>
</tbody>
</table>

(b) The following also attended:
1. Shri K L Goyal, RPFC -I (IMC)
2. Shri R.K. Singh, RPFC -I (F&A)
3. Shri V. Shyam Sunder, Director (Audit)
4. Shri V. Ranganath, RPFC -II (Investment)
5. Dr. A.K. Singh, RPFC-II (WSU)
6. Shri Rajiv Bish, RPFC-II (IMC)
7. Shri Rambir, RPFC-II (IMC)
8. Ms Nidhi Singh, RPFC -II (IMC)

Shri Santosh Saraf could not attend the meeting and had sought leave of absence.
The Chairman welcomed all the members and officers present in the meeting and invited FA & CAO, EPFO to introduce the agenda for the meeting.

Item 1: Confirmation of the Minutes of 97th Meeting of the Finance and Investment Committee held on 01.12.2009 at EPFO HQ, New Delhi.

The minutes were unanimously approved by all the members.

Item 2: Statement on the Actions Taken on the Recommendations of the FIC

The Committee took note of the Action Taken Report. Discussing the action taken report, item no. 8 of 98th Finance & Investment Committee held on 26.02.2010, the members desired that a status of all responses, office wise, should be included along with the details of amounts in default in each case, while bringing in the agenda in the next meeting. This issue should also be followed up seriously.


FA & CAO introduced the item saying that the term of the present consultant – M/s CRISIL is scheduled to expire in the month of September 2010. Presently they are engaged in assisting EPFO in performance evaluation of the Fund Managers. However since the term of the Fund Managers is scheduled to expire in March 2011, there is a need to initiate the process of fresh appointment of the new Fund Managers. Thus, it was proposed to appoint the consultant for two assignments, to assist EPFO in-

i) Appointment of the new Fund Managers and

ii) Performance Appraisal of the Fund Managers

AS (FA), MoL&E, Sh Chaman Kumar enquired about the procedure adopted on the previous occasion of the selection of Fund Managers and whether the Finance & Investment Committee was involved in the same. Further, he also queried as to the rationale for engagement of only the Credit Rating Agencies (CRAs) as a Consultant.

FA & CAO informed that it was the same procedure as envisaged presently and FIC was materially involved in the whole process. As regards the engagement of only the CRAs, it was explained that they being involved in the business of rating the issues/ Issuers (Corporate entities), are repository of the relevant information about the credit quality of the investments and the Borrowers. Further, they are also engaged in the portfolio evaluation of the entire Mutual Fund industry. This makes them the most suitable option for the subject assignment.

Some members felt the need for incorporating the criteria of minimum experience for the CRAs to become eligible for the job.

FA & CAO proposed the constitution of a three-member committee consisting of the officers of EPFO to carry out the exercise of selection of Consultant.
Some members suggested that the composition of the committee may be broadened to include the representatives of the Employers and Employees, one from each side.

It was decided to recommend the proposal to the CBT as under:

The Proposal

The CRAs registered with SEBI and having minimum ten years of experience of operation in India may be invited under the GFR provisions to assist EPFO in the selection of Fund Managers as well as their performance evaluation. The tenure of the Consultant for performance evaluation will be for three years subject to satisfaction of the quality of services rendered, drawn on periodical review. Further, a five member committee including one representative each from the Employees and the Employers side, would be constituted by the Board (CBT), for carrying out the exercise of selection of consultant.

Item 4: Including Brickwork as an approved Credit Rating Agency —Regarding.

The item was approved.

Item 5: Cleaning of Data — Inoperative Accounts — Regarding.

The FA&CAO put up the above agenda item which proposes to freeze Inoperative Accounts up to the balance of Rs. 500/-; stopping of crediting the interest in the Inoperative Accounts with the balance of Rs. 50,000/- and above; while leaving the Inoperative Accounts with the balance between Rs. 500 and Rs. 50,000/- as it is, subject to further policy decision in this regard.

2. Participating in the discussion, Dr. G.S. Reddy wanted that credit of interest be stopped in all Inoperative Accounts, regardless of their balances so that the active accounts could earn higher rate of interest.

3. As regards freezing of Inoperative Accounts with certain balances, there was no unanimity among the members of the Committee. Shri B.N. Rai stressed that while the Committee may recommend stopping of crediting the interest in all Inoperative Accounts, the accounts which were to be frozen should be left for the decision of the CBT. Shri A.D. Nagpal also held the same view. However, they added that in genuine cases the interest should be credited when a member comes for final settlement. On this, the FA&CAO observed that in such case the database of all the members would have to be maintained and no Inoperative accounts could be frozen. This will not help reconciling the actual workload. The Chairman also agreed with this and stated that both the things cannot be carried together as it will create accounting problem.
4. The members representing employees further recommended that this issue be brought before next CBT and they would come up with some solution after having discussions amongst the Trade Unions.

5. In the light of the above discussion, the Committee recommended that the Inoperative Accounts should not be credited with interest from the next of the financial year in which they become inoperative. The Committee also recommended that considering the cost of maintenance of these Inoperative Accounts, the CBT may take a decision regarding ceasing of the Inoperative Accounts with small balances. The Committee also desired that some more analysis in this regard be carried out by the Officers of the EPFO before taking an Agenda item to the CBT.

Item 6: Performance of the Portfolio Managers of EPFO — Regarding.

The item contained the details about the performance of the Portfolio Managers at the end of each quarter during the period since September 2008 till June 2010, against the benchmark yields.

Some members enquired about the composition of the benchmark. It was explained that it assumes uniform cashflow and investment pattern throughout the year. It captures daily yields in different asset classes prescribed in the Statutory Investment Pattern. The variation in the performance of different Fund Managers against the benchmark levels revolves around the investment strategies adopted by them, in terms of timing of deployment in particular asset classes and quantum and yields captured by them. Since the prescribed Investment Pattern is required to be achieved by the end of a year, it provides the individual Fund Managers the flexibility to strategise their investments in different asset classes as per their expert view about the interest rate movements, liquidity adjustments, supply of Govt. securities and Corporate Bonds, etc.

The members desired that CRISIL may make a detailed presentation on the performance evaluation of the Fund Managers before the next CBT.

It was followed by the individual presentations by each of the Portfolio Managers viz, SBI, HSBC AMC, ICICI Prudential AMC & Reliance Capital AMC.

SBI was asked to explain the reasons for underperforming the benchmark in all the quarters in the FY 2009-10. SBI admitted that their investment view during the period went astray which adversely affected their performance. However, during the FY 2010-11 so far their investment strategy paid off well and they recovered their cumulative yield to beat the benchmark level.

All the Fund Managers suggested that the domain of EPF investments need to be broadened to maintain the present yield rates.

The meeting ended with vote of thanks to the Chair.
**Item No 2:** Statement on the actions taken on the recommendations of the 99th Finance & Investment Committee.

<table>
<thead>
<tr>
<th>Ref:</th>
<th>Subject</th>
<th>Decision</th>
<th>Action Taken</th>
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<tbody>
<tr>
<td>Item No. 3 of 99th FIC held on 28.07.2010</td>
<td>Appointment of a Consultant for the proposal to the CBT as Selection of Fund Managers and their Performance Evaluation- Regarding.</td>
<td>It was decided to recommend The Proposal</td>
<td>Item is placed before the present FIC for further discussion at SL No. 4.</td>
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<td></td>
<td></td>
<td>The CRAs registered with SEBI and having minimum ten years of experience of operation in India may be invited under the GFR provisions to assist EPFO in the selection of Fund Managers as well as their performance evaluation. The tenure of the Consultant for performance evaluation will be for three years subject to satisfaction of the quality of services rendered, drawn on periodical review. Further, a five member committee including one representative each from the Employees and the Employers side, would be constituted by the Board (CBT), for carrying out the exercise of selection of consultant.</td>
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</table>

| Item No. 4 of 99th FIC held on 28.07.2010 | Including Brickwork as an approved Credit Rating Agency Regarding. | The item was approved. | Item is placed before the present FIC for further discussion at SL No. 5. |
### Item No.5
#### of 99th FIC held on 28.07.2010
**Cleaning of Data - Inoperative Accounts - Regarding.**

The Committee also desired that some more analysis in this regard be carried out by the Officers of the EPFO before taking an Agenda item to the CBT.

**Item is placed before the present FIC for further discussion at SL No. 6.**

### Item No.6
#### of 99th FIC held on 28.07.2010
**Performance of the Portfolio Managers of EPFO - Regarding.**

The members desired that CRISIL may make a detailed presentation on the performance evaluation of the Fund Managers before the next CBT.

**The item shall be placed before the ensuing 190th meeting of CBT and CRISIL shall be called to make the presentation before the Board.**
Item: 3: Discussion on the letter of Ministry of Finance dated 5th July 2010 addressed to Ministry of Labour regarding adoption of the Pattern of Investment notified by the Ministry of Finance

Part A

A letter has been received from the Ministry of Finance (Placed as Annexure - I) addressed to the Secretary, Ministry of Labour, regarding adoption of the Investment Pattern dated 2008 notified by it. The points raised in the letter are as under:

1. As per Government of India (Allocation of Business) Rules 1961, the Ministry of Finance is to prescribe the Investment Pattern for Employees' Provident Fund and other like Provident Funds. It is thus imperative for the Ministry of Labour to adopt the Investment pattern notified by the Ministry of Finance.

2. After enactment of the Finance Act 2006, registration with EPFO and exemption (if so required) under the EPF & MP Act 1952 has become mandatory for all Excluded (Provident Funds which are excluded because of salaries of all of their employees being higher than Rs 6500/- per month) Recognised Provident Funds for the purpose of recognition under the Income Tax Act 1961. Thus such Excluded Exempt Recognised Provident Funds are obliged to follow the Investment pattern notified by the Ministry of Labour (by virtue of registration and/or exemption under the EPF & MP Act), whereas as per Rule 67(2) of the Income Tax Rules 1962 such Recognised Funds are required to follow the Investment pattern of Ministry of Finance.

Thus while majority of the recognized provident funds continue to follow the investment pattern of Ministry of Labour, few others are following the investment pattern notified by Ministry of Finance.
3. The Pension Fund Managers under the New Pension Scheme (NPS) could generate a weighted average return of 14.82% for the central government employees for the year 2008-09 while EPFO could give a return of 8.5% during 2008-09 & 2009-10.

EPFO’s Comments:

- The return generated under the New Pension Scheme is based on Net Asset Value (NAV) while the returns declared by EPFO are based on actual coupon received on its Investments.
- The income earned on EPF investments are actually realised while the returns declared in the NPS are notional and their realisation is subject to market conditions.
- EPF income does not include the appreciation in the value of its investments whereas the NAV under NPS includes both the components i.e. revenue and capital appreciation.
- The NAV approach is subject to market volatility thereby increasing the risk to subscribers’ capital. Large quantum redemptions make it highly improbable to realise at the declared NAVs.
- There is no risk of capital erosion in the case of EPF investments.

Part B: Background

1. The funds vested in the CBT EPF are invested as per the provisions contained in the EPF Scheme (Para 52) framed under the EPF & MP Act 1952, which states that the funds shall be invested subject to such directions as the Central Government may give from time to time. Accordingly, the funds are invested as per the Pattern of Investment notified by the Ministry of Labour & Employment from time to time. Such pattern as notified by the Ministry of Labour is applicable to the Employees’ Provident Funds under the EPF & MP Act 1952 including both the unexempted and the exempted funds.

2. In the light of the changing economic scenario, if need be, the MoL (on the basis of the views of CBT EPF) makes recommendation to the MoF to bring about certain
modifications in the existing pattern to either include any other investment avenue or remove/amend any existing provisions. The MoF while issuing the new pattern of investment, which is to be followed by Non-Government Provident Funds, Superannuation Funds and Gratuity Funds, may or may not or may be partially, consider the recommendations made by the MoL.

3. The revised Pattern of Investment notified by the MoF is discussed in the CST EPF and is recommended to the adopted or otherwise, by the MoL. Once it is so adopted by the MoL (by way of a separate notification prescribing the Pattern of Investment), it becomes applicable to the EPF monies under the EPF & MP Act 1952 (including exempted Funds). Till such time that the new pattern is adopted by the MoL, the old pattern continues to apply under the Act.

4. Presently, the pattern being followed by the CST EPF is dated 9th July 2003. Subsequent to this, two notifications prescribing changes in the extant pattern have been issued by the MoF on dates 24.01.2005 & 14.08.2008 respectively. The MoL decided against adoption of the notification dated 24.01.2005 (on the basis of the views of CBT). As regards the notification dated 14.08.2008, the same has been under consideration of the CBT.

5. The agenda item placed before the CBT in its previous meetings regarding the New Pattern containing the comparative view of the extant pattern and the one proposed vide the said notification along with the remarks and the observations of the Office are attached herewith.

6. The agenda was placed in several meetings of the Finance & Investment Committee and the CBT. The relevant abstracts from the minutes of the said meetings are also placed as annexure to the above mentioned item.

The item was placed before 68th Executive Committee meeting held on 06.08.2010 and Executive committee has recommended to place it before Finance & Investment Committee.

The item is placed for consideration of Finance & Investment Committee.
The Ministry of Finance has prescribed a new Investment Pattern for Non-Government Provident Funds, Superannuation Funds and Gratuity Funds vide notification no. 288 dated 14/08/2008 (Placed as Annexure-I). There are significant differences between the newly notified pattern and the existing pattern (notified in 2003) and the same are presented below:

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Investment Category as per the existing pattern (dated 9.7.2003)</th>
<th>% amount to be invested</th>
<th>Investment Category as per the new pattern (dated 14.8.2008)</th>
<th>% amount to be invested</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>Central Government Securities as defined in Sec. 2 of the Public Debt Act, 1944 (18 of 1944); and/or units of such Mutual Funds which have been set up as dedicated Funds for investment in Government securities and which have been approved by the Securities and Exchange Board of India;</td>
<td>25%</td>
<td>(i)</td>
<td>(a) Government securities.</td>
<td>Upto 55%</td>
</tr>
<tr>
<td>(ii)</td>
<td>(a) Government Securities as defined in Sec. 2 of the Public Debt Act, 1944 (18 of 1944); created and issued by any State Government; and/or units of such Mutual Funds which have been set up as</td>
<td>15%</td>
<td></td>
<td>(b) Other securities the principal whereof and interest whereon is fully and unconditionally guaranteed by the Central Government or any State Government except those covered under (ii) (a) below.</td>
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<td>(c) units of mutual funds set up as dedicated funds for investment in Government securities and regulated by the Securities and Exchange Board of India; Provided that the exposure to a mutual fund shall not be more than 5% of the total portfolio at any point of time.</td>
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<tr>
<td>Dedication</td>
<td>Investment Options</td>
<td>Upto</td>
<td>Notes</td>
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<tr>
<td>(a)</td>
<td>Debt securities with maturity of not less than three years tenure issued by Bodies Corporate including banks and public financial institutions; Provided that at least 75% of the investment in this category is made in instruments having an investment grade rating from at least one credit rating agency.</td>
<td>40%</td>
<td>TDR investments of more than three-year duration have been allowed, which is as per earlier recommendation of CBT also.</td>
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<td>(b)</td>
<td>Term Deposit Receipts of not less than one year duration issued by scheduled commercial banks. Provided that the scheduled commercial banks must meet conditions of (i) continuous profitability for immediately preceding three years; (ii) maintaining a minimum Capital to Risk Weighted</td>
<td>30%</td>
<td>The investment category has been broadened to include Scheduled Commercial Banks rather than just public sector banks.</td>
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<td>Bonds/ Securities of 'Public Financial Institutions' as specified under Section 4(1) of the Companies Act; “public sector companies” as defined in Section 2(36-A) of the Income Tax Act, 1961 including public sector banks; and/or ( \text{Short duration (less than a year) Term Deposit Receipts (TDR) issued by public sector banks} )</td>
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</table>
Assets Ratio of 9%;  
(iii) having net non-performing assets of not more than 2% of the net advances;  
(iv) having a minimum net worth of not less than Rs. 200 crores.  
(c) Rupee Bonds having an outstanding maturity of at least 3 years issued by institutions of the International Bank for Reconstruction and Development, International Finance Corporation and the Asian Development Bank.  

3 (iii)  
Money market instruments including units of money market mutual funds.  

Upto 5%  
New category has been introduced. CBLO and Liquid Mutual Funds that were earlier recommended by the CBT would form a part here.  

4 (iv)  
To be invested in any of the above three categories as decided by their Trustees.  

30%  
This flexibility has been taken away in the new pattern and has been tried to be inbuilt in the category-wise maximum investment limit.  

5  
The Trusts, subject to their assessment of the risk – return prospects, may invest up to 1/3rd of (iv) above, in private sector bonds/securities, which have an investment grade rating from at least two credit rating agencies.  

Does not figure specifically in the new pattern any more as already covered in (ii) of the new pattern above.
Analyzing the New Pattern, following observations are made:

1. For any trust, which opts against investing in equities like in case of CBT, EPF, the category-wise investment limits would become highly inflexible. In fact, it would result in category-wise requirements at exactly 55%, 40% and 5% in the first three categories rendering the 'upto' prefix in each of them totally insignificant. It would be highly improbable to achieve the pattern at the year end in such a scenario.

2. If equity investments are opted against, then the investment category of PSUs/PSFI/Pvt Sector has been drastically reduced from maximum of 60% in the present pattern to maximum of 40% only. This may result in significant reduction in the earnings of the trust given to the fact that this category provides the maximum flexibility and returns. The government securities, on the other hand, have been given inordinately higher weightage of maximum 55%.

3. The new pattern mentions in the footnote, 'Turnover Ratio (the value of securities traded in the year /average value of the portfolio at the beginning of the year and the end of the year) should not exceed 2', alluding to the fact that trading would be allowed, but the same has not been mentioned in the main body making it difficult to decide that what category of instruments would be allowed to be traded or
whether it would be applicable for all the categories. The trading, however, has been made optional as has been recommended by the CBT in its 180th meeting.

4. Even as investments in TDRs having tenure of more than one year have been permitted, the investments in short term TDRs (of maturity less than one year) allowed hitherto in the present investment pattern do not find a mention in the new pattern. Short term TDRs have proved to be a very significant investment option and relying solely on money market instruments may not be advisable for short term parking of funds. Short term FDs like 180 days FDs or 364 FDs would also be excluded if Short Term TDRs are totally done away with. It is recommended that short term TDRs in Public Sector Banks should be allowed as per the provision in the existing investment pattern.

5. The pattern allows for investments in various mutual fund schemes, viz., Gilt Funds, Money Market Mutual Funds and Equity Linked Saving Schemes. If mutual fund investments are resorted to, the option of exit must be allowed as investments in mutual funds are purchased and redeemed in 'units' traded at 'Net Asset Value'.

6. If CBT opts against investing in equities or equity linked saving schemes as per its previous decision, it is recommended that the limit of investments in the rest of three categories may be fixed as:

- Government Securities, Government Guaranteed Securities, Gilt Funds (i.e. Category (i)) : Upto 55%
- Debt Instruments, TDRs (Category (ii)) : Upto 55%
- Money Market Instruments : Upto 10%

This will allow flexibility in making investment decisions for benefit of the funds and subscribers.

7. The new pattern says that the investment pattern may be achieved by the end of the financial year. It further says that it is expected that throughout the year the investments are in conformity with the above pattern; however, at no time investments in any category should exceed by more than 10% of the limit prescribed.
This is a welcome prescription and would greatly help in achievement of pattern at the year end.

The pattern was discussed in the 94th meeting of the Finance and Investment Committee, held on 26/03/2009, wherein it was decided that the issue warranted a wider discussion in the CBT. It was instructed to record the views of the members and place them before the Board (Minutes of the meeting enclosed-Annexure -II).

The item was presented for discussion in the CBT in its 187th meeting held on 04/07/2009. However, after some discussion the item was referred back to FIC for further deliberations (Minutes enclosed-Annexure-III).

A presentation was made by the FA and CAO before the Finance and Investment Committee in its 95th meeting held on 18/08/2009. The members said that looking at the significance of the item; they needed more time to delve on the matter. It was decided to take up the item again in the next meeting of the FIC (Minutes enclosed-Annexure-IV).

The item then came up for discussion in the 96th meeting of the Finance and Investment Committee held on 08/10/2009. It was decided to have a separate meeting between the employees' and the employers' representatives and then further discuss the issue in the next meeting of the Finance and Investment Committee.

The item was placed before 97th FIC held on 01.12.2009 and as decided in the 96th Finance & Investment Committee meeting held on 08.10.2009, the Employees' Representatives and the Employers' Representative had mutual discussions amongst them before commencement of the meeting. After thorough discussion it was concluded that the agenda be taken up in the ensuing CBT meeting with the comments that while the Employees representatives are not in agreement with the proposed 2008 pattern of investment notified by the Ministry of Finances, Govt. Of India, the Employers representatives differed on the proposed quantum of percentage of investment in the said 2008 pattern.
The item was placed in 188th CBT in which it was deferred due to paucity of time. It was then placed in 189th meeting of CBT for consideration and decision thereon but the item was deferred with the observation that since Ministry of Finance is considering notification of new pattern of investment which would come out any time next year, it would be appropriate to defer the matter.
Item: Discussion on the letter of Ministry of Finance dated 5th July 2010 addressed to Ministry of Labour regarding adoption of the Pattern of Investment notified by the Ministry of Finance

Part A

A letter has been received from the Ministry of Finance (Placed as Annexure - I) addressed to the Secretary, Ministry of Labour, regarding adoption of the Investment Pattern dated 2008 notified by it. The points raised in the letter are as under:

1. As per Government of India (Allocation of Business) Rules 1961, the Ministry of Finance is to prescribe the Investment Pattern for Employees’ Provident Fund and other like Provident Funds. It is thus imperative for the Ministry of Labour to adopt the Investment pattern notified by the Ministry of Finance.

2. After enactment of the Finance Act 2006, registration with EPFO and exemption (if so required) under the EPF & MP Act 1952 has become mandatory for all Excluded (Provident Funds which are excluded because of salaries of all of their employees being higher than Rs 6500/- per month) Recognised Provident Funds for the purpose of recognition under the Income Tax Act 1961. Thus such Excluded Exempt Recognized Provident Funds are obliged to follow the Investment pattern notified by the Ministry of Labour (by virtue of registration and/or exemption under the EPF & MP Act), whereas as per Rule 67(2) of the Income Tax Rules 1962 such Recognised Funds are required to follow the Investment pattern of Ministry of Finance. Thus while majority of the recognized provident funds continue to follow the investment pattern of Ministry of Labour, few others are following the investment pattern notified by Ministry of Finance.
Part B: Background

1. The funds vested in the CBT EPF are invested as per the provisions contained in the EPF Scheme (Para 52) framed under the EPF & MP Act 1952, which states that the funds shall be invested subject to such directions as the Central Government may give from time to time. Accordingly, the funds are invested as per the Pattern of Investment notified by the Ministry of Labour & Employment from time to time. Such pattern as notified by the Ministry of Labour is applicable to the Employees' Provident Funds under the EPF & MP Act 1952 including both the unexempted and the exempted Funds.
2. In the light of the changing economic scenario, if need be, the MoL (on the basis of the views of CBT EPF) makes recommendation to the MoF to bring about certain modifications in the existing pattern to either include any other investment avenue or remove/amend any existing provisions. The MoF while issuing the new pattern of investment, which is to be followed by Non-Government Provident Funds, Superannuation Funds and Gratuity Funds, may or may not or may be partially consider the recommendations made by the MoL.

3. The revised Pattern of Investment notified by the MoF is discussed in the CBT EPF and is recommended to the adopted or otherwise, by the MoL. Once it is so adopted by the MoL (by way of a separate notification prescribing the Pattern of Investment), it becomes applicable to the EPF monies under the EPF & MP Act 1952 (including exempted Funds). Till such time that the new pattern is adopted by the MoL, the old pattern continues to apply under the Act.

4. Presently, the pattern being followed by the CBT EPF is dated 9th July 2003. Subsequent to this, two notifications prescribing changes in the extant pattern have been issued by the MoF on dates 24.01.2005 & 14.08.2008 respectively. The MoL decided against adoption of the notification dated 24.01.2005 (on the basis of the views of CBT). As regards the notification dated 14.08.2008, the same has been under consideration of the CBT.

5. The agenda item placed before the CBT in its previous meetings regarding the New Pattern containing the comparative view of the extant pattern and the one proposed vide the said notification along with the remarks and the observations of the Office are attached herewith.

6. The agenda was placed in several meetings of the Finance & Investment Committee and the CBT. The relevant abstracts from the minutes of the said meetings are also placed as annexure to the above mentioned item.

The item is placed for consideration of Executive Committee.
Yours faithfully.

(S.D. Xavier)

Under Secretary
Ministry of Labour & Employment

Shram Shakti Bhawan, New Delhi
Dated the 23 July, 2010.

To

The Central Provident Fund Commissioner,
Employees Provident Fund Organisation,
14, Bhavisha, Nidhi Bhawan,
Bhikaji Cama Place,
New Delhi.

Subject: Regarding adoption of investment pattern notified by the Ministry of Finance

Sir,

The undersigned is directed to forward herewith a copy of d.o. letter No.7/3/2007 PR(Pt.) dated 5-7-2010 received from Ministry of Finance regarding adoption of investment pattern notified by the Ministry of Finance for Employees Provident Fund (EPF) and other Non-Government Provident Funds, etc. In the letter, it has been stated that since as per the Government of India (Allocations of Business) Rules, 1961, the Ministry of Finance will prescribe the Investment Pattern for Employees’ Provident Fund and other like Provident Funds, it is imperative for the Ministry of Labour to adopt the investment pattern notified by the Ministry of Finance.

Further it is also stated that Ministry of Labour is putting a condition in the exemption orders that the ‘Exempt Funds’ under the Employees Provident Fund and Miscellaneous Provisions Act, 1952 should follow the investment pattern of the Ministry of Labour. Since ‘Exempt Funds’ are recognised provident funds under the Income Act, 1961 and as per Rule 67(2) of the Income Tax Rules, 1962, these funds are required to follow the investment pattern of the Ministry of Finance. In view of it has been requested to adopt the investment pattern of the Ministry of Finance not only for the EPF, but also for the ‘Exempt Funds’.

3. EPFO is requested to furnish comments in this regard to this Ministry immediately.

Yours faithfully,

(S.D. Xavier)

Under Secretary
Ministry of Labour
July 5, 2010

Dear Shri Chaudhary,

This is regarding adoption of investment pattern notified by the Ministry of Finance for Employees' Provident Fund (EPF) and other Non-Government Provident Funds, etc. The Ministry of Labour used to adopt the investment pattern notified by the Ministry of Finance for many years. However, the Ministry of Labour has not adopted the investment pattern notified by the Ministry of Finance in January, 2005 and November, 2008 and the Investment Pattern of the Ministry of Labour continues to be the same, which was earlier notified in July, 2003. It may be mentioned that the Government of India (Allocation of Business) Rules, 1961 mandate that the Ministry of Finance will prescribe the Investment Pattern for Employees’ Provident Fund and other like Provident Funds. It is, therefore, imperative for the Ministry of Labour to adopt the investment of the Ministry of Finance in consonance with the said Rules.

2. This is also important that the welfare of the employees of the organized sector are given a better option which is provided by the new investment pattern notified by the Ministry of Finance in August, 2008.

3. In fact, the investment pattern notified by the Department of Economic Affairs, Ministry of Finance is also adopted and notified by the Department of Revenue, Ministry of Finance under the Income Tax Rules, 1962 which allows income tax benefits (EEE) to the Recognised Provident Funds under the Income Tax Act, 1961. After the enactment of Finance Act, 2006, registration with EPFO and exemption (if so desired by the fund) under the Employees’ Provident Fund and Miscellaneous Provisions Act, 1952 (EPF & MP Act) has become mandatory for all ‘Excluded’ Recognised Provident Funds (Provident Funds which were excluded because of salary of the employees being higher than Rs.6500 per month) under the Income Tax Act, 1961. Earlier such ‘Excluded Funds’ were following the investment pattern of the Ministry of Finance. However, it is learnt that Post-2006, Ministry of Labour is putting a condition in the exemption orders that the ‘Exempt Funds’ under the Employees’ Provident Fund and Miscellaneous Provisions Act, 1952 should follow.
the investment pattern of the Ministry of Labour. Thus, even when
the Ministry of Labour continues to decide on a de facto basis the
investment pattern for majority of Recognised Provident Funds, the
de jure responsibility of providing this guidance to the Employees’
Provident Funds, and other like Provident Funds is with the Ministry
of Finance. In any case, ‘Exempt Funds’ are also recognized
provident funds under the Income Act, 1961 and as per Rule 67 (2)
of the Income Tax Rules, 1962, these funds are required to follow
the investment pattern of the Ministry of Finance.

4. It may be mentioned that the Ministry of Labour introduced
drastic changes in the benefit structure of the Employees’ Pension
Scheme, 1995 in 2008 without any discussion in the CBT, EPF, ‘as
that was necessary to ensure the financial viability of the scheme.
It can take a similar view on the issue of investment pattern.

5. It may be important to mention that although we do not have
a long-term evidence of the comparative performance of funds using
the investment pattern of Ministry of Finance vis-à-vis Ministry of
Labour, yet using the investment pattern of Ministry of Finance, the
pension fund managers could generate a weighted average
investment return of 14.82% for the Central Government employees
under the new Pension System for 2008-09. On the other hand,
employees of the EPF were given a return of 8.5% for 2008-09 and
2009-10, the rate which has remained constant for last so many
years. It may be explained that the investment in stock market is
optional and not obligatory under the investment pattern of the
Ministry of Finance. Further, in the interest of employees’ welfare, a
small beginning could be made by investing a small part of the
incremental accretions in stock markets based on the risk-return
appetite of the trustees. There has been empirical evidence of
existence of equity premium in India. However, the problem of
volatility in asset returns on equity could be addressed by a lifecycle
type investment approach.

6. In view of the above, I urge the Ministry of Labour to take
action to adopt the investment pattern of the Ministry of Finance
urgently, not only for the EPF, but also for the ‘Exempt Funds’.

Yours sincerely,

(Ashok Chawla)

Shri P.C. Chaturvedi
Secretary (Labour)
Ministry of Labour and Employment
Shram Shakti Bhawan
New Delhi -110001
The Ministry of Finance has prescribed a new Investment Pattern for Non-Government Provident Funds, Superannuation Funds and Gratuity Funds vide notification no. 288 dated 14/08/2008 (Placed as Annexure-I). There are significant differences between the newly notified pattern and the existing pattern (notified in 2003) and the same are presented below:

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Investment Category as per the existing pattern (dated 9.7.2003)</th>
<th>% amount to be invested</th>
<th>Investment Category as per the new pattern (dated 14.8.2008)</th>
<th>% amount to be invested</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>Central Government Securities as defined in Sec. 2 of the Public Debt Act, 1944 (18 of 1944); and/or units of such Mutual Funds which have been set up as dedicated Funds for investment in Government securities and which have been approved by the Securities and Exchange Board of India;</td>
<td>25%</td>
<td>(i) (a) Government securities. (b) Other securities the principal whereof and interest wherein is fully and unconditionally guaranteed by the Central Government or any State Government except those covered under (ii) (a) below. (c) units of mutual funds set up as dedicated funds for investment in Government securities and which are regulated by the Securities and Exchange Board of India; Provided that the exposure to a mutual fund shall not be more than 5% of the total portfolio at any point of time.</td>
<td>Upto 55%</td>
<td>Central, State Government and Government Guaranteed categories have been merged in a single category.</td>
</tr>
<tr>
<td>(ii)</td>
<td>Government Securities as defined in Sec. 2 of the Public Debt Act, 1944 (18 of 1944); created and issued by any State Government; and/or units of such Mutual Funds which have been set up as dedicated Funds for investment in Government securities and which</td>
<td>15%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
have been approved by the Securities and Exchange Board of India; and/or

(b) Any other negotiable securities the principal whereof and interest whereon is fully and unconditionally guaranteed by the Central Government or any State Government except those covered under (iii) (a) below

<p>| (2) iii (a) Bonds/ Securities of ‘Public Financial Institutions’ as specified under Section 4(1) of the Companies Act; “public sector companies” as defined in Section 2(36-A) of the Income Tax Act, 1961 including public sector banks; and/or Short duration (less than a year) Term Deposit Receipts (TDR) issued by public sector banks | 30% | (ii) (a) Debt securities with maturity of not less than three years tenure issued by Bodies Corporate including banks and public financial institutions; Provided that at least 75% of the investment in this category is made in instruments having an investment grade rating from at least one credit rating agency. (b) Term Deposit Receipts of not less than one year duration issued by scheduled commercial banks. Provided that the scheduled commercial banks must meet conditions of (i) continuous profitability for immediately preceding three years; (ii) maintaining a minimum Capital to Risk Weighted TDR investments of more than three-year duration have been allowed, which is as per earlier recommendation of CBT also. The investment category has been broadened to include Scheduled Commercial Banks rather than just public sector banks. | Upto 40% |</p>
<table>
<thead>
<tr>
<th>3</th>
<th>(iii) Money market instruments including units of money market mutual funds.</th>
<th>Upto 5%</th>
<th>New category has been introduced. CBLO and Liquid Mutual Funds that were earlier recommended by the CBT would form a part here.</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>(iv) To be invested in any of the above three categories as decided by their Trustees.</td>
<td>30%</td>
<td>This flexibility has been taken away in the new pattern and has been tried to be inbuilt in the category-wise maximum investment limit.</td>
</tr>
<tr>
<td>5</td>
<td>The Trusts, subject to their assessment of the risk – return prospects, may invest up to 1/3rd of (iv) above, in private sector bonds/securities, which have an investment grade rating from at least two credit rating agencies.</td>
<td></td>
<td>Does not figure specifically in the new pattern any more as already covered in (ii) of the new pattern above.</td>
</tr>
</tbody>
</table>
Analyzing the New Pattern, following observations are made:

1. For any trust, which opts against investing in equities like in case of CBT, EPF, the category-wise investment limits would become highly inflexible. In fact, it would result in category-wise requirements at **exactly** 55%, 40% and 5% in the first three categories rendering the 'upto' prefix in each of them totally insignificant. It would be highly improbable to achieve the pattern at the year end in such a scenario.

2. If equity investments are opted against, then the investment category of PSUs/PSFI/Pvt Sector has been **drastically** reduced from maximum of 60% in the present pattern to maximum of 40% only. This may result in significant reduction in the earnings of the trust given to the fact that this category provides the maximum flexibility and returns. The government securities, on the other hand, have been given inordinately higher weightage of maximum 55%.

3. The new pattern mentions in the footnote, 'Turnover Ratio (the value of securities traded in the year /average value of the portfolio at the beginning of the year and the end of the year) should not exceed 2', alluding to the fact that trading would be allowed, but the same has not been mentioned in the main body making it difficult to decide that what category of instruments would be allowed to be traded or
whether it would be applicable for all the categories. The trading, however, has been made optional as has been recommended by the CBT in its 180th meeting.

4. Even as investments in TDRs having tenure of more than one year have been permitted, the investments in short term TDRs (of maturity less than one year) allowed hitherto in the present investment pattern do not find a mention in the new pattern. Short term TDRs have proved to be a very significant investment option and relying solely on money market instruments may not be advisable for short term parking of funds. Short term FDs like 180 days FDs or 364 FDs would also be excluded if Short Term TDRs are totally done away with. It is recommended that short term TDRs in Public Sector Banks should be allowed as per the provision in the existing investment pattern.

5. The pattern allows for investments in various mutual fund schemes, viz., Gilt Funds, Money Market Mutual Funds and Equity linked Saving Schemes. If mutual fund investments are resorted to, the option of exit must be allowed as investments in mutual funds are purchased and redeemed in ‘units’ traded at ‘Net Asset Value’.

6. If CBT opts against investing in equities or equity linked saving schemes as per its previous decision, it is recommended that the limit of investments in the rest of three categories may be fixed as:
   - Government Securities, Government Guaranteed Securities, Gilt Funds (i.e. Category (i)) : Upto 55%
   - Debt Instruments, TDRs (Category (ii)) : Upto 55%
   - Money Market Instruments : Upto 10%

This will allow flexibility in making investment decisions for benefit of the funds and subscribers.

7. The new pattern says that the investment pattern may be achieved by the end of the financial year. It further says that it is expected that throughout the year the investments are in conformity with the above pattern; however, at no time investments in any category should exceed by more than 10% of the limit prescribed.
This is a welcome prescription and would greatly help in achievement of pattern at the year end.

The pattern was discussed in the 94th meeting of the Finance and Investment Committee, held on 26/03/2009, wherein it was decided that the issue warranted a wider discussion in the CBT. It was instructed to record the views of the members and place them before the Board (Minutes of the meeting enclosed—Annexure—II).

The item was presented for discussion in the CBT in its 187th meeting held on 04/07/2009. However, after some discussion, the item was referred back to FIC for further deliberation (Minutes enclosed—Annexure—III).

A presentation was made by the FA and CAO before the Finance and Investment Committee in its 95th meeting held on 18/08/2009. The members said that looking at the significance of the item, they needed more time to delve on the matter. It was decided to take up the item again in the next meeting of the FIC (Minutes enclosed—Annexure—IV).

The item then came up for discussion in the 96th meeting of the Finance and Investment Committee held on 08/10/2009. It was decided to have a separate meeting between the employees' and the employers' representatives and then further discuss the issue in the next meeting of the Finance and Investment Committee.

The item was placed before 97th FIC held on 01.12.2009 and as decided in the 96th Finance & Investment Committee meeting held on 08.10.2009, the Employees' Representatives and the Employers' Representative had mutual discussions amongst them before commencement of the meeting. After thorough discussion, it was concluded that the agenda be taken up in the ensuing CBT meeting with the comments that while the Employees representatives are not in agreement with the proposed 2008 pattern of investment notified by the Ministry of Finances, Govt. Of India, the Employers representatives differed on the proposed quantum of percentage of investment in the said 2008 pattern.
The item was placed in 188th CBT in which it was deferred due to paucity of time. It was then placed in 189th meeting of CBT for consideration and decision thereon but the item was deferred with the observation that since Ministry of Finance is considering notification of new pattern of investment which would come out any time next year, it would be appropriate to defer the matter.
यह नियम, बुधवार, अगस्त 14, 2008/सप्ताह 23, 1930

नविन पत्रिका, 14 अगस्त, 2008

फर. सं. 5(55)/2006-पीएम,—इस परिषद की अभियुक्त सं. 5(53)/2002-ईशेंद्र एवं पीयुर निपांक 24 जनवरी, 2005 में 

<table>
<thead>
<tr>
<th>विवेचनात्मक (अधिक वर्तमान विषय)</th>
<th>अभियुक्त नविन पत्रिका</th>
</tr>
</thead>
<tbody>
<tr>
<td>नविन पत्रिका, 14 अगस्त, 2008</td>
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</tr>
</tbody>
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नविन पत्रिका की पहली वांछित वातावरण

<table>
<thead>
<tr>
<th>विवेचनात्मक (अधिक वर्तमान विषय)</th>
<th>नविन पत्रिका की जाने वाली प्रतिष्ठा वातावरण</th>
</tr>
</thead>
<tbody>
<tr>
<td>अधिक वर्तमान विषय</td>
<td>50% तक</td>
</tr>
</tbody>
</table>

वर्तमान कार्य-संस्थाओं में नविन पत्रिका के लिए नियम नहीं हैं।

<table>
<thead>
<tr>
<th>विवेचनात्मक (अधिक वर्तमान विषय)</th>
<th>नविन पत्रिका की जाने वाली प्रतिष्ठा वातावरण</th>
</tr>
</thead>
<tbody>
<tr>
<td>अधिक वर्तमान विषय</td>
<td>40% तक</td>
</tr>
</tbody>
</table>

वर्तमान कार्य-संस्थाओं में नविन पत्रिका के लिए नियम नहीं हैं।

3054 जून 2008
INVESTMENT PATTERN

<table>
<thead>
<tr>
<th>(a) Government securities.</th>
<th>Percentage amount to be invested ( \leq 55 )</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b) Other securities(^3)</td>
<td></td>
</tr>
</tbody>
</table>

\(^2\) \(\text{Ministry of Finance (Department of Economic Affairs) NOTIFICATION New Delhi, the 14th August, 2008}"

\(^3\) \(\text{NEW DELHI, 14TH AUGUST, 2008. IN PARTIAL MODIFICATION OF THIS MINISTRY'S NOTIFICATION NO. 5(33)2002-ECB & PR DATED 24TH JANUARY, 2005, THE PATTERN OF INVESTMENT TO BE FOLLOWED BY NON-GOVERNMENT PROVIDENT FUNDS, SUPERANNUATION FUNDS AND GRATUITY FUNDS SHALL BE AS FOLLOWS, EFFECTIVE FROM 1ST APRIL, 2009 -}"

\(^2\) \(\text{The Gazette of India : Extraordinary}"

\(^3\) \(\text{The principal whereof and interest whereon is fully and unconditionally guaranteed by the Central Government or any State Government except those covered under (ii) below.}"

(c) units of mutual funds set up as dedicated funds for investment in Government securities and regulated by the Securities and Exchange Board of India;

Provided that the exposure to a mutual fund shall not be more than 5% of the total portfolio at any point of time.

| (a) Debt securities with maturity of not less than three years tenure issued by Bodies Corporate including banks and public financial institutions; | upto 40 |
| Provided that at least 75% of the investment in this category is made in instruments having an investment grade rating from at least one credit rating agency. |
| (b) Term Deposit Receipts of not less than one year duration issued by scheduled commercial banks. |
| Provided that the scheduled commercial banks must meet conditions of |
| (i) continuous profitability for immediately preceding three years; |
| (ii) maintaining a minimum Capital to Risk Weighted Assets Ratio of 9%; |
| (iii) having net non-performing assets of not more than 2% of the net advances; |
| (iv) having a minimum net worth of not less than Rs. 200 crores. |
| (c) Rupee Bonds having an outstanding maturity of at least 3 years issued by institutions of the International Bank for Reconstruction and Development, International Finance Corporation and the Asian Development Bank. |

| (ii) Money market instruments including units of money market mutual funds. | upto 5 |
| (iv) Shares of companies on which derivatives are available in Bombay Stock Exchange or National Stock Exchange or equity linked schemes of mutual funds regulated by the Securities and Exchange Board of India. | upto 15 |

2. Any moneys received on the maturity of earlier investments reduced by obligatory outgoing shall be invested in accordance with this investment pattern.

3. Turnover Ratio (the value of securities traded in the year/average value of the portfolio at the beginning of the year and the end of the year) should not exceed 2.

4. If any of the instruments mentioned above are rated and their rating falls below investment grade as confirmed by one credit rating agency then the option of exit can be exercised.

5. The investment pattern may be achieved by the end of the financial year. It is expected that throughout the year the investments are in conformity with the above pattern; however, at no time investments in any category should exceed by more than 10% of the limit prescribed.

6. It may be noted, however, that the investment of the Funds of a Trust is the fiduciary responsibility of the Trustees and needs to be exercised with appropriate due diligence. Therefore, as such, the trustees are solely responsible for the investment decisions taken in accordance with the pattern of investment specified above.

Dr. K. P. KRISHNAN, Jt. Secy.
Instruments issued by Public Sector Entities. The suggestion was supported by all the members.

It was decided to recommend to the Central Board of Trustees to change the existing investment guidelines for allowing investments in Public Sector Undertakings and Public Sector Financial Institutions up to 40% of their Net worth and in Public Sector Banks up to 45% of their Net worth. The increase in the exposure limit should be restricted only to AAA rated instruments issued by Public Sector Entities. For the rest, the existing exposure limits would apply.

**Item No. 7: Pattern of Investment Notified by the Ministry of Finance on 14.8.2008**

After the item was introduced, a presentation was made by Sh. Brijesh Mishra, APFC (IMC) on the New Investment Pattern notified by the Ministry of Finance. Starting the discussion, Shri A D Nagpal said that the pattern was issued in August 2008 and since then the financial markets have turned on their head. The Finance Ministry should be asked whether they still wanted to have 15% exposure in the equities. He further raised his concern on the fact that the recommendations made by the CBT on the draft investment pattern were not considered by the Finance Ministry. He proposed the following limits for different categories so as to offer flexibility and maximise the returns for the subscribers:

- Government Securities, Government Guaranteed Securities, Gift Funds (i.e. Category (i)): Upto 45%
- Debt Instruments, TDRs (Category (ii)): Upto 65%
- Money Market Instruments: Upto 10%

He further said that investments in NSC/ POTDRs should also be allowed on which Director (SS) clarified that the issue had already been taken up by the
Ministry, but it was replied that the said instruments were open for individual investors and not institutional investors.

Shri Nagpal further said that the category wise ceiling should be made indicative only and not mandatory as recommended by the CBT earlier. He further said that the TDRs of only Public Sector Banks should be considered and not of all the Scheduled Commercial Banks as proposed in the Investment Pattern.

Shri B N Rai also said that the Ministry of Finance should be approached to confirm as to whether they still favoured investments in equities. He said that the pattern in the present form could not be accepted.

The FA and CAO suggested that pending the approval/notification of the new pattern issued by the Ministry of Finance, the one notified in 2005 and approved by the CBT with a few modifications be notified by the Ministry. Director (SS) said that as a New Pattern has already been notified; let it be discussed by the CBT. In case the new pattern is not accepted, the pattern of 2005 could be notified. The Chairperson supported his views.

It was decided that the issue warranted a wider discussion in the CBT. The views of the members of the FIC would be recorded and placed before the CBT.

Item No. 8: Extension of tenure of Portfolio Auditor to conduct audit for the year 2007-08.

FA & CAO while introducing the agenda item stated that the present auditors of the investment portfolio of CBT, EPF, M/s Chhajed & Doshi have since completed their audit for the year 2006-07 and have presented the draft report and are due to submit their final report after soliciting the comments of M/s SBI in this regard. In view of the fact that since the firm has already completed their
The representatives of the Trade unions observed that if the rate at 8.5% was declared, the same should be done while recording their dissent only.

The item to recommend 8.5% interest rate to EPF subscribers for the financial year 2009-10 was accordingly passed by the Central Board of Trustees.

Item No. 3: Supplementary Budget for the financial year 2009-2010 towards the expenditure for providing Modular Furniture in respect of the Regional and Sub-Regional Offices functioning in Own Building of the Organisation.

The proposal contained in the memorandum was approved by the Board.

Item No. 4: Pattern of Investment Notified by the Ministry of Finance on 14.08.2008.

The CPFC introduced the item and informed the Board that EPFO was presently following the investment pattern notified in 2003, while the Ministry of Finance has subsequently notified two more patterns in 2005 and 2008. He informed the members that a comparative study of the existing pattern and the pattern notified in 2008 was given in the agenda item. He also explained the Board about the salient features of the two patterns.

Secretary (L & E) said that the representative from the Finance Ministry, Dr K. P. Krishnan (Joint Secretary), was also present and requested him to listen carefully to the concerns of the Board Members regarding the newly notified investment pattern.

When Dr. K.P. Krishnan enquired about the concerns, Additional Secretary (L & E) explained that the major problem lay in shrinking the total allocation to the PSU/PSFI
category from 60% maximum in the 2003 pattern to a maximum of just 40% in the new pattern, especially when this category was according the maximum returns to EPFO. The Additional Secretary (L&E) further said that EPFO would be forced to go to the low yielding Government Securities, where the categorical allocation has been raised to 55%.

Shri W.R. Varada Rajan said that as EPFO had decided against investing in equities, taking away 15% allocation to equities as provided in the new pattern would remove any flexibility in the investment pattern.

The Chairman remarked that investment pattern to be followed by the EPFO should ensure the twin objectives of safety and returns.

FA &CAO said that the draft pattern issued by the Ministry of Finance before the newly notified pattern was discussed by the CBT and the recommendations were forwarded to the Finance Ministry, but the same were by and large ignored while finalising the Pattern. He informed the Board that an anomalous situation has arisen where some trusts following the CBDT directives have adopted the 2008 pattern, while the exempted trusts under the purview of EPFO are still following 2003 pattern. He further said that it may not be prudent to accept the proposals of the Ministry of Finance in a piecemeal basis, rather the same should be accepted as a complete package. He also requested the Board members to look afresh at investments in equities, which would broaden the basket of investments for EPFO at little or no risk. He put forth the result of an internal analysis, which showed that the probability of loss decreased as the time one remain invested in the index increased and it also yielded a very attractive return in the long run.

Shri W.R. Varada Rajan said that the Board had earlier rejected the proposal to invest in equities. He observed that the analysis done by FA&CAO was not part of the agenda and could be taken up separately by the Board. He recommended that
Investments in TDRs having tenure of less than one year should be provided, while the allocation to different categories should be as following:

- G-Secs : 40%
- PSU/PSFI/PSB Category : 60%
- Money Market Instruments : 10%

He further said that investments in POTDRs and NSCs should also be allowed, on which Additional Secretary (L&E) explained that the Finance Ministry has categorically said that these instruments are only for the benefit of individuals and not institutional investors like EPFO.

The Chairman wanted to know as to how the subscribers would be paid if their funds remained invested in equity market. FA and CAO clarified that all the withdrawals to the subscribers are settled out of the fresh contributions only and investments have not been touched so far for paying the dues to the subscribers.

Dr K.P. Krishnan explained to members that investing in index instead of equities and that too for a long period should result in healthy returns at almost negligible risk as alluded to by the FA & CAO. Investing in index would provide benefit of diversification and relatively underperforming scrips would automatically be moved out if an index based strategy was adopted. He said that the equity component was introduced in the pattern due to heavy demand from many superannuation funds only. He suggested that EPFO should begin with 3-5% investments in indices.

Secretary (L&E) agreed with the observations made by Dr. Krishnan, but observed that a detailed note on the same should have been presented before the Board members.

Additional Secretary (L&E) said that in order to enhance returns on investments, EPFO needed to look beyond the conventional set of investment avenues, and suggestion made by Dr. Krishnan merited attention.
The Members raised a point that a detailed presentation on the matter was needed before they could decide on the suggestions forwarded by Dr. Krishnan. Dr. Krishnan was requested to make a detailed presentation on this subject in the next meeting of the Central Board of Trustees, and he readily agreed for the same. It was felt that the agenda be first discussed in the Finance and Investment Committee of the Board and then brought to the CBT with the comments and recommendations.

The item was, therefore, deferred for the discussion in the next meeting of the CBT.

**Item No.5: Changes in the Existing Guidelines.**

After brief discussion, the proposal contained in the memorandum was approved by the Board.

**Item No. 6: Declaration of Appellate Authorities to hear appeals on the orders by Recovery Officers.**

The item was introduced by the CPFC. Shri A.D. Nagpal observed that the item proposed RPFC Gr. I as one of the Appellate authorities whereas he has been notified as the Recovery Officer also. He suggested that the Addl. CPFC in the Zones may be declared Appellate Authorities. He invited attention to Section 21 of the Act, according to which the Central Govt. have to notify rules to provide for manner in which a copy of the certificate is to be certified for sending to the Recovery Officer. There was an apparent legal infirmity due to which there could be legal hassles in its implementation.

With above discussion, the agenda item was withdrawn for further examination.

**Item No. 7: List of ineligible requests for waiver of damages rejected by Central Provident Fund Commissioner.**
Item No. 9: Gist of Audit Report on Investment Portfolio of Employees' Provident Fund Organisation for the period 01/04/2006 to 31/03/2007

Shri A D Nagpal enquired about the action taken by EPFO on the audit report. FA and CAO said that SBI has been written a letter on the basis of observations made by the auditor, though the reply of SBI could not incorporated as the reply of SBI was received only recently.

The Chairman instructed that a tri-partite meeting should be called involving SBI, the auditor and SBI and responsibility should be fixed with SBI whenever found necessary. On the basis of this meeting, a letter to the Chairman, SBI should be written. A copy of the letter may also be sent through the Ministry of Labour to the Govt nominees.

The members agreed with the suggestion made by the Chairman.

The item was accordingly deferred to first hold a tripartite meeting with SBI and auditor's and to send the findings on notional losses as impact of negligence/inappropriateness in investment decisions to the Chairman, SBI also to Government nominees in the Board of SBI through the Ministry of Labour.

Item No. 10: Pattern of Investment Notified by the Ministry of Finance on 14/08/2008

FA and CAO made a presentation before the Committee on prospects of Investing in Equities. The Members said that the item needed more discussion and a special meeting should be called to discuss the issue exclusively.

The item was deferred accordingly.

The meeting ended with vote of thanks to the Chair.
Item No: Discussion on Mercer's representation on appointment of a Consultant for Selection of Fund Managers and their Performance Evaluation

The Item was placed before the Finance and investment Committee in its 99th Meeting (Annexure-I) held on 28-07-2010 which decided to recommend the proposal to the CBT as under:

The CRAs registered with SEBI and having minimum ten years of experience of operation in India may be invited under the GFR provisions to assist EPFO in the selection of Fund Managers as well as their performance evaluation. The tenure of the Consultant for performance evaluation will be for three years subject to satisfaction of the quality of services rendered, drawn on periodical review. Further, a five member committee including one representative each from the Employees and the Employers side, would be constituted by the Board (CBT), for carrying out the exercise of selection of consultant.

2. However, after the meeting of the Finance and investment Committee, a letter has been received from M/S Mercer (Annexure-II) wherein they have requested to be included in the invitation of bids for the selection of consultants for assisting in the selection and performance evaluation of fund managers. In support of their claim, Mercer has made the following contentions:

A. Mercer is the world's largest investment consulting firm with expertise in advising pension funds and government bodies with assets of US $3.7 trillion.
B. Mercer advises on investment strategy, portfolio construction, fund manager research & selection, operational & risk management and governance.
C. Mercer has a company established in India and a local investment consulting team. It has researched 63 debt/bond investment strategies offered by Indian AMCs, among other strategies.
D. Mercer assesses fund managers based on four factors: idea generation, portfolio construction, implementation and business management.
E. Mercer also has a specialist global team (Mercer Sentinel) focused on assessing operational risk controls of AMCs, selecting custodians and managing the transition of money from one AMC to another cost effectively. Mercer Sentinel is experienced in assessing AMCs against best practice globally.
F. Mercer advised the Pension Fund Regulatory Development Authority (PFRDA) on selection of fund managers for the New Pension System (NPS) including setting the qualitative and quantitative criteria, assessment of RFP responses, drafting of the code of conduct and investment management agreement etc.
G. Other examples of Mercer's experience in advising national pension funds include:
   a. Advising Singapore's $140 billion Central Provident Fund on due diligence and selection of fund managers and determining investment options;
   b. Advising the Government of Ireland's National Pension Reserve Fund on investment objectives, asset allocation, portfolio construction and investment management selection;
   c. Advising the Fiscal Policy Office of Thailand on Pension and Provident Fund Reform,
3. When the bids were invited last time for selecting the consultant from four credit rating agencies, only two bids were received i.e from CRISIL and ICRA.

4. In view of the above, FIC may decide whether to limit the zone of consideration of consultant for selection of fund managers and their evaluation to SEBI registered CRAs only, in which case it will be limited to two firms CRISIL and ICRA, or to expand the universe to include other investment advisors as well. In case, the zone of consideration is expanded beyond the CRAs, the following criteria may be adopted for selection of the consultant:
   a. Must have advised a government provident fund/pension fund/retirement fund/superannuation fund in India or abroad
   b. Must be registered in India for at least five years

5. Since the term of CRISIL is due to expire on 30.09.2010, it is proposed that its current appointment may be extended till this assignment is given to the new consultant.

The item is placed before the Finance & Investment Committee for consideration and recommending the proposals contained in Para 4 and 5 to the CBT for approval.
Item No: Appointment of a Consultant for Selection of Fund Managers and their Performance Evaluation

1. The Central Board of trustees, EPF had appointed the following four fund managers for managing the corpus of EPFO in a special meeting held on 29.07.2008:

   (i) HSBC AMC
   (ii) SBI
   (iii) Reliance Capital AML
   (iv) ICICI Prudential AMC

The fund managers were initially appointed for a period of two years w.e.f. 17-09-2008. The tenure of the fund managers was subsequently extended to 31.03.2011 by the CBT in its 189th Meeting of held on 09-04-2010 (see Annexure-I). Consequently, the process of selection of new portfolio managers who will manage the EPFO funds from 01-04-2011 must commence in right earnest.

2. The selection of fund managers entailed the following steps:

   1. Issuance of Expression of Interest (EOI) package
   2. Receipt of EOI from bidders
   3. EOI evaluation and short-listing of bidders to receive Request for Proposals (RFPs)
   4. Issuance of RFPs
   5. Pre-bid conference + clarifications provided to bidder queries
   6. Receipt of Proposals from bidders
   7. Evaluation of Proposals
      a. Technical Bid Evaluation
      b. Financial Bid Evaluation
   8. Discussion of the evaluation at Finance Investment Committee (FIC)
   9. Discussion and approval of evaluation at the Central Board of Trustees (CBT)

3. The CBT, in its 181st meeting held on 24.01.2008, had adopted a policy decision to take outside assistance for the selection of portfolio managers and their performance evaluation through a dynamic and customised performance benchmark based on regular professional inputs on market related data (see Annexure-II). The existing fund managers were shortlisted with the help of a credit rating agency (CRA) CRISIL which was involved in the process of inviting Expression of Interest (EOI) and detailed analysis of technical bids.
submitted by fund managers. CRISIL was also mandated to assist EPFO in evaluating the performance of fund managers.

4. Both the process of short listing of fund managers and their performance evaluation have been quite satisfactory (see Annexure-II). Given the experience of the past, and in view of the criticality of the investment of EPF monies for securing an optimal yield on the EPF Corpus, it is proposed that the same system may continue. As such, it is proposed that Credit Rating Agencies (CRAs) registered with SEBI may be invited under the GFR provisions to assist EPFO in the selection of fund managers as well as their performance evaluation. This time it is proposed that the tenure of the consultant for performance evaluation will be for three years subject to satisfaction of the quality of services rendered drawn on periodical review. Further, a three-member committee consisting of officers from EPFO is proposed for the purpose of carrying out the exercise of selection of consultant.

The item is placed before the Finance & Investment Committee for consideration and recommending the proposal contained in Para 4 to the CBT for approval.
3 August 2010

Mr A K Singh
F.A and C.A.O
Employee Provident Fund Organisation
Bhavishya Nidhi Bhawan
14, Bhikaji Cama Place
New Delhi – 110 066

Subject: Selection and Evaluation of Fund Managers

Dear Mr Singh,

I refer to an article in the Economic Times dated 28th July 2010 entitled “EPFO kicks off process to appoint new fund managers”.

The article states that last Wednesday “the EPFO board’s finance committee would consider a proposal to invite all credit-rating agencies registered with the Securities Exchange Board of India to help the retirement fund select and evaluate fund managers”.

Should this news report be correct in that the EPFO is only considering credit rating agencies as advisers, we write to you to consider expanding the criteria for eligible advisors to allow the EPFO to access the best expertise in assessing fund managers.

Around the world, pension funds (and other institutional investors such as sovereign wealth funds, central banks, insurance companies, endowment funds etc) source advice on managing their assets from “investment consultants” or “asset consultants”. Investment consultants bring a longer term forward-looking perspective on the overall portfolio of such institutional investors which typically have their portfolios invested across a range of asset classes. Hence, investment consultants have developed expertise not only in asset allocation but also in portfolio construction issues (such as whether to invest in active or passive funds, allocation to sovereign v credit etc) but also in fund manager selection.

The appendix shows a list of global investment consultants for your reference.¹

¹ Source: Pension and Investments Magazine, November 2009; ranking as at June 2009
Accordingly, we would kindly request the EPFO to permit Mercer Consulting (India) Pvt. Ltd. to submit a tender as an investment consultant, on equal terms with the credit-rating agencies.

In support of our request, I would highlight the following:

- Mercer is the world's largest investment consulting firm with expertise in advising pension funds and government bodies with assets of US $3.7 trillion.\(^2\) Our firm has over 1000 staff and 50 offices globally and has been providing investment advice for over 30 years. Mercer is part of Marsh and McLennan Companies, a global professional services firm with revenues exceeding US$10 billion and which is listed on the New York, London and Chicago Stock Exchanges.

Mercer advises on investment strategy, portfolio construction, fund manager research & selection, operational & risk management and governance.

- Mercer has a company established in India and a local investment consulting team. Our thorough knowledge of the local market is evident as Mercer has researched the majority of the Asset Management Companies in India. Specifically, we have researched 63 debt/bond investment strategies offered by these AMCs, among other strategies.

Globally Mercer has researched over 20,000 investment strategies. Mercer is able to give the EPFO the direct benefit of our local and global experts.

- Mercer advised the Pension Fund Regulatory Development Authority (PFRDA) on selection of fund managers for the New Pension System (NPS) including setting the qualitative and quantitative criteria, assessment of RFP responses, drafting of the code of conduct and investment management agreement etc.

- Other examples of our experience in advising national pension funds include:
  - Advising Singapore's $140 billion Central Provident Fund on due diligence and selection of fund managers and determining investment options;
  - Advising the Government of Ireland's National Pension Reserve Fund on investment objectives, asset allocation, portfolio construction and investment manager selection;
  - Advising the Fiscal Policy Office of Thailand on Pension and Provident Fund Reform.

\(^2\) Source: Pension and Investments Magazine, November 2009; ranking as at June 2009
Mercer’s fund manager assessment capability is unique in the Indian market in that we focus on an investment manager’s ability to outperform in the future rather than assessing past performance.

Our research method assesses fund managers based on four factors: idea generation, portfolio construction, implementation and business management. Mercer looks for evidence of any sustainable competitive advantage and evidence of significant potential weaknesses.

For ongoing monitoring of fund managers, we investigate ongoing performance and portfolio changes to ensure they are in accordance with the fund manager’s investment philosophy and assess qualitative factors to determine if there is a change in the level of confidence in the fund manager’s ability.

The value add from our research method is independently audited globally.

• Mercer’s business model is that we get paid by clients - we do not get paid by fund managers to provide ratings.

• Mercer also has a specialist global team (Mercer Sentinel®) focused on assessing operational risk controls of AMCs, selecting custodians and managing the transition of money from one AMC to another cost effectively. Mercer Sentinel is experienced in assessing AMCs against best practice globally.

This will be important should the EPFO decide to switch from existing investment management firms.

Mercer’s world class expertise would provide the EPFO with an additional perspective. We would emphasise that by expanding the list of eligible advisors to choose from, the EPFO will increase the likelihood of achieving the best outcome for employee retirement savings in India.

We would welcome the opportunity to discuss any matter raised in this letter and would appreciate fair consideration of our submission. We would like to arrange a meeting with the EPFO as soon as possible.
3 August 2010

Employee Provident Fund Organisation

I can be contacted on +91 9004 110 470. Alternatively, you may contact Mr Ravi Sinha, Principal, on +91 9871 206 988.

Yours sincerely

Sarosh Batiwalla
Head of Institutional Business for investment consulting in India

Copy:
Mr S Chatterjee
Central PF Commissioner
### Appendix

**Worldwide Assets Under Advice**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Consultant</th>
<th>Assets (US$ Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td><em>Mercer Investment Consulting</em></td>
<td>$3,700,000</td>
</tr>
<tr>
<td>2</td>
<td>Watson Wyatt Investment</td>
<td>$2,000,000</td>
</tr>
<tr>
<td>3</td>
<td>Cambridge Associates</td>
<td>$1,436,000</td>
</tr>
<tr>
<td>4</td>
<td>Callan Associates</td>
<td>$1,006,170</td>
</tr>
<tr>
<td>5</td>
<td>Ennis Knupp + Associates</td>
<td>$970,000</td>
</tr>
<tr>
<td>6</td>
<td>Hewitt Associates</td>
<td>$950,000</td>
</tr>
<tr>
<td>7</td>
<td>Russell Investments</td>
<td>$787,420</td>
</tr>
<tr>
<td>8</td>
<td>Pension Consulting Alliance</td>
<td>$780,000</td>
</tr>
<tr>
<td>9</td>
<td>Strategic Investment Solutions</td>
<td>$703,965</td>
</tr>
<tr>
<td>10</td>
<td>R. V. Kuhns &amp; Associates</td>
<td>$639,099</td>
</tr>
</tbody>
</table>

Source: Pension and Investments Magazine, November 2009; ranking as at June 2009
ITEM: DISCUSSION ON THE LETTER OF M/s BRICKWORK REGARDING ITS INCLUSION AS AN APPROVED CREDIT RATING AGENCY IN ALL CASES.

1. The CBT in its 188th meeting held on 5.12.2009 introduced the criteria for the Rating Agencies, stipulating that the ratings done by only such agencies which would have completed minimum 10 years of operations in India, would be utilised for the purpose of making investment decisions about the EPF Funds. Four established agencies viz., Crisil, ICRA, CARE and Fitch qualified the condition and a relatively new one called Brickwork was left out.

2. Brickwork then made a representation to the Ministry of Labour as well as EPFO to relax the said conditions and allow its ratings as recognised by the CBT, EPF.

3. Considering that they had due approval and registration by the SEBI, the proposal was recommended by the Finance & Investment Committee in its 99th meeting held on 28.7.2010, to allow one rating by Brickwork in cases where more than one rating is required. However, in cases where only one rating is required it would still be required from an agency having more than 10 years experience in India.

4. Brickwork has again given a representation (letter enclosed as Annexure A) to the EPFO on the following lines:
   i. It is registered by SEBI.
   ii. It has presence in four zones of the Country and a strong team of 30 members which includes experienced bankers and other qualified professionals (list enclosed as Annexure B).
   iii. It discloses all information regarding its ratings, rating rationale, etc. on its website.
   iv. It has gathered a vast experience of rating different market segments.
   v. The largest investor in India, LIC also recognises its ratings.
   vi. Rule of 10 years is not adopted elsewhere internationally.
   vii. The rule eliminates any other international agency recognised by US, Europe, Japan, etc. for not having 10 years experience in India.

5. The comparative list of ratings assigned by Brickwork and other CRAs for same / similar issues is enclosed as Annexure C.

6. The memorandum on this issue, placed in the last FIC (99th) held on 28.7.2010 along with the minutes of the meeting is placed as Annexure D.

7. In view of the points raised above and also the fact that the existing clause allows only four entities (Crisil, ICRA, CARE & Fitch) to compete, whereas Brickwork - a new entrant have also rated a large number of reputed companies, the representation is placed before the Committee.

The matter is placed before the FIC for decision.
Ref: BWR/DEL/BD/EPFO/Aug2010/0045

Dated: 12th August 2010

Mr. S Chatterjee, IAS
Central Provident Fund Commissioner
Employee Provident Fund Organisation
(Ministry of Labour, Government of India)
3rd Floor, Bhavishya Nidhi Bhawan
14, Bhikaji Cama Place
New Delhi – 110 066

Subject: Credentials of Brickwork Ratings (India) Pvt. Ltd

Dear Sir,

In continuation of several communications we had with the office of EPFO, we once again would like to present our credentials in a summary form for your ready reference.

- Brickwork Ratings India Private Limited is registered by SEBI (Securities Exchange Board of India), under Credit Rating Regulation, 1999 as amended in 2003.

- Brickwork Rating people are most accomplished in their field – Mr. K N Prithviraj, former CMD of Oriental Bank of Commerce, Mrs. Bharati Rao, former DMD of State Bank of India, Mr. Ghanshyam Dass, currently Advisor to KPMG and an ex-banker, Mr. D Ravishankar former ED&CFO of CRISIL and former MD (Risk Solutions) of S&P, Dr. KRS Murthy, former Dean of IIM (Bangalore), Vivek Kulkarni (IAS Retd), former Finance Secretary of Karnataka State Govt and visiting Professor of IIM (Bangalore) and Mr. S. Bhanu Pramanik, former CMD of SIDBI.

- We operate out of our offices in Bangalore, Mumbai, Delhi and Chennai. We also have representatives in Pune & Hyderabad. We have a 30 member team that includes experienced bankers, ratings analyst, research associates and business development executives.

- The rating process for each sector is defined by the Brickwork Rating Criteria Committee and any deviation from the same is reported and needs to be approved by the External Rating Committee during the analyst presentation for rating recommendations. We follow International best practices of disclosures and all our ratings, rating rationale, rating criteria for each type of rating segment, etc... are available in our website: http://WWW.Brickworkratings.com.

- Brickwork is following a very unique feature of having external ratings committee that serves as quality assurance, market understanding and serves as added checks and balances in the ratings process. Many foreign CRAs that operate in India do not use the external rating committees at all.

Brickwork Ratings India Pvt. Ltd.
Brickwork Ratings has completed more than ninety debt instruments (of both financial and non-financial institutions) and provided recovery and PD ratings for more than 80 security receipts issued by an asset reconstruction company until July 2010. Apart from these Ratings we have completed rating of fixed deposit schemes, structured finance products and has graded around ten Initial Public Offerings (IPOs) of companies in the last one year. These ratings cover the following segments:

- Public Sector Banks
- Private Sector Banks
- Government guaranteed schemes and Other Public Sector Enterprises
- Corporate Bodies
- Non-Banking Financial Institutions
- Project Finance (including hospitality and real estate projects)

At Brickwork Ratings, we are committed for Financial Literacy programs and we have done several such programs, including 'Derivatives Demystified', Risk Management in the changing scenario in collaboration with Ministry of Corporate Affairs. The program was attended by several officials from various regulators and a separate program was offered for the senior officials at Department of Banking and Financial Services. We have also prepared white papers on Developing the Indian Corporate Debt Market in association with City of London.

At Brickwork Ratings, we have developed and implemented a financial risk assessment model for corporate entities (FRAME) which seeks to provide a financial risk score for the companies that are rated by Brickwork Ratings. This 'FRAME' model is used as an independent validation of the rating assigned by the rating analyst to ensure stability and accuracy of the rating grade assigned.

The largest investor in India, The Life Insurance Corporation of India (LIC) also recognizes/accepts the ratings assigned by Brickwork Ratings India Private Limited. LIC invests in any issue based on single rating of Brickwork Ratings.

We have already put forth our grievances before the Financial Advisor and Chief Accounts Officer. We have also submitted all relevant documents, including SEBI registration certificate, list of all ratings and the concerned rating rationales, report on Indian Banking Industry etc. vide our letters dated 22nd January 2010 and 26th January 2010 and continued with our representations in several subsequent communications in this regard.

We also would like point out that the rule of ten years is not adopted anywhere internationally. Even while eliminating a SEBI registered agency in December 2009, Brickwork was not given any opportunity of hearing or representation with EPFO. We were never given any understanding why ten year rule came up, its logic and any reasoning behind the rule. The rule eliminates any other international agency recognized by the US, Europe or Japan too, since they would not have ten years operations in India. These agencies might have completed decades in ratings in their countries. The rule merely promotes monopoly of certain rating agencies.
We also would like to state that EPFO has been using rating agencies as consultants. Even here the ten year rule would be detrimental to EPFO. Of the four agencies who have completed ten years, two do not offer consulting services. Effectively the EPFO would get bids from just two agencies. We request you to include all SEBI registered ones, so the EPFO can at least get three bids. Else the EPFO rule would not promote competition and favour select rating agencies.

We would request your urgent intervention in the matter of modifying the clause inserted in new clause which has been introduced in the “Investment Management Manual for Portfolio Managers of Central Board of Trustees, Employees Provident Organisation (CBY-EPF), applicable from December 2009 and circulated to the Portfolio Managers of EPFO.

We request you to modify the existing clause with the proposed clause as available in the Annexure-I.

Thanking you in anticipation.

With warm regards.

Vivek Kulkarni (IAS, Retd)
Managing Director
Proposed Clause

"Criteria for Credit Rating Agencies" It is proposed that the Rating Agency, whose Ratings or other services would be utilized for making decisions, should have a valid "Certificate of Registration as a Credit Rating Agency" issued by the SECURITIES AND EXCHANGE BOARD OF INDIA (SEBI), which is a Statutory Regulator (under the Ministry of Finance, Government of India), under SEBI (Credit Rating Agencies) Regulations, 1999 having an overall control on the functioning of credit rating agencies operating in India.
## ANNEXURE - D

### Profile of Brickwork Professionals

<table>
<thead>
<tr>
<th>Name</th>
<th>Designation</th>
<th>Qualification</th>
<th>Previous Positions</th>
<th>Experience</th>
</tr>
</thead>
</table>
| Vivek Kulkarni | Founder Managing Director | B.E., Gold Medalist from Karnataka University, M.B.A - Finance & Information Systems from Wharton School, University of Pennsylvania | Information Technology & Biotechnology Secretary, Govt. of Karnataka                | - Vivek has over 25 years of experience in Business and Government. As the Information Technology & Biotechnology Secretary, he was instrumental in building world-class IT & Biotech institutes and events in Karnataka, India.  
- During his tenure as IT Secretary, every week Bangalore has seen one new 100% foreign equity firm setting their office. Prior to this, he was the Finance Secretary (Resources) of Karnataka. He was Division Chief in SEBI and Head of Advisory Services in CRISIL - a rating agency now taken over by S&P.  
- He has been widely quoted in several best sellers like The World is Flat, The 4 Hour Work-Week as well as international newspapers like New York Times, London Times etc. and a large number of Indian media. He has published in Financial Analysts Journal of the CFA Institute, Economic & Political Weekly as well as other prominent finance newspaper.                                                                                                                                                                                                                                                                                                                                 |
| Ravishankar D  | Founder Director   | First Class Commerce Graduate from Loyola College, Chennai Professional Qualification in AICWAJ Attended a Global Management Development Program conducted by the Michigan University | Managing Director - Asia-Pac Risk Solutions, Business of Standard and Poor's also heading the India Risk Solutions Business as Executive Director, CRISIL Limited | - He was Executive Director & CFO for CRISIL Ltd, until October 2005 and in his CRISIL role, he has introduced a number of Investment & Risk Management tools for use at Banks and Financial Institutions. His unique product (RAM - Risk Assessment Model) conceived and launched for Credit Risk Management and this is used for internal rating of over 50% of the loans by banks.  
- As a visiting faculty at Great Lakes Institute of Management he conducts Advanced Risk Management courses for the business program. He has held several assignments in the past such as, President & CEO, Polaris Retail Infotech Ltd.; CEO of Cholamandalam Cazenove Mutual Fund; Fund Manager & Vice President at Reliance Mutual Fund; Chief Investment Officer of GIC Mutual Fund, etc.                                                                                           |
<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Education/Experience</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balasubramanian N</td>
<td>Chairman</td>
<td>Post graduate from IIM(A)</td>
<td>He had joined SIDBI as deputy managing director and was subsequently promoted as its Chairman and Managing Director. He has had experience with institutions like Small Industries Development Bank of India (SIDBI), IFCI, Bank of Baroda etc. He is basically a core banker who has worked with Bank of Baroda for a total period of 33 years, of which 28 years was spent domestically and 5 years in Europe. Bala has also served IFCI as Chairman for a short stint. He was associated with planning commission in preparing 5 years plan documents, focused on SME Financing as Chairman of the Sub-Committee. He was instrumental in starting rating agency - SMERA.</td>
</tr>
<tr>
<td>Pritthviraj K N</td>
<td>Director and Chairman-External Rating committee</td>
<td>M.A (Economics)-First Rank holder from Madras university and a Research Fellow, Department of economics, Madras University</td>
<td>Chairman and MD for Oriental Bank of Commerce; Executive Director -United Bank of India; General Manager- Punjab National Bank Corporate Credit &amp; Human Resource Department; General Manager- Punjab National Bank - Western Zone. He has more than 38 years of experience in the banking industry. Pritthviraj is the Administrator, Special Undertakings of Unit Trust of India (SUUTI) and a nominee director of SUUTI on the board of Axis Bank Ltd. He is member of advisory board for serious bank, commercial &amp; financial frauds for CBI constituted by CVC and also member of Oversight Committee of Government of India for Sale of assets of IIBI.</td>
</tr>
<tr>
<td>Sangeeta Kulkarni</td>
<td>Board of Director</td>
<td>B. Sc.-SNDT University, Masters in Human Resource Education from Boston University, USA</td>
<td>Executive Director. Sangeeta is one of the Founders of Brickwork India. She has vast experience in Human Resource Management, Soft skills training and Customer support. Sangeeta is responsible for the organization's strategic plans, operating processes, quality assurance as well as building leaders at multiple levels. During her stint at Accenture, she was responsible for executing the soft skills training plan for training over 4000 software engineers. In her role as Business Consultant for Brilliant School of Management, she drove the enrollment for a unique management programme for senior managers.</td>
</tr>
<tr>
<td>Name</td>
<td>Role</td>
<td>Qualifications</td>
<td>Details</td>
</tr>
<tr>
<td>----------------</td>
<td>----------</td>
<td>--------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| K R S Murthy   | Member   | M.Sc. - Statistics, Mysore University, Masters in Management from Sloan School of Management, Doctorate in Business Administration from the Harvard Business School, Boston, USA | • Prof. Murthy was Director of the Indian Institute of Management Bangalore.  
• For a short period in 2000, he was Vice Chairman of the All Indian Council for Technical Education, New Delhi. He was a member of the Disinvestment Commission.  
• Prof. Murthy has been actively involved, as a member of the Governing Council, in several educational and non-profit institutions, such as the Indian Institute of Capital Markets, Vashi; National Institute of Securities Markets, Mumbai; Indian Institute of Management, Kozhikode; Amrita University, Coimbatore; TAPMI, Manipal; The Foundation for Revitalization of Local Health Traditions, Bangalore; and The Public Affairs Centre, Bangalore. |
| Bharati Rao    | Member   | M.A. in Economics from Stella Mary's College, Madras University, CAIIB            | • In her previous assignments Ms. Rao has served as Manager (RD) at Singapore; Senior Faculty SBSC Hyderabad where she was in charge of credit and foreign exchange training programme; Deputy General Manager, Overseas Branch, Bangalore, where she managed a large branch with focus on trade finance, SME, Corporate Accounts; General Manager, Project Finance SBU, where the work involved funding infrastructure projects  
• Ms. Rao has attended various training programmes such as Infrastructure Financing in Kennedy School of Govt., Harvard, Euro Money Programme – Infrastructure Financing; Trade Financing at IBF, Singapore; Credit and Forex training at SBSC, Hyderabad |
<table>
<thead>
<tr>
<th>Name</th>
<th>Member/Position</th>
<th>Education/Experience</th>
<th>Achievements/Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghanshyam Dass</td>
<td>Member</td>
<td>Bachelor's Degree with Honours in Economics, Delhi University, India, Masters in Linguistics (Inter Disciplinary Course), Jawaharlal Nehru University, New Delhi.</td>
<td>He has had an outstanding career in domestic and international banking. Developed a firm understanding of the complexities of international markets. Member of TIE, Association of Biotech Led Enterprises (ABLE). Founded Team Bank - School of Management, Member of the CII National Council on Corporate Governance and Regulatory Framework and CII National Committee on Capital Markets and Government Nominee on the Governing Council of The Institute of Company Secretaries of India (ICSI).</td>
</tr>
<tr>
<td>K C Holla</td>
<td>Vice-President</td>
<td>Graduated from Bhandarkar's college, he has completed CAIIB while working for a Public Sector Bank.</td>
<td>He comes with 36 years of unblemished service in a leading nationalized bank and one year in a upcoming private sector bank. Attained the Cadre of Assistant General Manager; Completed 36 years of successful tenure in the banking sector; worked for one year in a leading private sector bank. Sharing knowledge and training people are hobbies.</td>
</tr>
<tr>
<td>Nagaraja V</td>
<td>Head-Ratings Administration</td>
<td>M.Com, CAlIB-1 *Chief General Manager-PNB *Headed PNB capital services LTD-a Merchant Banking and NBFC *Key Member in the committees/Working groups constituted by RBI &amp; Indian Banks Association</td>
<td>Having more than 37 years of experience in Industry where in he joined as probationary officer &amp; retired as Chief General Manager. Contributed significantly in areas like Business Turnaround, Culture change, Strengthening internal Audit and procedures in Bank, Risk Management etc. During his tenure in PNB he was sent abroad twice for training and once for resolution of a specific Foreign Exchange matter.</td>
</tr>
<tr>
<td>Name</td>
<td>Designation</td>
<td>Education/Experience</td>
<td>Remarks</td>
</tr>
<tr>
<td>---------------------</td>
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<td>--------------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Ravichandran R</td>
<td>Head-Business</td>
<td>P.G.Dip. In Law, CAIIB, Q S</td>
<td>• Having more than 26 years of Industry experience out of which More than 8 years of experience in Accounts Consolidation, Statutory Audit related areas.</td>
</tr>
<tr>
<td></td>
<td>Development</td>
<td>(inter), M.com FICWAI</td>
<td>• over 9 years of experience in Credit Appraisal, follow-up, credit monitoring and NPA management</td>
</tr>
<tr>
<td></td>
<td>Asst General Manager</td>
<td></td>
<td>• About 7 years of exposure in General Banking, Branch Banking and Branch Head (including 2 years as Branch Head at Overseas Branch)</td>
</tr>
<tr>
<td>K N Suvarna</td>
<td>Senior - Vice</td>
<td>M.Com, CAIIB, LLB, DAM, DB M</td>
<td>• Handled Northern Zone operations of Bank Head Quartered in Delhi</td>
</tr>
<tr>
<td></td>
<td>President</td>
<td>General Manager-Bank Of Baroda</td>
<td>• Handled international operations of Bank from corporate office for 5 years.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Regional head for largest regions of Bank based in Mumbai for 2 years.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Having exposure to credit Departments</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• During his tenure, 3 Branches were declared as best Managed large branches.</td>
</tr>
<tr>
<td>Ramaswamy Annam</td>
<td>Director</td>
<td>B.Com, LLB, C, A</td>
<td>• He was Branch-in-charge of Credit Rating Information Services of India Limited (CRISIL) at their Hyderabad Branch Office. Principal Business Correspondent with The Economic Times, at their Hyderabad Bureau.</td>
</tr>
<tr>
<td></td>
<td>Business</td>
<td>Branch - in-charge-Crisil Principal Business correspondent - Economic times</td>
<td>• Senior Correspondent with Business India magazine, at their New Delhi Bureau and Bombay Head Office</td>
</tr>
<tr>
<td></td>
<td>Development</td>
<td></td>
<td>• Faculty Member with The Institute of Chartered Financial Analysts of India, Hyderabad. He is also associated with different Staff Training Colleges like State Bank Staff Training College, Jawaharlal Nehru Institute of Development Banking, Canara Bank Staff Training College, Administrative Staff College etc as a guest faculty and a few colleges affiliated to Osmania University-Hyderabad</td>
</tr>
<tr>
<td>Name</td>
<td>Position</td>
<td>Education/Experience</td>
<td>Responsibilities</td>
</tr>
<tr>
<td>------------------</td>
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<td>--------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Ajit Kumar Singh</td>
<td>Vice-President</td>
<td>Master of Financial Management Certificate of Indian Institute of Bankers (I) L.L.B. (Bachelor of Law)</td>
<td>Worked with the team while developing initial credit rating model. Andrew with the team while developing initial credit rating model. CRISIL Fund Services has become the leading provider of funds evaluation, risk solutions, ranking, funds data and other high end customized solutions in India. Awarded S&amp;P CNBC Best Fund Manager award. More than eight years funds management experience. Developed and implemented evaluation model to select Fund Manager for the second largest pension fund in India. The model is now followed by many other large funds including the largest pension fund in India. Lead initiative for selection of Fund Managers to manage pension funds under New Pension System for the Pension Fund Regulatory and Development Authority (PFRDA) of India. The initiative included managing the bidding process, developing evaluation criteria and short listing fund managers under the criteria.</td>
</tr>
<tr>
<td>Vinay Kumar Nirmal</td>
<td>Head - Business Development</td>
<td>A.I.C.W.A from ICWAI CAIIB - Part I PGDBA (Finance) from Symbiosis Institute</td>
<td>• As the Head - Funds Services, I lead the CRISIL's initiative in setting up funds analysis, research and ranking from its very inception. In a short span, CRISIL Fund Services has become the leading provider of funds evaluation, risk solutions, ranking, funds data and other high end customized solutions in India. • Awarded S&amp;P CNBC Best Fund Manager award. • More than eight years funds management experience. • Developed and implemented evaluation model to select Fund Manager for the second largest pension fund in India. The model is now followed by many other large funds including the largest pension fund in India. • Lead initiative for selection of Fund Managers to manage pension funds under New Pension System for the Pension Fund Regulatory and Development Authority (PFRDA) of India. The initiative included managing the bidding process, developing evaluation criteria and short listing fund managers under the criteria.</td>
</tr>
<tr>
<td>Sanath Kumar</td>
<td>Coordinator - Special projects</td>
<td>B.E.,Mechanical, M.B.A</td>
<td>• A well-rounded finance professional with nearly 19 years of experience in Strategic Planning, Financial Sales &amp; Marketing, Business Development, Corporate Banking, Credit Management and People Management. • Handling entire gamut of functions in corporate funding, trade finance, FOREX, CMS, Government/ statutory payment, product structuring as per the needs of corporate. • Heading the entire corporate credit administration and risk related assignments. • Ensuring post-sanction compliances for documentation of all credit facilities (funded / non-funded).</td>
</tr>
<tr>
<td>Jatin Vyas</td>
<td>Vice-President</td>
<td>B.Com -Hon, CAIIB</td>
<td>• Worked with the team while developing initial credit rating model. • Involved in rating banks &amp; corporate. • Coordinated for other administrative &amp; compliance related tasks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chief Manager (International Business - Bank of Baroda)</td>
<td>• Over 30 years of banking experience in India and abroad. • In charge of credit and trade finance at New York Branch of Bank of Baroda for 4 years. • As a regional Manager, he handled credit, forex administration and rural banking. • Branch Manager in several Mumbai Branches of Bank of Baroda.</td>
</tr>
<tr>
<td>Name</td>
<td>Title</td>
<td>Education/Qualification</td>
<td>Experience</td>
</tr>
<tr>
<td>---------------------</td>
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<td>----------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>R. Rajalakshmi</td>
<td>Manager-Research</td>
<td>Post Graduate Diploma in Management from Great Lakes Institute of Management and a Chemical Engineer from the University of Madras.</td>
<td>• She was a part of CRISIL Risk Solutions and was involved in developing and implementing risk management solutions at banks and financial institutions. She has more than three years experience in developing and implementing credit rating and credit scoring models for the small, medium and micro enterprise segments in Indian financial institutions. • She was an integral part of the Basel II solutions development and delivery team at CRISIL Risk Solutions and specialized in developing and validating models for the internal ratings approach and in the assessment of Pillar II risks. She has worked with different banks in the Asia-Pacific Region— notably Singapore and Korea where she was a part of the core team of the Standard and Poor’s Risk Solutions division in validating and developing models used for estimating the risk of corporate and retail borrowers both with respect to default and recovery risks.</td>
</tr>
<tr>
<td>Sharada Shivram</td>
<td>Compliance officer</td>
<td>B.Com, Grad CWA</td>
<td>• She was involved in Comprise Ratings and surveillance of short term/long term debt programmes of large corporate entities as well as small and medium enterprises across various sector including Automobile, Farm Equipments, Non-ferrous metals &amp; shipping. • Evaluation of the financial standing of the entity through financial forecasting, peer group comparison etc to review the stability in the financial position.</td>
</tr>
<tr>
<td>Anusha Subramani</td>
<td>Ratings Analyst</td>
<td>B.Com - Mumbai university</td>
<td>• Has worked on Global Mining research Project to find out the growth aspects of Major Mineral Exporting countries. • Part of equity research team after being trained on investment banking, equity research and credit research verticals. Trained on Industry analysis, financial statement analysis, valuation techniques.</td>
</tr>
<tr>
<td>Sameer Singhvi</td>
<td>Ratings Analyst</td>
<td>MBA-Finance BE Mechanical, C.F.A level-3 (AIMR) USA</td>
<td>• Completed 3 years of article ship training at Balakrishna &amp; Co, Chartered Accountants (As a part of CA Course). • 5 months of experience at Brickwork Ratings India Pvt Ltd</td>
</tr>
<tr>
<td>Ashwini TR</td>
<td>Ratings Analyst</td>
<td>B.Com , A.C.A</td>
<td>NA</td>
</tr>
<tr>
<td>Name</td>
<td>Position</td>
<td>Education</td>
<td>Experience</td>
</tr>
<tr>
<td>-----------------</td>
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<td>-----------</td>
<td>------------</td>
</tr>
</tbody>
</table>
| Shilpi Agarwal  | Manager  | LLB, L.C.A, B.Com | Libgem Solutions | - Analyzing Banks and NBFC's & Financial Industry using both financial fundamentals and non-financial parameters  
- Preparing Information document in Private Equity Syndication  
- Evaluating performance of business for private equity dealings  
- Preparing loan proposals and liaising with banks for raising finance to meet working capital and project requirements and other statements required by bank authorities  
- Handled other matters- Applying for IE Codes, Foreign Technology Collaboration Agreements, Focus Market Schemes Applications; IEM Applications. |
| Milind Diwaker  | Analyst  | MBA, IISC, B.E, NSIT University Delhi | NA | - Corporate debt rating – Cases handled were in following industries: Telecom, State Finances, Real estate, NBFC, Cement, infrastructure  
- IPO Grading – Cases handled were in following industries: jewellery, lead mfg, network equipment  
- Recovery rating of security receipts issued by ARCIL  
- 1.5 Yrs as a Rating Analyst in Brickwork Ratings  
- To analyze the performance of the companies based on various parameters such as financial statement analysis (e.g. ratio analysis), industry analysis, management quality and business risk. |
| Mukesh Mahor    | Analyst  | MBA (IISC), B.Tech (CSE) | Software test engineer | - Conducted primary and secondary research on Indian companies to assess creditworthiness and assigned corporate and facility ratings.  
- Prepared presentations to present rating recommendations to Internal / External Ratings Committee  
- Analyzed financial statements of client-specified large and mid-cap US stocks, and made normalization adjustments to calculate ratios which were used to identify trading opportunities. |
| Mridula Chordia | Analyst  | Chartered Certified Accountant (ACCA), B.Com | Business Analyst | - Worked for 5 yrs with Logix Microsystems Limited handling day to day accounts, Accounts receivable & Payables.  
- Worked for 6 yrs with Allsec Technologies Limited handling day to day accounts, Salary Process & MIS  
- Having 9 years of Industry experience in System Administration worked as customer support executive for one year. |
<p>| Anu Jose        | Executive | B.Com | Senior Officer - Accounts |  |
| Krishnakumar S  | Administrator | B.E | System Engineer |  |</p>
<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Education</th>
<th>Experience</th>
</tr>
</thead>
</table>
| Anitha Girish     | Executive Assistant to CEO| B.E.                               | • Worked as the Secretary to the Belgium Trade Commission for a period of 2 years where the responsibilities included support to Belgium companies in providing market research reports and providing information on potential business contacts in the Southern Indian region.  
• Provided support in the IT Department to the IT Secretary in email correspondence, maintaining databases, support for the Bangalore IT.Com and Bangalore Bio Events. Also handled the correspondence with the Optic Fibre Companies for Government Permission Letters etc. |
| Ajayan N          | Admin lead                | VHSE – Costing and Accounting Diplomas in Computer Programming Diplomas in Desk Top Publishing | 5.5 years as Executive Secretary to MD of Poddar group of companies, a 200 crores turnover group  
2.5 years of experience as Sr. Executive admin-Brickwork India |
| Deepak B O        | Executive Business Development | B.E. - E & C, M.B.A - Marketing & Systems | • Creating new customers for the organization by visiting different corporate like banks, hospital, educational institutes etc  
| Santhosh Kumar M  | Sr. Business Development Executive | BBM                               | • Worked in creating a database of more than 10,000 companies in collecting the details like contact numbers, address, fax numbers, email ID and their top management people.  
• Direct visit to all banks inviting people for the Derivative conference and we were successful in bringing in more than 400 participants.  
• Direct visit to all Management colleges in Bangalore inviting the students for participating in the derivative conference & more than 100 students attended the same. |
| Azam Firoze Ansari| Sr. Business Development Executive | MBA                               | • Keeping a track on all the important news relating to Credit ratings by various sources and collecting the information about the companies and the contact details of people contacting them regarding the same by sending the introductory letter of our company with the brochure attached and later following up with the companies for generating leads and acquiring rating assignments  
• Have worked on the CME database which was required for collecting the details of all companies and it has been segregated into different zones and sent to the zonal heads |
<table>
<thead>
<tr>
<th>Name</th>
<th>Designation</th>
<th>Qualification</th>
<th>responsibilities</th>
</tr>
</thead>
</table>
| Manvinder Chauhan     | Executive Assistant                  | B.A            | • Taking care of general office management  
• She was making quotations for swimming pool equipments in tune with sales team  
• She has knowledge about invoicing, was involved in corresponding of warehouse related dispatches. |
| Vijaylakshmi R        | Business Development Executive       | B.Com, MBA     | • Identify and procure new corporate clients for the organization and generate business  
• Manage diaries of senior Management, arranging and prioritizing appointments and organizing meetings, events and conferences and executive agendas. |
| Navaneeta Krishnan    | Graphic Designer                     | Diploma in Computers | • 5 years experience in graphic designing. |
| Kavitha P Sule        | Senior Executive - Business development | B.A.          | • Co-coordinating with internal staff as well as with other branch for mails.  
• File Management, Data management, Keeping track of Press Releases.  
• updating old records, contact list, filing list, telephone directory.  
• Fixing up appointments with clients, suppliers etc. |
<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Company Name</th>
<th>Instrument *</th>
<th>Issue Size (Rs in Crs)</th>
<th>Issue Type</th>
<th>Brickwork Ratings</th>
<th>CRISIL</th>
<th>CARE</th>
<th>ICRA</th>
<th>Fitch</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bank of India</td>
<td>Issuer Rating</td>
<td></td>
<td></td>
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<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>2</td>
<td>Andhra Bank</td>
<td>Tier I Perpetual Bond Issue</td>
<td>200</td>
<td></td>
<td>AA+</td>
<td>AA+</td>
<td>AA+</td>
<td>AA+</td>
<td>AA+</td>
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<tr>
<td>3</td>
<td>Golden Jubilee Hotels Ltd</td>
<td>Long Term/ Short Term Rating of NCD</td>
<td>40</td>
<td></td>
<td>A+</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td>4</td>
<td>Andhra Bank</td>
<td>Tier I Perpetual Bond Issue</td>
<td>250</td>
<td></td>
<td>AA+</td>
<td>AA+</td>
<td>AA+</td>
<td>AA+</td>
<td>AA+</td>
</tr>
<tr>
<td>5</td>
<td>Andhra Bank</td>
<td>Upper Tier II capital Bond</td>
<td>1000</td>
<td></td>
<td>AA+</td>
<td>AA+</td>
<td>AA+</td>
<td>AA+</td>
<td>AA+</td>
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<tr>
<td>6</td>
<td>Indian Overseas Bank</td>
<td>Perpetual Bond Rs</td>
<td>300</td>
<td></td>
<td>AA</td>
<td>AA</td>
<td>AA</td>
<td>AA</td>
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<td>7</td>
<td>Indian Overseas Bank</td>
<td>Lower Tier II Capital bond</td>
<td>290</td>
<td></td>
<td>AA</td>
<td>AA</td>
<td>AA</td>
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<td>AA</td>
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<tr>
<td>8</td>
<td>Indian Overseas Bank</td>
<td>Upper Tier II Capital Bond</td>
<td>510</td>
<td></td>
<td>AA</td>
<td>AA</td>
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<tr>
<td>9</td>
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<td>Lower Tier II capital Bond</td>
<td>600</td>
<td></td>
<td>AAA</td>
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<td>AAA</td>
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<td>Fixed Deposit Programe</td>
<td>180</td>
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<td>AAA</td>
<td>AAA</td>
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<tr>
<td>11</td>
<td>Bank of India</td>
<td>IPDI</td>
<td>400</td>
<td></td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
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<td>12</td>
<td>MSIN Ltd</td>
<td>Long Term Debentures</td>
<td>20</td>
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<td>Union Bank of India</td>
<td>Perpetual Bonds</td>
<td>140</td>
<td></td>
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<td>AAA</td>
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<td>14</td>
<td>Canara Bank</td>
<td>IPDI</td>
<td>400</td>
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<td>AAA</td>
<td>AAA</td>
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<td>15</td>
<td>UCO Bank</td>
<td>Upper Tier II Bond Issue</td>
<td>175</td>
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<td>16</td>
<td>Corporation Bank</td>
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<td>2000</td>
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<td>AAA</td>
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<td>17</td>
<td>Dewan Housing Finance Ltd.</td>
<td>NCD</td>
<td>1000</td>
<td></td>
<td>AAA</td>
<td>AAA+</td>
<td>AAA+</td>
<td>AAA+</td>
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<td>18</td>
<td>Bank of Baroda</td>
<td>Upper Tier II Bond Issue</td>
<td>1000</td>
<td></td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
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<td>19</td>
<td>Union Bank of India</td>
<td>Tier I Perpetual Bond</td>
<td>250</td>
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<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
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<tr>
<td>20</td>
<td>Corporation Bank</td>
<td>Certificate of Deposits</td>
<td>2000</td>
<td></td>
<td>P+</td>
<td>P+</td>
<td>PR+</td>
<td>A+</td>
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<tr>
<td>21</td>
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<td></td>
<td>AA-</td>
<td>AAA</td>
<td>AAA</td>
<td>N/A</td>
<td>N/A</td>
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<td>22</td>
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<td>AAA+</td>
<td>AAA+</td>
<td>AAA+</td>
<td>AAA+</td>
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<td>Certificate of Deposit</td>
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<td>A+</td>
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<tr>
<td>25</td>
<td>Tata Communications Ltd</td>
<td>Long term Debt Issue</td>
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<td></td>
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<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
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<tr>
<td>26</td>
<td>Tata Chemicals Limited</td>
<td>Fixed Deposit</td>
<td>250</td>
<td></td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
</tr>
<tr>
<td>Sl. No</td>
<td>Company Name</td>
<td>Instrument *</td>
<td>Issue Size (Rs in Crs)</td>
<td>Brickwork Ratings</td>
<td>CRISIL</td>
<td>CARE</td>
<td>ICRA</td>
<td>Fitch</td>
<td></td>
</tr>
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<td>-------</td>
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<tr>
<td>28</td>
<td>IFCI Limited</td>
<td>Existing &amp; Fresh borrowings</td>
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<td>AAA</td>
<td>AAA</td>
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<td>N/A</td>
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<tr>
<td>29</td>
<td>Yes Bank Ltd.</td>
<td>Hybrid Tier I &amp; Lower Tier II Bond</td>
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<td>AA+</td>
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<td></td>
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<td>30</td>
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<td>350</td>
<td>AAA</td>
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<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Punjab National Bank</td>
<td>Tier I Perpetual Bond</td>
<td>700</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>Corporation Bank</td>
<td>Tier I Perpetual Bond</td>
<td>300</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>Oriental Bank of Commerce</td>
<td>Lower Tier II / Upper Tier II Bond</td>
<td>500</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td></td>
</tr>
<tr>
<td>34</td>
<td>Development Credit Bank Ltd.</td>
<td>Rating Tier II Subordinate Bonds</td>
<td>100</td>
<td>A-</td>
<td>BBB</td>
<td>N/A</td>
<td>N/A</td>
<td>A(ind)</td>
<td></td>
</tr>
<tr>
<td>35</td>
<td>Tulip Telecom Ltd.</td>
<td>Long Term Debts</td>
<td>100</td>
<td>AAA</td>
<td>A+</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>India Infrastructure Finance Company Ltd.</td>
<td>Bond Issue</td>
<td>2000</td>
<td>AAA(SO)</td>
<td>AAA</td>
<td>AAA</td>
<td>LAA</td>
<td>AAA</td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>Great Eastern Shipping Company Ltd</td>
<td>NCD</td>
<td>250</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>38</td>
<td>Tourism Finance Corporation of India</td>
<td>NCD</td>
<td>50</td>
<td>A-</td>
<td>N/A</td>
<td>AA+</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>39</td>
<td>Canara Bank</td>
<td>IPDI</td>
<td>300</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td></td>
</tr>
<tr>
<td>40</td>
<td>PTC India Financial Services Ltd</td>
<td>NCD</td>
<td>100</td>
<td>A</td>
<td>AA</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>41</td>
<td>Raghuleela Leasing &amp; Realestates Pvt Ltd</td>
<td>NCD</td>
<td>500</td>
<td>BBB+</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>42</td>
<td>Yes Bank Ltd.</td>
<td>Hybrid Tier I &amp; Lower Tier II Bond</td>
<td>55</td>
<td>A-</td>
<td>N/A</td>
<td>AA+</td>
<td>AAA</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>43</td>
<td>Bank of India</td>
<td>IPDI</td>
<td>325</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td></td>
</tr>
<tr>
<td>44</td>
<td>IREDA</td>
<td>Taxable Bonds</td>
<td>150</td>
<td>AAA(SO)</td>
<td>N/A</td>
<td>N/A</td>
<td>A+</td>
<td>(ind)</td>
<td></td>
</tr>
<tr>
<td>45</td>
<td>ASK Consultant Pvt Ltd</td>
<td>NCD</td>
<td>600</td>
<td>A(SO)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>46</td>
<td>Great Eastern Shipping Company Ltd</td>
<td>NCD</td>
<td>200</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>47</td>
<td>Mahindra &amp; Mahindra Finance Ltd.</td>
<td>NCD</td>
<td>200</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>48</td>
<td>Lakshmi Vilas Bank Ltd.</td>
<td>Lower Tier II Bond</td>
<td>100</td>
<td>A</td>
<td>A</td>
<td>BBB+</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>49</td>
<td>GVK Airport Developers Ltd</td>
<td>Bonds</td>
<td>750</td>
<td>AA(SO)</td>
<td>AAA</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>Andhra Bank</td>
<td>Lower Tier II Bonds</td>
<td>500</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td></td>
</tr>
<tr>
<td>51</td>
<td>Great Eastern Shipping Company Ltd</td>
<td>NCD</td>
<td>500</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>52</td>
<td>Akarsh Residence Pvt Ltd</td>
<td>NCD</td>
<td>500</td>
<td>BB</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td>53</td>
<td>Yes Bank Ltd.</td>
<td>Tier II Bonds</td>
<td>50</td>
<td>AAA</td>
<td>N/A</td>
<td>AA+</td>
<td>AA+</td>
<td>N/A</td>
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</tr>
<tr>
<td>54</td>
<td>Ushodaya Enterprises Pvt Ltd</td>
<td>Debt</td>
<td>500</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td>55</td>
<td>TTC India Financial Services Ltd</td>
<td>NCD</td>
<td>100</td>
<td>AA</td>
<td>AA</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td>56</td>
<td>K Lakshmi Cements Ltd.</td>
<td>NCD</td>
<td>200</td>
<td>AA</td>
<td>AA</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>57</td>
<td>Corporation Bank</td>
<td>Enhancement of CD from 10000 to 12000 Cr</td>
<td>2000</td>
<td>P1+</td>
<td>P1+</td>
<td>PR1+</td>
<td>A+</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>58</td>
<td>Gemini Industries &amp; Imaging Pvt Ltd</td>
<td>NCD</td>
<td>50</td>
<td>AA</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>SL No</td>
<td>Company Name</td>
<td>Instrument*</td>
<td>Issue Size (Rs in Cr)</td>
<td>CRISIL Ratings</td>
<td>CARE</td>
<td>ICRA</td>
<td>Fitch</td>
<td></td>
<td></td>
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<td>-------</td>
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<td>------------------------</td>
<td>-----------------------</td>
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<td>-------</td>
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<tr>
<td>60</td>
<td>Ultra Space Developers Private Ltd</td>
<td>Debenture Issue</td>
<td>175</td>
<td>BB</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>61</td>
<td>United Phosphorus Ltd</td>
<td>NCD</td>
<td>300</td>
<td>AA+</td>
<td>N/A</td>
<td>AA+</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>62</td>
<td>Sistema Shyam TeleServices Limited</td>
<td>NCD issue</td>
<td>1400</td>
<td>BBB+/Stable</td>
<td>N/A</td>
<td>N/A</td>
<td>LA  (ind)</td>
<td></td>
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</tr>
<tr>
<td>63</td>
<td>Unitech India Ltd.</td>
<td>NCD issue</td>
<td>675</td>
<td>BBB</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<td></td>
</tr>
<tr>
<td>64</td>
<td>Maharashtra Airport Development Company Ltd</td>
<td>NCD Issue</td>
<td>150</td>
<td>A+/Stable</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td>65</td>
<td>Manappuran General Finance and Leasing Ltd.</td>
<td>NCD Issue</td>
<td>100</td>
<td>AA/-Stable</td>
<td>N/A</td>
<td>N/A</td>
<td>LA+</td>
<td></td>
<td></td>
</tr>
<tr>
<td>66</td>
<td>REL Agro Ltd.</td>
<td>NCD Issue</td>
<td>100</td>
<td>A</td>
<td>N/A</td>
<td>A</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>67</td>
<td>National Housing Bank</td>
<td>NCD Issue/Bonds</td>
<td>10000</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>68</td>
<td>JSW Techno Projects Management Ltd.</td>
<td>NCD/Loan</td>
<td>300</td>
<td>A(SO)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>69</td>
<td>PTC India Financial Services Ltd.</td>
<td>NCD Programme</td>
<td>300</td>
<td>AA/Stable</td>
<td>AA</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>70</td>
<td>Trent Limited</td>
<td>NCD Programme</td>
<td>75</td>
<td>AA/-Stable</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
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<tr>
<td>71</td>
<td>Dewan Housing Finance Ltd.</td>
<td>FD Programme</td>
<td>300</td>
<td>FAAA</td>
<td>AA+</td>
<td>AA+</td>
<td>N/A</td>
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</tr>
<tr>
<td>72</td>
<td>Rajasthan Rajya Vidyut Prasaran Nigam Ltd.</td>
<td>Bond Issue</td>
<td>350</td>
<td>A(SO)</td>
<td>A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>73</td>
<td>Yantii Buildcon Pvt. Ltd.</td>
<td>NCD Programme</td>
<td>75</td>
<td>BBB</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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</tr>
<tr>
<td>74</td>
<td>Brassco Estates Pvt. Ltd.</td>
<td>NCD</td>
<td>450</td>
<td>AA(SO)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>75</td>
<td>Yes Bank Ltd.</td>
<td>Bonds</td>
<td>450</td>
<td>AA+/Stable</td>
<td>AA</td>
<td>AA+</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>76</td>
<td>Moneywire Financial Services Pvt. Ltd.</td>
<td>Non Convertible redeemable Debentures</td>
<td>20</td>
<td>B+/Stable</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>77</td>
<td>Era Housing &amp; Developers (India) Limited</td>
<td>Secured NCD</td>
<td>100</td>
<td>AA-(SO)/Stable</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>78</td>
<td>Canara Bank</td>
<td>IPDI Series III</td>
<td>800</td>
<td>AAA/ Stable</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>79</td>
<td>Tata Teleservices Ltd.</td>
<td>Unsecured NCD for 15 Years</td>
<td>500</td>
<td>A+/Stable</td>
<td>N/A</td>
<td>A+</td>
<td>AAA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>80</td>
<td>Yes Bank Ltd.</td>
<td>IPDI</td>
<td>230</td>
<td>AA+/Stable</td>
<td>N/A</td>
<td>AA+</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>81</td>
<td>Geetanjali Trading &amp; Investments (P) Ltd.</td>
<td>NCD Issue</td>
<td>200</td>
<td>AAA(SO)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

N/A = Not Available

*Instruments below Rs.100 Crs need only one Rating / Rated Instruments not strictly comparable in terms of tenor and issue size.
Item: Including Brickwork as an approved Credit Rating Agency

The Background

1. Credit rating is an independent assessment of the creditworthiness of a borrower or bond issuer undertaken by a credit rating agency. It provides an opinion on the relative degree of risk associated with timely payment of interest and principal on a debt instrument. In India, there are four well-known credit rating agencies, viz., Crisil, ICRA, CARE, and Fitch. Crisil and ICRA have association with international rating agencies Standard and Poor’s and Moody’s, respectively. Each agency has a slightly different scale for rating, using A, B, and C categories, with fine gradations of each. The symbols used by different Credit Rating Agencies are presented below:

<table>
<thead>
<tr>
<th>Description (with regard to the likelihood of meeting debt obligations on time)</th>
<th>Symbol (Rating category)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highest Safety</td>
<td>AAA (ind)</td>
</tr>
<tr>
<td>High Safety</td>
<td>CARE AAA L AAA AAA (ind)</td>
</tr>
<tr>
<td>Adequate Safety</td>
<td>A CARE A L A A (ind)</td>
</tr>
<tr>
<td>Moderate Safety</td>
<td>BBB CARE BBB L BBB BBB (ind)</td>
</tr>
<tr>
<td>Inadequate Safety</td>
<td>BB CARE BB L BB BB (ind)</td>
</tr>
<tr>
<td>High Risk</td>
<td>B CARE B L B B (ind)</td>
</tr>
<tr>
<td>Substantial Risk</td>
<td>C CARE C L C C (ind)</td>
</tr>
<tr>
<td>Default</td>
<td>D CARE D L D D (ind)</td>
</tr>
</tbody>
</table>

2. Securities with a rating of BBB- and above (on the Crisil’s scale) are considered to be "investment grade", while those below are reckoned to be "speculative".

3. EPFO invests only in fixed income instruments and hence, it places a very high premium on the credit-worthiness of the issuers where investments are made. In most of the cases, ratings equal to or more than AA only are accepted. In fact, credit quality has been made an integral part of our performance evaluation (of portfolio managers) methodology itself and carries 10% weight in overall scoring, which has ‘yield’ and ‘maturity profile’ as two more parameters.

4. Present Guidelines concerning Credit Rating Agencies

The existing guidelines of EPFO are as under:-

“Criteria for Credit Rating Agencies – It is also proposed that the Rating Agency, whose ratings would be utilised for making investment decisions, should have completed a minimum 10 years of operations in India”.

As per the above guidelines, EPFO accepts credit rating done by only those agencies that have already completed 10 years of service in India. The guidelines were duly passed by the Central Board of Trustees in their 188th meeting held on 05/12/2009. Four credit rating agencies, viz., Crisil, ICRA, CARE and Fitch qualify as per the existing guidelines.

5. Representation by Brickwork

Brickwork is a relatively new company that started its operation in February 2008. They have forwarded representations to the Ministry as well as to EPFO requesting for relaxation of our
investment guidelines that stipulate that the credit rating agency whose services EPFO would be utilising for making investment decisions should have completed at least 10 years of service in India. As per their representation, they have requested for change in guidelines due to the following:

- They have obtained due approval from SEBI to carry out credit rating business in the country.
- As EPFO is one of the biggest investors in the fixed income category, EPFO’s guidelines have resulted in issuers avoiding credit rating by Brickworks, so much so that it may result in closure of their operations.
- Their systems and processes follow the best practices in the industry. They are open for testing their methodologies and processes to remove any doubt about their credit actions.

6. **EPFO’s Comments**

As explained earlier, the guidelines in question were framed as it was thought proper that there should be some criteria to utilize the credit rating by an approved agency.

The representation from Brickwork may, however, be considered as the agency has got due approval from SEBI, which is the regulator of rating agencies in the country; and EPFO does not want closure of an entity’s business due to adverse impact of its guidelines.

7. **The Proposal**

It is thus proposed to replace the existing guidelines with the following:-

"Criteria for Credit Rating Agencies:- The rating agencies whose ratings can be utilised for making Investment decisions, should have completed a minimum 10 years of operations in India. However, in cases where more than one rating would be required, the second and or subsequent ratings can be taken from any other SEBI approved Credit Rating Agency even though not having completed a minimum tenure of 10 years operations in India”.

The Item is placed before the FIC for consideration and recommendation to the CBT, EPF.
Some members suggested that the composition of the committee may be broadened to include the representatives of the Employers and Employees, one from each side.

It was decided to recommend the proposal to the CBT as under:

The Proposal

The CRAs registered with SEBI and having minimum ten years of experience of operation in India may be invited under the GFR provisions to assist EPFO in the selection of Fund Managers as well as their performance evaluation. The tenure of the Consultant for performance evaluation will be for three years subject to satisfaction of the quality of services rendered, drawn on periodical review. Further, a five member committee including one representative each from the Employees and the Employers side, would be constituted by the Board (CBT), for carrying out the exercise of selection of consultant.

Item 4: Including Brickwork as an approved Credit Rating Agency—Regarding.

The item was approved.

Item 5: Cleaning of Data—Inoperative Accounts—Regarding.

The FA&CAO put up the above agenda item which proposes to freeze Inoperative Accounts upto the balance of Rs. 500/-; stopping of crediting the interest in the Inoperative Accounts with the balance of Rs. 50,000/- and above; while leaving the Inoperative Accounts with the balance between Rs. 500 and Rs. 50,000/- as it is, subject to further policy decision in this regard.

2. Participating in the discussion, Dr. G.S. Reddy wanted that credit of interest be stopped in all Inoperative Accounts, regardless of their balances so that the active accounts could earn higher rate of interest.

3. As regards freezing of Inoperative Accounts with certain balances, there was no unanimity among the members of the Committee. Shri B.N. Rai stressed that while the Committee may recommend stopping of crediting the interest in all Inoperative Accounts, the accounts which were to be frozen should be left for the decision of the CBT. Shri A.D. Nagpal also held the same view. However, they added that in genuine cases the interest should be credited when a member comes for final settlement. On this, the FA&CAO observed that in such case the database of all the members would have to be maintained and no Inoperative accounts could be frozen. This will not help reconciling the actual workload. The Chairman also agreed with this and stated that both the things cannot be carried together as it will create accounting problem.
**Item 6 of 100th FIC**

**100th FIC Meeting:**

An Agenda item on the above subject was placed in 99th meeting of the Finance and Investment Committee held on 28.07.2010 (*Annexure 'A'). The following issues were placed before the Committee for consideration:

- Very small amounts (say less than Rs.500) be transferred to SRF Account or Interest Suspense Account as the cost of maintenance is higher than its real worth;
- Members holding sumptuous balances (say Rs.50,000 or more) be identified through employer and advised to either apply for transfer or withdraw the accumulations. Restrictions to be imposed on retention of membership as ‘Social Security’ and ‘Investment for Better Returns’ are two different issues. Payment of annual interest on inoperative accounts to be stopped after Twelve Months if the member fails to claim the money;
- For the members having balances of more than Rs. 500 and less than Rs. 50,000 at their credit shall continue as such till the next Policy decision.

2. After due deliberations the Committee recommended (*Annexure 'B') the following:

"...the Inoperative Accounts should not be credited with interest from the next of the financial year in which they become inoperative. The Committee also recommended that considering the cost of maintenance of these Inoperative Accounts, the CBT may take a decision regarding ceasing of the Inoperative Accounts with small balances. The Committee also desired that some more analysis in this regard be carried out by the Officers of the EPFO before taking an Agenda item to the CBT."

3. An analysis of the cost factor involving maintenance of Inoperative accounts was accordingly carried out which is placed at *Annexure 'C'.*

4. A reference was also made to Legal Advisor (*Annexure 'D') and his opinion was sought on following counts:

a) Whether the amount lying in inoperative accounts can be closed up to a certain amount lying in the balance, and transferred to Special Reserve Fund or the Interest Suspense Accounts so that this amount may be available for disbursement of interest to the existing current members. Once it is possible then the amount could be decided by the Central Board of Trustees, upto what extent such accounts can be closed.

b) The balance in the inoperative account can be frozen and kept separately in dormant accounts, with no further interest being added after it becomes inoperative. In case a member claims such amount later, they can be given the capital amount as existing on the day it becomes inoperative, with no further interest added.
**Item 6 of 100th FIC**

c) It may also be noted that the period of 36 months for the account to be inoperative is also defined in para 72(6) of EPF Scheme. We would like to know whether this period of 36 months could be changed to any other period as may be fixed by the Central Board of Trustees and the Government.

5. The Legal Advisor provided (Annexure 'E') the following legal opinion:

   a) "The amount lying in inoperative accounts cannot be closed up as this would amount to extinguishing the property right of the account holder. It is being opined that the amount lying in inoperative accounts can be presumed abandoned if it is unclaimed by the apparent owner during the specified time say of 36 months and transferred to Unclaimed Fund so that this amount may be available for safe custody and disbursement.

   b) Those account holders who do not come forward to collect their dues for a specified period say 36 months may not be entitled for interest provided a specific provision to this effect is incorporated in the EPF Scheme, 1952.

   c) The change of period of 36 months for the account to be inoperative as defined in para 72(6) of EPF Scheme in case is changed to any other period as may be fixed by the Central Board of Trustees, the same may be assailed on the ground of excessive delegation.

   d) A holder may deduct from an account a charge imposed by reason of the owner's failure to claim the property within a specified time only if there is a valid and enforceable written contract between the holder and the owner under which the holder may impose the charge. The amount of the deduction is limited to an amount that is not unconscionable."

6. In the light of the above, the following issues are placed for consideration:

   1) No interest may be credited to account holders who do not come forward to collect their dues for 36 months, from the 37th month. A specific provision to this effect is proposed in the EPF Scheme, 1952. (Annexure 'F')

   2) The balance lying in Inoperative Account will remain inoperative. In case, a member claims such amount later, he can be given the principal amount as existing on the day it becomes inoperative, with no further interest added.

   3) A Dormancy Charge towards maintenance of Inoperative Accounts is proposed to be levied at the rate of Rs. 100 per account per annum, and provided in the Scheme. A provision is annexed. This amount will be credited in the Interest Suspense Account (Annexure 'G')

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**Proposal:** The matter is placed before the Finance and Investment Committee for consideration of the proposal at Para 6 above and taking an appropriate decision.
Office is in the process of computerisation of all the accounts through a separate project. The project commenced operation in 28 offices and other offices are joining in phases. As an essential requirement to implementation of project, clean data is required for basic information that is Form-9, Form-24 etc, constitute members basic information and members’ financial information. The office has already taken steps to clean the existing data by various methods.

As per an analysis made it is found that a good portion of the workload pertains to inoperative accounts. Inoperative accounts are formed under para 72(6) of the EPF Scheme.

- When no subscription comes to an account for three years the account is treated as INOPERATIVE ACCOUNT (non-contributing accounts).
- This is purely to differentiate it (in terms of workload on staff) from other accounts where monthly subscriptions are regular.
- Member can retain his account without any limitation as per EPF Scheme provisions. Some members also retain the EPF account with sumptuous balance to receive higher yield in terms of interest compared to other savings schemes.
- Safety of funds also encourage some members to retain their funds for future requirements or social obligations instead of withdrawing immediately.

On a separate exhaustive exercise, it was found that many of the inoperative accounts are actually not unclaimed but purely Residual Balances and are very small amounts which are not worth maintaining as the cost of maintaining the account would be more than the amount in the account. An analysis of range-wise inoperative accounts based on various slots is given below:

<table>
<thead>
<tr>
<th>Range</th>
<th>Sample data for 22 Offices</th>
<th>Sample data extrapolated to 120 offices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Accounts</td>
<td>% to total</td>
</tr>
<tr>
<td>1-100</td>
<td>1126448</td>
<td>11.13</td>
</tr>
<tr>
<td>1-250</td>
<td>2171542</td>
<td>21.46</td>
</tr>
<tr>
<td>101-250</td>
<td>1045094</td>
<td>10.33</td>
</tr>
<tr>
<td>1-500</td>
<td>3499427</td>
<td>34.58</td>
</tr>
<tr>
<td>251-500</td>
<td>1327885</td>
<td>13.12</td>
</tr>
<tr>
<td>1-1000</td>
<td>5191395</td>
<td>51.3</td>
</tr>
<tr>
<td>501-1000</td>
<td>1691968</td>
<td>16.72</td>
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<tr>
<td>1-2000</td>
<td>6889467</td>
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<tr>
<td>1-3000</td>
<td>7751364</td>
<td>76.6</td>
</tr>
<tr>
<td>1-4000</td>
<td>8268241</td>
<td>81.71</td>
</tr>
<tr>
<td>1-5000</td>
<td>8608548</td>
<td>85.07</td>
</tr>
</tbody>
</table>
1. The analysis clearly points out at 51 per cent of accounts having less than Rs.1000 in the account. Balance can be as low as Rs. 1 or 2 whereas maintaining the accounts means having staff members as per norms, place for storing records both physically and electronically. A table showing growth of Rs.10 received as contribution in 1992-93 growing to Rs.143/- by 2009-10 is placed in Annexure I. The amount involved is less than 7% of the total amount in the inoperative accounts whereas the space required for keeping the records, time and cost in terms of maintaining the records, etc, are much high. In view of this, it is felt necessary to identify and eliminate the non-cost effective inoperative accounts by a suitable change in the provisions existing in the scheme.

2. Over 1.05 crore accounts constituting 34.58% of total inoperative accounts have less than Rs.500/- in each account. These are mostly residual balances with very meagre balance due to calculation mistakes coupled with interest earned over the years. There can also be cases of very meagre contribution due to employment of a worker for hardly one or two days only. The actual contribution amount could be as low as Rs.100 or Rs.150 (e.g. Rs.154 contributed in 1994-95 would have become Rs.750/- by the year 2009-10 by addition of annual interest; ironically Rs.150 is less than three days’ minimum wage for the year 1994-95). The efforts to identify the member and pay back the amount would be more costly than the amount to be paid. The cost involved in maintaining these accounts either physically or electronically would keep growing while the amount may never be claimed at all keeping in view such a low quantum. As such, these accounts are not viable in any manner to hold se •...tely. Amounts upto Rs.500/- can be permanently absorbed in the corpus by closing the accounts by credit of the total amount to SRF Account.

3. In respect of EPS '95 too, the withdrawal benefit available for the amounts upto Rs.500 as on 31-3-2010 would be ZERO amount as per the provisions of the Pension Scheme (considering member receiving a minimum wage for each month of working, the total would be less than six months contribution).

4. In respect of residual balances, the instructions to field offices are that the claims for both the schemes, viz., EPFS and EPS should be processed simultaneously; wherever the withdrawal claim under EPS '95 is processed, the pension account of
the member would be closed and there would not be any residual balance under EPS '95. Hence, the number of cases for EPS would be lower than that of EPF Scheme limited to inoperative accounts other than residual balance cases only.

5. Over 33 lakh accounts constituting 11.13% of total inoperative accounts have less than Rs.100/- in each account. These are mostly residual balances with very meagre balance due to calculation mistakes coupled with interest earned over the years. The actual contribution amount could be as low as Rs.25 or Rs.30. The efforts to identify the member and pay back the amount would be more costly than the amount to be paid. The cost involved in maintaining these accounts either physically or electronically would keep growing while the amount never be claimed at all keeping in view such low quantum. As such, these accounts are not viable in any manner to hold separately.

6. There are also cases of members having sumptuous balances who prefer to retain the amount in EPF account due to higher rate of interest earned compared to that earned in market. These accounts are additional burden on EPFO not only in terms of workload but also in terms of payment of higher rate of interest to inoperative account which does not fall within the scope of social security as the members are rich, educated and capable of planning for future. Since EPFO is not receiving any administrative charges on these inoperative accounts, maintaining the accounts is additional burden on the resources of EPFO and it is highly desirable to discourage such cases. Separate action is being taken to identify these members and settle the claims expeditiously. Pending claim application for withdrawal from the members holding an amount of Rs. 50000/- or more, it is proposed that credit of annual interest may be stopped on these accounts after six months from date of becoming Inoperative Account in order to discourage the members from holding amount in EPF.

Issues for Consideration

- Very small amounts (say less than Rs.500) be transferred to SRF Account or Interest Suspense Account as the cost of maintenance is higher than its real worth;
- Members holding sumptuous balances (say Rs.50,000 or more) be identified through employer and advised to either apply for transfer or withdraw the accumulations. Restrictions to be imposed on retention of membership as 'Social Security' and 'Investment for Better Returns' are two different issues. Payment of annual interest on inoperative accounts to be stopped after TWELVE MONTHS if the member fails to claim the money;
- For the members having balances of more than Rs. 500 and less than Rs. 50,000 at their credit shall continue as such till the next Policy decision.

A proposed amendment to scheme provisions is placed in annexure II.

Proposal: The proposal contained in the memoranda is placed before the Finance & Investment Committee, CBT, EPF for consideration.
Annexure I

Sample calculation of Inoperative Account of Rs. 10 from 1992-93 to 2009-10

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Rate</th>
<th>Interest</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>10</td>
<td>12</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>1993</td>
<td>11</td>
<td>12</td>
<td>1</td>
<td>12</td>
</tr>
<tr>
<td>1994</td>
<td>12</td>
<td>12</td>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>1995</td>
<td>13</td>
<td>12</td>
<td>2</td>
<td>15</td>
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<td>1996</td>
<td>15</td>
<td>12</td>
<td>2</td>
<td>17</td>
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<td>1997</td>
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<td>2</td>
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<td>24</td>
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<td>8.5</td>
<td>10</td>
<td>132</td>
</tr>
<tr>
<td>2020</td>
<td>132</td>
<td>8.5</td>
<td>11</td>
<td>143</td>
</tr>
</tbody>
</table>
### 72. Payment of Provident Fund.

(6) Any amount becoming due to a member as a result of (i) supplementary contribution from the employer in respect of leave wages/ arrears of pay, instalment of arrear contribution received in respect of a member whose claim has been settled on account but which could not be remitted for want of latest address, or (ii) accumulation in respect of any member who has either ceased to be employed or died, but no claim has been preferred within a period of three years from the date it becomes payable, or if any amount remitted to a person, is received back undelivered, and is not claimed again within a period of three years from the date it becomes payable, shall be transferred to an account to be called the Inoperative Account.

Provided that in the case of a claim for the payment of the said balance, the amount shall be paid by debiting the Inoperative Account.

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**PROVIDED further that in case the amount available in the balance of the member in the Inoperative Account is Rs.50000/- or more, and the member fails to prefer a claim for withdrawal of the same within Twelve months of its becoming Inoperative Account, then the balance in the account shall be frozen and no interest shall be credited to such frozen account.** As and when the members makes a claim for withdrawal then the balance in such frozen account shall be payable to the member/claimant.
<table>
<thead>
<tr>
<th>Para 26 A (1)</th>
<th>Para 26 A (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A PROVISO TO BE APPENDED AFTER THE EXISTING PROVISION</td>
<td>Provided that where the balance in the Inoperative account of a member is Rs. 500/- (Rupees Five Hundred only) or less as at the end of any financial year, such member shall cease to continue as member of the Fund and the balance in his/her Inoperative Account stands transferred to the Special Reserve Fund.</td>
</tr>
</tbody>
</table>
EMPLOYEES' PROVIDENT FUND ORGANISATION
MINUTES OF THE
MEETING OF THE F.I.C., 28.07.2010

Agenda Item No. 6

Subject: Cleaning of Data – Inoperative Accounts

The FA&CAO put up the above agenda item which proposes to freeze Inoperative Accounts up to the balance of Rs. 500/-; stopping of crediting the interest in the Inoperative Accounts with the balance of Rs. 50,000/- and above; while leaving the Inoperative Accounts with the balance between Rs. 500 and Rs. 50,000/- as it is, subject to further policy decision in this regard.

2. Participating in the discussion, Dr. G.S. Reddy wanted that credit of interest be stopped in all Inoperative Accounts, regardless of their balances so that the active accounts could earn higher rate of interest.

3. As regards freezing of Inoperative Accounts with certain balances, there was no unanimity among the members of the Committee. Shri B.N. Rai stressed that while the Committee may recommend stopping of crediting the interest in all Inoperative Accounts, the accounts which were to be frozen should be left for the decision of the CBT. Shri A.D. Nagpal also held the same view. However, they added that in genuine cases the interest should be credited when a member comes for final settlement. On this, the FA&CAO observed that in such case the database of all the members would have to be maintained and no Inoperative accounts could be ceased. This will not help reconciling the actual workload. The Chairman also agreed with this and stated that both the things can not be carried together as it will create accounting problem.
4. The members further deliberated that they would come up with some solution after having discussions amongst the Trade Unions.

5. In the light of the above discussion, the Committee recommended that the Inoperative Accounts should not be credited with interest from the next of the financial year in which they become inoperative. The Committee also recommended that considering the cost of maintenance of these Inoperative Accounts, the CBT may take a decision regarding ceasing of the Inoperative Accounts with small balances. The Committee also desired that some more analysis in this regard be carried out by the Officers of the EPFO before taking an Agenda item to the CBT.

***
Maintenance Cost per Inoperative Account on minimum base

A. Staff Cost - Norms:
One Assistant for 7400 Inoperative Accounts (@ 3:2 of SSA to SSA TBP)
One General Clerk for Five Assistants (Junior most)
One Section Supervisor for 5+1 Assistants
½ Accounts Officer for one Accounts Section
¼ APFC for one Accounts Section
½ Steno @ 1 steno per two APFCs
7.5% staff for HRM against total staff
1% Statistical Assistant on total staff subject to min. 1 for office
1 Dealing Assistant for 17000 Accounts for Cash

B. Pay Scales would be as follow:
SSA @ Rs.9840 (including Grade pay with basic pay*1.86 for SSA)
SSA TBP @ Rs.15388 (including Grade pay with basic pay*1.86 for SSA TBP)
SS @ Rs.14830 (including Grade pay with basic pay*1.86 for SS)
AO @ Rs.16890/- (including Grade pay with basic pay*1.86 for AO)
APFC @ Rs.20280/- (including Grade pay with basic pay*1.86 for APFC)

Pay+GP of SSA for one A/cs Section 39360
Pay+GP of SSA TBP for one A/cs Section 30776
Pay+GP of SS for one A/cs Section 14830
Pay+GP of AO for one A/cs Section 8445
Pay+GP of APFC for one A/cs Section 5070
Pay+GP of SSA for one A/cs Section 26246
Pay+GP of SSA for one A/cs Section 2460
Pay+GP of SSA for one A/cs Section to HRM 9182
Pay+GP of SSA for one A/cs Section to Statistics 1212
(* SS / APFC, etc not considered for other sections)

TOTAL PAY COST 137581
Add: DA @ 35%
HRA @ 20% average 41274
Transport Allowance 14146

Total Salary Cost for 37000 Inoperative A/cs per month 246106

Total Salary Cost for 37000 Inoperative A/cs per Annum 29,53,278

Annual Salary Cost per inoperative account is Rs.79.82 (80/-)
The ratio of Pay cost to non Pay expenses is 83.62 : 16.38
Non salary cost for each inoperative account per annum is Rs. 15.63
Total cost for each inoperative account per annum is Rs.95.45
(Say Rs.100 since entire pay cost is at the beginning of the pay and almost 80% officers and staffs are fairly seniors and actual pay would be much higher)
The above analysis of cost factor involving maintenance of Inoperative accounts reveals that Annual Salary Cost for maintaining one inoperative account comes out to Rs. 79.82 (on the basis of Actual expenditure of the Organisation for the year 2008-09). When Non-salary component of cost (contingent Expenditure) for maintaining each inoperative account, which is Rs. 15.63 per annum, is also taken into account, the total cost for maintaining each inoperative account comes out to Rs. 95.45 per annum (say Rs. 100, as entire pay cost is at the beginning of the pay and almost 80% officers and staff is fairly seniors and actual pay would be much higher).

The table on page 1 reveals that there are 11% inoperative accounts which have a balance even below Rs. 100/-. By this reckoning an account would already cost Rs. 300/- approx. on its maintenance before being dubbed as Inoperative account.
Sub: Legal Advice sought for in respect of Inoperative Accounts under EPF Scheme, 1952.

The EPF provides for individual accounts to be maintained of the members which are credited with interest every year depending on the income earned on the investments of the provident fund amount of the members.

2. There is a provision in the EPF Scheme to treat such member's accounts where there has been no contribution or withdrawal for a period of 36 months as 'Inoperative Accounts'. (Para 72(8)) of the EPF Scheme refers. There is no provision in the present Scheme about how to deal with Inoperative Accounts, although there is a term ‘Inoperative Accounts’ yet they are treated at par with the other live accounts and interest is added on these accounts at par as applicable to other members.

3. An analysis has revealed that a large number of such inoperative accounts with small balances have accumulated. After a member has claimed his provident fund account and left the organisation, it is difficult to trace such members. After leaving, the employers often credit such amounts with arrear accounts at the end of the year. Over a period of time, these accounts have swelled due to addition of interest. It is necessary to deal with these accounts, so that the account of such members do not choke our normal functioning.

4. In view of this, an agenda note is proposed to be placed before Central Board of Trustees(CBT). It was earlier taken up with Finance & Investment Committee which recommended certain steps. The recommendations are:

(i) Small amounts say less than Rs.500/- to be closed and the amount will be transferred to Special Reserve Fund. These members or their dependants will thereafter have no access to this fund as they will be closed.

(ii) Regarding the other accounts, it has been proposed that the balance in the inoperative account will seize to be credited with interest and only the capital amount existing after 36 months of inoperation, will be continued and in case the claimant claims this amount after some years, they will be only given the capital amount existing as on the date when it became inoperative, and no interest thereafter will be added to his balance.

5. In order to take the issue with the Central Board of Trustees for a decision, legal opinion is sought on the following issues:
(a) Whether the amount lying in inoperative accounts can be closed up to a certain amount lying in the balance, and transferred to Special Reserve Fund or the Interest Suspense Accounts so that this amount may be available for disbursement of interest to the existing current members. Once it is possible then the amount could be decided by the Central Board of Trustees, up to what extent such accounts can be closed.

(b) The balance in the inoperative accounts can be frozen and kept separately in dormant accounts, with no further interest being added after it becomes inoperative. In case a member claims such amount later, they can be given the capital amount as existing on the day it becomes inoperative, with no further interests added.

(c) It may also be noted that the period of 36 months for the account to be inoperative is also defined in para 72(6) of EPF Scheme. We would like to know whether this period of 36 months could be changed to any other period as may be fixed by the Central Board of Trustees and the Government.

6. It may also be added that these inoperative accounts do not get any administrative charges from the employer unlike the current members for whom an administrative charges of 1.1% is charged from the employers. An analysis reveals that maintaining the inoperative accounts cost Rs.100 per annum per account which has to be paid from the funds which otherwise accrue to the existing members. A copy of the calculation sheet is also enclosed.

7. A copy of the agenda item proposed for CBT, the minutes of the FIC meeting and a copy of the EPF Scheme is enclosed for your ready reference.

8. The legal advice is sought for taking further action on the issues at Para 5 above, along with any alternate mechanism/suggestions, that may be adopted for dealing with such accounts.

(S.CHATTERJEE)
CENTRAL PROVIDENT FUND COMMISSIONER

Shri K.N.Chaturvedi,
U2, Lower Ground Floor,
Green Park Main,
New Delhi-110 016.

Encl: 1. Proposed Agenda item for the CBT meeting.
2. Minutes of the FIC meeting
3. Proposed changes in the Scheme
4. Cost of maintenance of inoperative accounts
5. Copy of the Scheme
(3) The aggregate amount of interest credited to the accounts of the members shall be debited to “Interest Suspense Account”.

(4) In determining the rate of interest, the Central Government shall satisfy itself that there is no overdrawal on the Interest Suspense Account as a result of the debit thereto of the interest credited to the accounts of members.

(5) Interest shall not be credited to the account of a member if he informs the Commissioner in writing that he does not wish to receive it. If, however, the member subsequently asks for interest, it shall be credited to his account with effect from the first day of the period of currency in which he makes a request therefor.

4. Legal Analysis -

4.1 Property is the most ambiguous of all categories of rights. It covers a multitude of rights. Fundamental right to property is dead. But the right to property is still a part of the Constitution under article 300-A of the Constitution. The State can take title to unclaimed property only in accordance with a procedure established by law.

4.2 In case the amount lying in inoperative accounts is closed up to a certain amount lying in the balance, and transferred to Special Reserve Fund or the Interest Suspense Accounts so that this amount may be available for disbursement of interest to the existing current members, it would amount to extinguishing the interest of persons who are part of inoperative accounts.

4.3 Modification of the Proposal
The amount lying in inoperative accounts can be presumed abandoned if it is unclaimed by the apparent owner during the specified time say of 36 months and transferred to Unclaimed Fund so that this amount may be available for safe custody and disbursement.

PRESUMPTIONS OF ABANDONMENT.
Property is presumed abandoned if it is unclaimed by the apparent owner during the period of 36 months.
Property is unclaimed if, for the applicable period set forth the apparent owner has not communicated in writing with the holder concerning the property or the account in which the property is held, and has not otherwise indicated an interest in the property.

4.4 At present para 60 (5) provides that, the Interest shall not be credited to the account of a member if he informs the Commissioner in writing that he does not wish to receive it. In this para one more category, namely of those who do not come forward to collect from their accounts may be added.

4.5 The balance in the inoperative accounts can kept separately in dormant accounts, with no further interest being added after it becomes inoperative. In case a member claims such amount later, they can be given the capital amount as existing on the day it becomes inoperative, with no further interest added.

4.6 DORMANCY CHARGE. A holder may deduct from an account a charge imposed by reason of the owner’s failure to claim the property within a specified time only if there is a valid and enforceable written contract between the holder
and the owner under which the holder may impose the charge. The amount of the deduction is limited to an amount that is not unconscionable.

5.1 Legal Opinion- The reference mentioned above is answered as under-

(a) The amount lying in inoperative accounts can not be closed up as this would amount to extinguishing the property right of the account holder. It is being opined that the amount lying in inoperative accounts can be presumed abandoned if it is unclaimed by the apparent owner during the specified time say of 36 months and transferred to Unclaimed Fund so that this amount may be available for safe custody and disbursement.

(b) Those account holders who do not come forward to collect their dues for a specified period say 36 months may not be entitled for interest provided a specific provision to this effect is incorporated in the EPF Scheme, 1952.

(c) The change of period of 36 months for the account to be inoperative as defined in para 72(6) of EPF Scheme in case is changed to any other period as may be fixed by the Central Board of Trustees, the same may be assailed on the ground of excessive delegation.

K.N. Chaturvedi
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<th>Existing Para</th>
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<tr>
<td><strong>60. Interest.</strong></td>
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<td>(1) The Commissioner shall credit to the account of each member interest at such rate as may be determined by the Central Government in consultation with the Central Board.</td>
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<td>(2) (a) Interest shall be credited to the member's account on monthly running balances basis with effect from the last day in each year in the following manner:—</td>
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</tr>
<tr>
<td>(i) on the amount at the credit of a member on the last day of the preceding year, less any sums withdrawn during the current year—interest for twelve months;</td>
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<td>(ii) on sums withdrawn during the current year—interest from the beginning of the current year up to the last day of the month preceding the month of withdrawal;</td>
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<td>(iii) on all the sums credited to the member's account after the last day of the preceding year—interest from the 1st day of the month succeeding the month of credit to the end of the current year;</td>
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<td>(iv) the total amount of interest shall be rounded to the nearest whole rupee (fifty paise counting as the next higher rupee).</td>
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</tr>
<tr>
<td>(b) In the case of a claim for the refund under paragraph 69 or 70, interest shall be payable up to the end of the month preceding the date on which the final payment is authorised irrespective of the date of receipt of the claim from the claimant concerned: Provided that interest up to and for the current month shall be payable on the claims which are authorised on or after the 25th day of a particular month along with actual payment after the end of the current month: Provided further that the rate of interest to be allowed on claims for refund for the broken currency period shall be the rate fixed for the financial year in which the refund is authorised.</td>
<td>(b) In the case of a claim for the refund under paragraph 69 or 70, interest shall be payable up to the end of the month preceding the date on which the final payment is authorised irrespective of the date of receipt of the claim from the claimant concerned: Provided that interest up to and for the current month shall be payable on the claims which are authorised on or after the 25th day of a particular month along with actual payment after the end of the current month: Provided further that the rate of interest to be allowed on claims for refund for the broken currency period shall be the rate fixed for the financial year in which the refund is authorised.</td>
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</table>
Provided also that the rate of interest to be allowed on claims for refund for the broken currency period shall be the last declared rate on Employees' Provident Fund and if the rate declared for any current year happens to be less than the previous year's declared rate, then it would accrue as bonus to the outgoing members and it shall be incorporated into calculation for deriving the current year's rate of interest at the end of the year and the claims settled under this proviso shall be final.

Explanation.— If an establishment is covered for the first time under the Act/Scheme during the course of the currency period the interest shall be allowed on the sums credited to the member's account on and from the first day of the month succeeding the month of credit to the end of the current year.

(3) The aggregate amount of interest credited to the accounts of the members shall be debited to “Interest Suspense Account”.

(4) In determining the rate of interest, the Central Government shall satisfy itself that there is no overdrawal on the Interest Suspense Account as a result of the debit thereto of the interest credited to the accounts of members.

(5) Interest shall not be credited to the account of a member if he informs the Commissioner in writing that he does not wish to receive it. If, however, the member subsequently asks for interest, it shall be credited to his account with effect from the first day of the period of currency in which he makes a request therefor.

Provided also that the rate of interest to be allowed on claims for refund for the broken currency period shall be the last declared rate on Employees' Provident Fund and if the rate declared for any current year happens to be less than the previous year's declared rate, then it would accrue as bonus to the outgoing members and it shall be incorporated into calculation for deriving the current year's rate of interest at the end of the year and the claims settled under this proviso shall be final.

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(6) Interest shall not be credited to the account of a member from the month subsequent to the month in which the account becomes inoperative.
### Annexure 'G'

<table>
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| **72. Payment of Provident Fund.**<br>(6) Any amount becoming due to a member as a result of (i) supplementary contribution from the employer in respect of leave wages/ arrears of pay, instalment of arrear contribution received in respect of a member whose claim has been settled on account but which could not be remitted for want of latest address, or (ii) accumulation in respect of any member who has either ceased to be employed or died, but no claim has been preferred within a period of three years from the date it becomes payable, or if any amount remitted to a person, is received back undelivered, and is not claimed again within a period of three years from the date it becomes payable, shall be transferred to an account to be called the ["Inoperative Account"]:

Provided that in the case of a claim for the payment of the said balance, the amount shall be paid by debiting the ["Inoperative Account"]: |
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Provided that in the case of a claim for the payment of the said balance, the amount shall be paid by debiting the ["Inoperative Account"]: |

**PROVIDED further that a sum of Rs. 100 per annum shall be levied from the balances of the member as of the date on which it becomes inoperative as Dormancy Charge. The amount so levied shall be transferred to the Interest Suspense Account under sub-head Dormancy Charges.**