103rd Meeting of the
FINANCE AND INVESTMENT COMMITTEE

[CENTRAL BOARD OF TRUSTEES, EMPLOYEES' PROVIDENT FUND]

on
28/01/2011 at 2.30 P.M.

VENUE:
Conference Hall,
3rd Floor, EPFO
Head Office,
Bhavishya Nidhi Bhawan,
14, Bhikaiji Cama Place,
New Delhi – 110 066.
Draft Minutes of the 103rd meeting of Finance & Investment Committee held on 28.01.2011

The 103rd meeting of the Finance and Investment Committee, Central Board of Trustees, Employees’ Provident Fund was held at 2.30 PM on 28.01.2011, 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>
</tr>
</thead>
<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 Addl. Secretary, Financial Advisor, Ministry of Labour &amp; Employment, Government of India</td>
</tr>
<tr>
<td>3.</td>
<td>Shri A. D. Nagpal</td>
<td>Member, CBT, EPF (Employees’ Representative)</td>
</tr>
<tr>
<td>4.</td>
<td>Shri Santosh Saraf</td>
<td>Member, CBT, EPF (Employers’ Representative)</td>
</tr>
<tr>
<td>5.</td>
<td>Shri Sharad Patil</td>
<td>Member, CBT, EPF (Employers’ Representative)</td>
</tr>
<tr>
<td>6.</td>
<td>Shri Rajesh Bansal</td>
<td>Convener and FA &amp; CAO, EPFO</td>
</tr>
</tbody>
</table>

(b) The following officers attended:

1. Shri K. L. Goyal, RPFC-I (IMC)
2. Shri Rajiv Bisht, RPFC-II (IMC)
3. Ms. Nidhi Singh, RPFC-II (IMC)
4. Shri Rakesh Kumar, RPFC-II (IMC)

Dr. G. Sanjeeva Reddy, Shri B.N. Rai and Dr. Ram S. Tameja could not attend the meeting and had sought leave of absence.

The Chairman welcomed all the members and officers present in the meeting.

Item No. 1: Confirmation of the Minutes of 102nd Meeting of the Finance and Investment Committee held on 07.12.2010 at EPFO HQ, New Delhi

The minutes were approved by all the members and Shri Santosh Saraf suggested that in future the reconciled categorywise statement of security holding of EPFO should be placed before FIC after reconciling the statement of holdings with the depository.

Item No. 2: Action Taken Report on the recommendations of the 101st and 102nd Finance and Investment Committee.

The Committee took note of the Action Taken Report.
Item No.3:- Review of Investments in respect of Provident Fund, Pension Fund & EDLI Fund up to 31.12.2010

The Committee took note of the statement of schemewise holdings. Shri Santosh Saraf suggested that it should be confirmed that the holdings reflected in the statements are drawn from reconciled accounts. This was noted for future.

Item 4: Relaxation in Investment Pattern to also allow investment in Term Deposit Receipts (TDR) issued by Public Sector Banks for duration more than a year

The item was withdrawn.

Item No 5: Review of decision on deferring further Investment in LIC Housing Finance Company in PVT. Sector Category.

Shri A.D. Nagpal suggested that in view of the explanation given by Department of Financial Services, Ministry of Finance and reaffirmation of the highest rating by M/s. CRISIL and M/s. CARE in respect of M/s. LIC Housing Finance Limited, we may recommend the restoration of investment in LIC Housing Finance ltd.

The Finance and Investment Committee, EPF considered the agenda item and decided to recommend to CBT, EPF to take a final decision on the issue.


The Finance and Investment Committee, EPF took note of the letter of the Finance Ministry and recommended that comments of EPFO thereon may be placed before CBT, EPF.

Item No 7: Discussion on letter of Finance Ministry regarding ratification of the decision to pay 9.5% interest on EPF accumulation for the year 2010-2011.

The Finance and Investment Committee, EPF took note of the letter of the Finance Ministry and the reply of the Labour Ministry thereon. The matter may be placed before the CBT, EPF meeting.

The meeting ended with vote of thanks to the Chair.
<table>
<thead>
<tr>
<th>Item No.</th>
<th>Agenda</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Confirmation of the Minutes of 102nd Meeting of the Finance and Investment Committee held on 07.12.2010 at EPFO Head Office, New Delhi</td>
<td>1-5</td>
</tr>
<tr>
<td>2.</td>
<td>Action Taken Report on the recommendations of the 101st and 102nd Finance and Investment Committee</td>
<td>6-10</td>
</tr>
<tr>
<td>4.</td>
<td>Relaxation in Investment Pattern to also allow investment in Term Deposit Receipts (TDR) issued by Public Sector Banks for duration more than a year.</td>
<td>16-21</td>
</tr>
<tr>
<td>5.</td>
<td>Review of decision on deferring further Investment in LIC Housing Finance Company in PVT. Sector Category.</td>
<td>22-29</td>
</tr>
<tr>
<td>6.</td>
<td>Any other item with the permission of the chair</td>
<td></td>
</tr>
</tbody>
</table>
Item No.1:- Confirmation of the Minutes of the 102nd meeting of the Finance & Investment Committee held on 07.12.2010 at EPFO, HQs, New Delhi.

Minutes of 102nd Finance and Investment Committee meeting held on 07th December 2010 were circulated vide letter No Invest. I/1(102)/FIC/2010/34137-60 dated 13.01.2011. No Comments have been received on the minutes of the above said meeting. Copy of the minutes is enclosed as Annexure – A to this item.

Minutes may be taken as confirmed.
Draft Minutes of the 102nd meeting of Finance & Investment Committee held on 07.12.2010

The 102nd meeting of the Finance and Investment Committee, Central Board of Trustees, Employees' Provident Fund was held at 12.00 Noon on 07.12.2010, 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>
</tr>
</thead>
<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>
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<td>2.</td>
<td>Shri Chaman Kumar</td>
<td>Vice Chairman, Finance and Investment Committee, CBT, EPF and Addl. Secretary, Financial Advisor, Ministry of Labour &amp; Employment, Government of India</td>
</tr>
<tr>
<td>3.</td>
<td>Shri A. D. Nagpal</td>
<td>Member, CBT, EPF (Employees' Representative)</td>
</tr>
<tr>
<td>4.</td>
<td>Shri B. N. Rai</td>
<td>Member, CBT, EPF (Employees' Representative)</td>
</tr>
<tr>
<td>5.</td>
<td>Shri Santosh Saraf</td>
<td>Member, CBT, EPF (Employers' Representative)</td>
</tr>
<tr>
<td>6.</td>
<td>Shri Sharad Patil</td>
<td>Member, CBT, EPF (Employers' Representative)</td>
</tr>
<tr>
<td>7.</td>
<td>Shri Abhay K. Singh</td>
<td>Convener and FA &amp; CAO, EPFO</td>
</tr>
</tbody>
</table>

(b) The following officers attended:

1. Shri K. L. Goyal, RPFC-I(IMC)
2. Shri V. Shyam Sunder, Director (Audit)
3. Shri Rajiv Bisht, RPFC-II (IMC)
4. Ms. Nidhi Singh, RPFC-II (IMC)
5. Shri Rakesh Kumar, RPFC-II (IMC)
6. Shri Manoranjan Kumar, RPFC-II (Investment)

Dr. G. Sanjeeva Reddy & Dr. Ram S. Tarneja could not attend the meeting and had sought leave of absence.

The Chairman welcomed all the members and officers present in the meeting.
Item 1: 

Confirmation of the Minutes of 101st Meeting of the Finance and Investment Committee held on 26.11.2010 at EPFO HQ, New Delhi

The minutes were approved by all the members.

Item 2:  

The Budget Book consisting of Revised Estimates for the year 2010-11 and Budget Estimates for the year 2011-12 was placed before the Finance & Investment Committee in its 102nd meeting held on 07.12.2010 in conference Hall at EPFO, Headquarters.

- Sh. A.D. Nagpal, Employee's representative expressed that the variation in all the accounts are not proportionately uniform. He sought to know the reason for difference in increase / decrease varying for A/c No. 1 and 2. It was informed that the two accounts have different incomes one by way of contribution which includes voluntary contribution whereas the account number 2 is for administrative expenditure which is restricted to ceiling. Since the income into the account or on different base the proportionate uniform growth will not be available.

- Sh. B.N.Rai, Employee's representative expressed the views that the specific reasons for variation on Income and Expenditure should be mentioned on each office on each page and variation should be not more than the 10% in any case. The Chairman instructed that each office having variation must be sought to give proper justification for the variation from next year onwards he assured the members that this exercise will be carried out meticulously in future. He further suggested that variation between BE for next year and RE for current year need to be examined closely and if there is any abnormality it should be matter of concern. It was further informed that the major variation in some offices mainly due to improper projection of budget estimate in the previous year which has now been rationalised based on actuals for the first half of the year.

- Sh. Santosh Saraf and Sh. Sharad Patil Employer's representatives expressed their views that the specific reasons for variation on Income and Expenditure should be mentioned on each page and variation should be not more than the 10% in any case and also have suggested that the expenditure under Furniture & Fixture should not be booked under the head Revenue Section , it should be booked under the head Capital Expenditure.

- FA&CAO clarified that as per the Accounting Policy of the Organisation except for the Land & Building all other heads of expenses are booked under the head of Revenue Expenditure. The CPFC advised that this should be reviewed and the capital items
having life spread over more than one year must be capitalized for proper accounting treatment as per standard practices.

- The Vice Chairman, Addl. Sec., Ministry of Labour & Employment desired RE & BE should follow up Government guidelines. Variation on higher side should be re-examined and the variations should usually be in the range of 10 -15 %.

- The Chairman expressed his displeasures on negative variation in Pension Fund Contribution and directed to re-examine the variation Region wise. He further informed that due care will be taken and proper analyses made in future while preparing RE/BE and all reasons would be properly brought out from next year onwards.

- The members pointed out that there is a surplus in Account No.2 to the tune of 993 crores and the rate of Administrative charges needs to be reviewed. The Employee's representatives expressed that this is due to savings on staff cost by non-recruitment and that the shortfall vacancies should be filled up by new recruitment so that the proper service can be rendered. The Chairman clarified that the directions to the concerned Divisions has already been given that the vacancies upto 31.12.2010 may be worked out and process for recruitment will be started in the month of January 2011.

- FA&CAO clarified that while formulating the estimates, instructions of the Ministry of Finance, Department of Expenditure vide their letter No. 7(1)E.Coord/2009 dated 7th September 2009 have been followed which stipulates the guidelines on variations. By and large, the guidelines have been followed but for the specified heads for which separate reasons are being assigned.

After the discussions, subject to the observations made by the members, the item was recommended for placing before the CBT.

**Item 3: Relaxation in Investment Guidelines to increase limit and expand the basket of instruments in Pvt. Sector**

The matter was first placed in the 101st meeting of the FIC, wherein the Committee expressed concern about the security of the bond, and even if secured, the level of such security.

The matter was placed again alongwith the relevant desired information regarding nature of security of the EPF investments.

The Committee decided to recommend the matter for approval to the CBT, subject to the following conditions:
1. All investments in the Private Sector Corporate Bonds should be secured only;
2. The security should be through the mortgage of the assets, may be through an SPV or it should be a fixed charged and / or first charge;
3. The rate of return on such instruments should fetch at least 200 basis points higher than the corresponding PSU Bonds;
4. The Net worth of the entity should be Rs. 5000 Crores or more.

The other conditions as stipulated in the agenda item shall remain.

The Chairman also proposed to put a cap on maximum investment amount in any single entity. However, it was thought proper to leave it to the discretion of the Fund Managers.

The FIC also desired that the reconciled category wise statement of security holdings of EPFO be regularly placed in all the FIC meetings in future.

*The meeting ended with vote of thanks to the Chair.*
**Item No. 2:** Action Taken Report on the recommendations of the 101st and 102nd Finance and Investment Committee.

<table>
<thead>
<tr>
<th>Reference</th>
<th>Subject</th>
<th>Decision</th>
<th>Action Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>101st FIC held on 26.11.2010</td>
<td>Item No. 3 Review of Investments in respect of Provident Fund, Pension Fund &amp; EDLI Fund up to 30.09.2010</td>
<td>It was decided by the committee that figures of investment in PSU/PVT Sector Bonds/Securities must be shown separately.</td>
<td>Decision of FIC was noted for compliance in future. (Action Complete)</td>
</tr>
<tr>
<td>Item No. 4 Performance evaluation of the Portfolio Managers for the period pending 30th September 2010</td>
<td></td>
<td>It was asked by one member if any fund manager has performed below the benchmark on the criteria of yield performance. It was clarified by the FA &amp; CAO that none of the fund managers has performed below the benchmark during the period April 2010 to September 2010. Further it was decided to enclose only summary of the performance evaluation report in the agenda booklet in place of the entire report in future. It was further decided that presentation by the consultant may be done once in a year.</td>
<td>Decision of FIC was noted for compliance in future. (Action Complete)</td>
</tr>
<tr>
<td>Item No. 5</td>
<td>Shifting investment from IIFCL Bonds to SDLs.</td>
<td>The issues relating to pattern of investment are actually covered under the domain of the Executive Committee (EC). However, there was a precedent where on referring the matter regarding 'New Investment Pattern', the E.C. had referred the matter to the FIC for its views. Keeping that in mind the matter was placed before FIC for their view on it which would be an input for EC meeting to be held on 08.12.2010.</td>
<td>The proposal was recommended to the Executive Committee for consideration, which in its 69th meeting held on 08.12.2010 approved the proposal for recommendation to the CBT. The CBT in its 191st meeting held on 09.12.2010 approved the proposal for recommendation to the Government. The proposal has been sent to Government accordingly on 20.01.2011.</td>
</tr>
<tr>
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</tr>
<tr>
<td>Item No. 6</td>
<td>Revised Estimates for the year 2010-11 and Budget Estimates for the year 2011-12 for the Employees' Provident Fund Scheme 1952, Employees' Pension Scheme 1995 and Employees' Deposit Linked Insurance Scheme 1976</td>
<td>It was decided to again rectify all the errors and circulate to place in next FIC.</td>
<td>The matter was placed in the 102nd meeting of the Finance and Investment Committee held on 07.12.2010.</td>
</tr>
<tr>
<td>Item 7</td>
<td>Relaxation in investment Guidelines for investment in Bonds/Securities of PSUs/PSBs/PSFIs- Expansion of limits to Networth</td>
<td>The Proposal at Para A (a) was not approved. The proposal as outlined at Para A (b) was approved for recommending to the CBT, EPF.</td>
<td>The proposal with the recommendation of FIC was placed in 191st meeting of CBT held on 09.12.2010, in which same was approved. The decision of the CBT was communicated to all the Portfolio Managers. (Action Complete)</td>
</tr>
<tr>
<td>Item 8</td>
<td>Relaxation in Investment Guidelines to increase limit and expand the basket of instruments in Pvt. Sector</td>
<td>The committee was concerned about the security on the bond, and even if secured, the level of such security. It was decided that this should be examined further regarding the security of the bond invested by the EPFO so far and whether we should add the private bond, should it be secured and with whom. The same should be placed before the committee on 07.12.2010 for further discussion and decision on the matter.</td>
<td>The item was placed afresh along with the information desired by the FIC in its 102nd meeting held on 07.12.2010 for consideration. (Action Complete)</td>
</tr>
<tr>
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</tr>
<tr>
<td>Item 9</td>
<td>Investment in dual AAA (SO) rated instruments</td>
<td>The item was approved for recommending to the CBT, EPF</td>
<td>The proposal with the recommendation of FIC was placed in 191st meeting of CBT held on 09.12.2010, in which same was approved. The decision of the CBT was communicated to all the Portfolio Managers. (Action Complete)</td>
</tr>
<tr>
<td>Item 10</td>
<td>Deferring further Investment in LIC Housing Finance Company in Private Sector Category (Tabled Item)</td>
<td>The item was recommended by FIC not to take further exposure in the entity till the whole issue is clarified</td>
<td>The proposal with the recommendation of FIC was placed in 191st meeting of CBT held on 09.12.2010, in which same was approved. The decision of the CBT was communicated to all the Portfolio Managers for compliance. (Action Complete)</td>
</tr>
</tbody>
</table>

**102nd FIC held on 07.12.2010**

| Item No. 2 | Revised Estimates for the year 2010-11 and Budget Estimates for the year 2011-12 for | It was decided this item was recommended for placing before the CBT, EPF. | On the recommendation of 102nd FIC held on 07.12.2010, the Revised Estimates for the year 2010-11 & Budget... |
Item No.3
Relaxation in Investment Guidelines to increase limit and expand the basket of instruments in Pvt. Sector

The Committee decided to recommend the matter for approval to the CBT, subject to the following conditions:
1. All investments in the Private Sector Corporate Bonds should be secured only;
2. The security should be through the mortgage of the assets, may be through an SPV or it should be a fixed charged and / or first charge;
3. The rate of return on such instruments should fetch at least 200 basis points higher than the corresponding PSU Bonds;
4. The Net worth of the entity should be Rs. 5000 Crores or more.

The other conditions as stipulated in the agenda item shall remain.

On the recommendations of FIC, the Item was placed before the CBT for approval in its 191st meeting held on 09.12.2010. The item was however deferred by CBT, and is not being pursued. (Action Complete)
| discretion of the Fund Managers. The FIC also desired that the reconciled category wise statement of security holdings of EPFO be regularly placed in all the FIC meetings in future. | 163rd meeting of FIC—28.01.2011 |
### Item No.3: Review of Investments in respect of Provident Fund, Pension Fund & EDLI Fund up to 31.12.2010

#### A. Review of Investment in respect of Provident Fund as on 31.12.2010

<table>
<thead>
<tr>
<th>S.N.</th>
<th>INVESTMENT CORPUS- UNEXEMPTED SECTOR</th>
<th>(All figures in Crores of Rupees)</th>
<th>A. PROVIDENT FUND INVESTMENTS (AT FACE VALUE)</th>
<th>As on</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>PROVIDENT FUND INVESTMENTS (AT FACE VALUE)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Central Govt. Securities</td>
<td>31.03.07</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td>18146.22</td>
<td>24004.21</td>
</tr>
<tr>
<td>2(a)</td>
<td></td>
<td></td>
<td>11970.43</td>
<td>16429.09</td>
</tr>
<tr>
<td>(b)</td>
<td></td>
<td></td>
<td>1497.32</td>
<td>1498.22</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td>52232.23</td>
<td>52297.55</td>
</tr>
<tr>
<td>4</td>
<td>Public Sector Financial Institutions</td>
<td>19991.16</td>
<td>27274.63</td>
<td>35735.33</td>
</tr>
<tr>
<td>5</td>
<td>Private Sector Bonds/Securities</td>
<td>11311.94</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>103837.4</td>
<td>121503.7</td>
<td>142977.39</td>
</tr>
</tbody>
</table>
### B. Review of Investment in respect of Pension Fund as on 31.12.2010

#### INVESTMENT CORPUS- UNEXEMPTED SECTOR

#### B. PENSION FUND INVESTMENTS (AT FACE VALUE) As on

<table>
<thead>
<tr>
<th></th>
<th>31.03.07</th>
<th>31.03.08</th>
<th>31.03.09</th>
<th>31.03.10</th>
<th>31.12.10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Central Govt. Securities</strong></td>
<td>17950.73</td>
<td>20289.35</td>
<td>24943.59</td>
<td>30503.13</td>
<td>33155.04</td>
</tr>
<tr>
<td><strong>State Govt.</strong></td>
<td>10068.05</td>
<td>11896.36</td>
<td>14668.42</td>
<td>15028.7</td>
<td>15054.19</td>
</tr>
<tr>
<td><strong>Govt. Guaranteed Securities</strong></td>
<td>1636.08</td>
<td>1620.95</td>
<td>1630.05</td>
<td>2934.7</td>
<td>2659.70</td>
</tr>
<tr>
<td><strong>Special Deposit Scheme</strong></td>
<td>1400.52</td>
<td>1400.52</td>
<td>1400.52</td>
<td>1400.52</td>
<td>1400.52</td>
</tr>
<tr>
<td><strong>Public Sector Financial Institutions</strong></td>
<td>17616.01</td>
<td>22085.18</td>
<td>24722.53</td>
<td>28117.27</td>
<td>27602.05</td>
</tr>
<tr>
<td><strong>Private Sector Bonds/Securities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>7119.76</td>
</tr>
<tr>
<td><strong>Public Account</strong></td>
<td>32934.83</td>
<td>36,809.06</td>
<td>41,213.17</td>
<td>45806.11</td>
<td>45806.11*</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>81,606.22</td>
<td>94,101.42</td>
<td>108,578.28</td>
<td>123,790.43</td>
<td>132,797.37</td>
</tr>
</tbody>
</table>

**Provisional figures due to the same under reconciliation**
Review of Investment in respect of EDLI Fund as on 31.12.2010

<table>
<thead>
<tr>
<th>INVESTMENT CORPUS- UNEXEMPTED SECTOR</th>
<th>As on</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>C. INSURANCE FUND INVESTMENTS (AT FACE VALUE)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>(All figures in Crores of Rupees)</strong></td>
<td></td>
</tr>
<tr>
<td>31.03.07</td>
<td>31.03.08</td>
</tr>
<tr>
<td>1 Central Govt. Securities</td>
<td>477.77</td>
</tr>
<tr>
<td>2(a) State Govt.</td>
<td>360.7</td>
</tr>
<tr>
<td>(b) Govt. Guaranteed Securities</td>
<td>29.85</td>
</tr>
<tr>
<td>3 Special Deposit Scheme</td>
<td>2.5</td>
</tr>
<tr>
<td>4 Public Sector Financial Institutions</td>
<td>751.77</td>
</tr>
<tr>
<td>5 Private Sector Bonds/Securities</td>
<td>3910.95</td>
</tr>
<tr>
<td>6 Public Account</td>
<td>5533.54</td>
</tr>
</tbody>
</table>

** Provisional figures due to the same under reconciliation.
<table>
<thead>
<tr>
<th>Corpus under different schemes lying invested in the securities approved by the Central Govt.</th>
<th>(All figures in Crores of Rupees) AT FACE VALUE</th>
<th>As on</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31.03.07</td>
<td>31.03.08</td>
</tr>
<tr>
<td>i) Provident Fund</td>
<td>103837.36</td>
<td>121503.7</td>
</tr>
<tr>
<td></td>
<td>(56.05%)</td>
<td>(57.17%)</td>
</tr>
<tr>
<td>II) Pension fund</td>
<td>81606.22</td>
<td>94101.42</td>
</tr>
<tr>
<td></td>
<td>(41.23%)</td>
<td>(40.20%)</td>
</tr>
<tr>
<td>III) Employees’ Deposit Linked Insurance Scheme</td>
<td>5533.54</td>
<td>6278.22</td>
</tr>
<tr>
<td></td>
<td>(2.72%)</td>
<td>(2.63%)</td>
</tr>
<tr>
<td>Total</td>
<td>190977.12</td>
<td>221883.34</td>
</tr>
<tr>
<td></td>
<td>(100%)</td>
<td>(100%)</td>
</tr>
</tbody>
</table>
Break-up of investments in different securities (AT FACE VALUE)

(FOR TOTAL OF ALL THREE FUND)

(All figures in Crores of Rupees)

<table>
<thead>
<tr>
<th></th>
<th>As on 31.03.07</th>
<th>As on 31.03.08</th>
<th>As on 31.03.09</th>
<th>As on 31.03.10</th>
<th>As on 31.12.10</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Central Govt. Securities</td>
<td>36,574.72</td>
<td>44,890.60</td>
<td>57,889.06</td>
<td>72,546.79</td>
<td>79689.29</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(24.16%)</td>
<td>(24.12%)</td>
</tr>
<tr>
<td>ii) State Govt. / Govt. Guaranteed Securities</td>
<td>25,562.43</td>
<td>32,011.38</td>
<td>39,643.26</td>
<td>47,054.92</td>
<td>48935.59</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(15.67%)</td>
<td>(14.81%)</td>
</tr>
<tr>
<td>iii) Special Deposit Scheme of Central Govt.</td>
<td>53,635.25</td>
<td>53,700.57</td>
<td>53,883.94</td>
<td>53,980.53</td>
<td>54031.55</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(17.98%)</td>
<td>(16.36%)</td>
</tr>
<tr>
<td>iv) Public Sector Financial Institutions</td>
<td>38,358.94</td>
<td>50,228.35</td>
<td>61,477.50</td>
<td>75,859.79</td>
<td>78192.80</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(25.27%)</td>
<td>(23.67%)</td>
</tr>
<tr>
<td>v) Private Sector Bonds/Securities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>18706.90</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(5.66%)</td>
</tr>
<tr>
<td>vi) Public Account</td>
<td>36,845.78</td>
<td>41,052.44</td>
<td>45,817.24</td>
<td>50,801.53</td>
<td>50801.53**</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(16.92%)</td>
<td>(15.38%)</td>
</tr>
<tr>
<td>Total</td>
<td>1,90,977.12</td>
<td>2,21,883.34</td>
<td>258711.00</td>
<td>300243.56</td>
<td>330357.66**</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(100%)</td>
<td>(100%)</td>
</tr>
</tbody>
</table>

** Provisional figures due to the same under reconciliation
Item 4: Relaxation in Investment Pattern to also allow investment in Term Deposit Receipts (TDR) issued by Public Sector Banks for duration more than a year

1. The investment strategy of CBT EPF Funds is governed by the Investment Pattern of 2003 (copy enclosed as Annexure – A) prescribed by the Government of India (Ministry of Labour). In the Investment Pattern there is restriction on the tenure of investments in term deposit receipts of the Public Sector Banks which is classified as Investments for short duration (less than a year).

2. Recently the Indian Financial market witnessed acute liquidity crisis in which all the banks were forced to raise the interest on their TDRs so as to raise the money from the market. The portfolio managers of EPFO sensing this attractive opportunity approached EPFO for relaxation in the Investment Pattern on restriction in tenure of TDR investments so as to enable them to capture the higher yields being offered in TDR investments viz a viz the other investment opportunities permissible as per the existing pattern. However they were not able to capitalize on this unique opportunity in view of the tenure restriction on TDR investments, in the current investment pattern.

3. This restriction in tenure of TDR investments has been adequately addressed in the New Investment Pattern 2008 (copy enclosed as Annexure – B) notified by the Ministry of Finance vide notification No 288 dated 14/08/2008 in which it is provided as per Para (ii) (b) "Term Deposit Receipts of not less than one year duration issued by schedule 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 net advances;

iv. Having a minimum net worth of not less than Rs 200 crores.

4. This kind of opportunity will keep coming in rapidly growing economy like India where the requirement of borrowing by lending Institutions will be outstripping the supply in which large Institutions like EPFO can capture higher yields through TDR investments. It may be noted that TDR investments are highly liquid being at the call of investor for redemption anytime earlier than maturity as well as very safe if invested only with Public Sector Banks. Thus if EPFO can consider requesting the Government for relaxation in the existing investment pattern for allowing investment in TDRs of more than a Year
then it will allow an additional avenue to EPFO within the current investment pattern for capturing higher yields in very safe and liquid avenue like TORs.

5. In this regard following proposal is placed for consideration:-

<table>
<thead>
<tr>
<th>PRESENT PROVISIONS</th>
<th>SUGGESTED CHANGES</th>
<th>EFFECTS OF CHANGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. In the Investment Pattern 2003 for investment in TORs it is provided in Para (iii) (b) as follows “ Short duration (less than a year) Term Deposit Receipts (TDR) issued by Public Sector Bank”</td>
<td>The existing restriction on the tenure of TDR investments of less than one year be removed and investment in TDRs of more than a year be permitted in Public Sector Banks.</td>
<td>If the proposal is considered it will open new avenues for investment in highly liquid and safe avenue in the form of TDRs of Public Sector Banks.</td>
</tr>
</tbody>
</table>

The proposal as outlined at Para 5 above in column – “Suggested Changes” is submitted for consideration of FIC and recommending to the CBT to recommend to the Central Government for an appropriate change in the extant Investment Pattern.
**INVESTMENT PATTERN**

Subject: Pattern of investment to be followed by the Non-Government Provident Funds, Superannuation Funds and Gratuity Funds.

No. F. 5 (18)-ECB/2001 – In partial modification of this Ministry’s Notification of number F. 11(3)-PD/98 dated 31st March 1999, the pattern of investment for investment for incremental accretions by the non-Government Provident Funds, Superannuation Funds and Gratuity Funds shall be as follows effective from 1st April, 2003:

<table>
<thead>
<tr>
<th>INVESTMENT PATTERN</th>
<th>Percentage amount to be invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) 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>
</tr>
<tr>
<td>(ii) (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 dedicated Funds for investment in Government securities and which 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</td>
<td>15%</td>
</tr>
<tr>
<td>(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</td>
<td>30%</td>
</tr>
<tr>
<td>(iv) To be invested in any of the above three categories as decided by their Trustees.</td>
<td>30%</td>
</tr>
<tr>
<td>(v) 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>
</tr>
</tbody>
</table>
I Any moneys received on the maturity of earlier investments reduced by obligatory outgoing shall be invested in accordance with the investment pattern prescribed in this Notification.

II Any money received on the maturity of earlier investments reduced by obligatory outgoing shall be invested in accordance with the investment pattern prescribed in this Notification.

III In case of any instruments mentioned above being rated and their rating falling below investment grade and the same rating has been confirmed by two credit rating agencies then the option of exit can be exercised.

IV The investment pattern as envisaged in the above paragraphs may be achieved by the end of a financial year.
To be published in the Gazette of India
Extraordinary Part I -Section 1

Government of India
Ministry of Finance
Department of Economic Affairs

New Delhi, the 14th August, 2008

F. No. 5 (88)/2006-PR.-

1. In partial modification of this Ministry's Notification No. 5(53)/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:-

<table>
<thead>
<tr>
<th>INVESTMENT PATTERN</th>
<th>Percentage amount to be invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) (a) Government securities.(^3)</td>
<td>upto 55</td>
</tr>
<tr>
<td>(b) Other securities(^3) 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>
<td></td>
</tr>
<tr>
<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>
<td></td>
</tr>
<tr>
<td>(ii) (a) Debt securities with maturity of not less than three years tenure issued by Bodies Corporate including banks and public financial institutions(^5); 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>upto 40</td>
</tr>
<tr>
<td>(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</td>
<td></td>
</tr>
<tr>
<td>(i) continuous profitability for immediately preceding three years;</td>
<td></td>
</tr>
<tr>
<td>(ii) maintaining a minimum Capital to Risk Weighted Assets Ratio of 9%;</td>
<td></td>
</tr>
<tr>
<td>(iii) having net non-performing assets of not more than 2% of the net advances;</td>
<td></td>
</tr>
<tr>
<td>(iv) having a minimum net worth of not less than Rs. 200 crores.</td>
<td></td>
</tr>
<tr>
<td>(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.</td>
<td></td>
</tr>
<tr>
<td>(iii) Money market Instruments including units of money market mutual funds.</td>
<td>upto 5</td>
</tr>
<tr>
<td>(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.</td>
<td>upto 15</td>
</tr>
</tbody>
</table>

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

\(^3\) 'Government Securities' as defined in Section 2(b) of the Securities Contracts (Regulation) Act, 1956.
\(^4\) 'Securities' as defined in Section 2(h) of the Securities Contracts (Regulation) Act, 1956.
\(^5\) 'Public Financial Institutions' as specified under Section 4A of the Companies Act, 1956.
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)

Joint Secretary to the Government of India
Item No 5: Review of decision on deferring further Investment in LIC Housing Finance Company in PVT. Sector Category.

1. An item to defer further investments in LIC Housing Finance Company in PVT. Sector Category was placed and approved in 191st meeting of CBT held on 09.12.2010 (Copy of minutes enclosed as Annexure — A) on the recommendation of 102nd FIC held on 07/12/2010 in which it was decided to defer further investments in the LIC Housing Finance Company till the whole issue is clarified in regard to CBI investigation against the company for not following the prudent exposure norm and due diligence in extending advances to real estate companies.

2. In response to the decision of CBT to defer further investments in LIC Housing Finance Company, a communication was received from Secretary, GOI, Ministry of Finance, Department of Financial Services (Copy enclosed as Annexure-B) addressed to Secretary, Ministry of Labour asking to take remedial measures in respect of EPFO’s decision to not invest further amounts in LIC Housing Finance Company, as its financial position is sound.

3. The company LIC Housing Finance Company has also vide its letter dated 31/12/2010 (Copy enclosed as Annexure — C) conveyed the reaffirmation of the highest rating AAA/Stable by CRISIL (Annexure-D) and CARE AAA (Annexure-E) by CARE after the incident of probe by CBI against the chief executive, and has requested EPFO to reconsider the decision on deferment of further investments in LIC Housing Finance Company by EPFO, and to once again continue to support their company as being done in the past.

4. Accordingly in view of the clarifications given by the Director & Chief Executive of LIC Housing Finance Company that their company still enjoys sound financial credentials which is supported with AAA ratings from CRISIL & CARE, and communication received from Secretary, Financial Services, GOI to take remedial measures for resumption of investment in LIC Housing Finance Company, the matter is placed before the FIC for consideration on whether the restriction should be lifted and investment resumed.

Proposal: The proposal as mentioned in Para 4 of the item above is placed for consideration of the FIC for recommending to CBT to review its decision on deferment of further investments in LIC Housing Finance Company and resume investments in LIC Housing Finance Company.
Item No. 8: Deferring further Investment in LIC Housing Finance Company in Pvt. Sector Category.

Decision: The proposal contained in Para 4 of the agenda to defer further investment in LIC Housing Finance Company was approved by the Board.


Decision: The agenda item was deferred by the Board for the next meeting.

Item No. 10: Relaxation in Investment Guidelines to increase limit and expand the basket of instruments in Pvt. Sector

Decision: The proposal contained in the agenda item was deferred by the Board.

Item No. 11: Appointing Consultant for Selection of Multiple Fund Managers and their Performance Evaluation

Decision: The proposal contained in the Para 4 of the agenda item was approved by the Board.

The Board also decided to constitute a New Committee for selection of Multiple Fund Managers in consultation with the consultant M/s CRISIL. The CBT empowered the Chairman, CBT to nominate the members of the Committee for the said purpose.

CPFC proposed to the Chairman, CBT to nominate at least one senior Officer of the level of Additional Secretary from Ministry of Labour and Employment in the said committee, as Chairman, in view of the importance of the work involved.
As per the media reports, the Finance and Investment Department of the Central Board of Trustees of the Employees' Provident Fund Organization (EPFO) has recommended deferring of further planned investments amounting to Rs. 342 crore in LIC Housing Finance Limited (LICHFL). As per the report, EPFO's current exposure in LICHFL is to the tune of Rs. 450 crore while the investment limit set by the EPFO based on the net worth is Rs. 846 crore.

2. In this connection, I would like to point out that LICHFL is a big size housing company next only to HDFC. The total loan book size is approximately Rs. 44,000 crore of which majority is in retail segment. The project loan comprises of only 11.8% which is considered quite low compared to other finance companies. The gross NPA of project loan is about 0.08% only. As per the financial results for the quarter ending 30th September, 2010, the net profit of LICHFL on a year on year basis has increased by 37% to Rs. 234.21 crore, gross NPA stood at 0.7% as against 1.28% for the previous year. Further, the financial performance of LICHFL till November indicates 51% growth in loan sanctions and 38% in loan disbursement.

3. Recently, both CRISIL and CARE rating agencies have reaffirmed their highest rating AAA/P1 + rating on LICHFL debt instrument, banking loans, commercial paper and public deposits.

4. LICHFL has also received a positive response from the market for the bonds issued recently on 7th December, 2010 and as a result could mobilize Rs. 750 crore from different investors, including private players. The list of investors in this successful bond issue includes group companies/Trusts of HDFC, Reliance, ICICI, Max New York Life Insurance, HSBC etc. This shows not only the strength of LICHFL but also the continued confidence of investors in LICHFL.

5. The Central Bureau of Investigation (CBI) is investigating involvement of a financial service company and other senior officials of public sector banks and financial institutions for alleged bribing for facilitating corporate loans. The CBI investigations cover, reportedly, an outstanding balance of about Rs. 389 crore in respect of LICHFL which is a very small amount compared to the overall book size. All of these loans are performing assets and total collateral on these loans is over Rs. 1,000 crore.
6. From the above it may be construed that LICHFL is one of the major players in the country with strong financials. The decision of EPFO to defer further investment in LICHFL is therefore quite incomprehensible. You would appreciate the CBI expose indicates alleged misdemeanors on the part of individuals but no systemic issue affecting any part of the financial sector. However, announcement of the EPFO's decision to suspend investments in LIC Housing Finance Ltd on 9.12.2010, the stock price fluctuated substantially on that day, which may possibly be due to the announcement of the news in the media. Earlier, 7.12.2010, there were newspaper reports mentioning the EPFO's impending decision on the same subject. The stock price movement on 9.12.2010 the day the decision of EPFO was publicised was as under:

<table>
<thead>
<tr>
<th>Date</th>
<th>High</th>
<th>Low</th>
<th>Close</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.12.2010</td>
<td>Rs. 969.00</td>
<td>Rs. 694.10</td>
<td>Rs. 794.10</td>
</tr>
</tbody>
</table>

Thus it may be concluded that the decision of EPFO and its publicizing by EPFO has tarnished the image of LICHFL which is reflected in the fact that the market price of LICHFL share fell by 7% in three days after wide reporting of EPFO's decision by the media.

7. It would have been better that before taking such a decision, EPFO has engaged with LICHFL or consulted this department. The unilateral decision of EPFO has had very severe negative fallout on the sentiments of LICHFL's investors and the market. This is especially so as LICHFL has the backing of LIC which undoubtedly is our strongest insurance company. By this decision of EPFO, a doubt has been unnecessarily created in the minds of the investors and the market. In the light of the above observations I would request you to have the decision of EPFO to defer its further investment reviewed.

8. Here it is also pertinent to mention that EPFO had made a commitment of making investments to the tune of Rs. 846 crore, over a period of three years, out of which Rs. 191.60 crore was released from the year 2003 to October 2008 directly and Rs 284.20 crore through mutual funds and thereafter there has been no further investment. In the given circumstances, that EPFO had not invested any amount directly in LICHFL in the last two years, there was no need for EPFO to go to the press with its decision to defer further investments. It could have just decided that it does not want to invest any more amounts in LICHFL and kept quiet. This department is naturally concerned about the decision being publicized so widely which has created a negative impact on the sentiments of numerous investors and a fall in the price of LICHFL shares which could have been avoided.

I am sure with these new facts, you will take remedial measures in respect of EPFO's decision not to invest any further amounts in LICHFL.


Yours sincerely,

Shri Prabhat C. Chaturvedi
Secretary
Ministry of Labour
Shram Shakti Bhawan,
New Delhi.
LIC Housing Finance Ltd.

31st December 2010

Shri Samirendra Chatterjee, IAS,
Central Provident Fund Commissioner,
Employees Provident Fund Organization,
Head Office, Bhavishya Nidhi Bhawan,
14, Bhikaji Cama Place,
New Delhi 110066

Dear Sir,

Re: EPFO’s investment in our Company.

This has reference to our meeting dated 24th December 2010 on the above subject. At the outset we express our sincere thanks for the valuable time given to us.

As already conveyed, both the rating agencies CRISIL & CARE have reaffirmed the highest rating AAASStable & CARE AAA on 29.11.2010 & 6.12.2010 respectively after the incident, which reflects the sound fundamentals & position of the Company. The copies of rating reaffirmations are enclosed for your kind perusal.

We are sure that your organization will reconsider its decision and will continue to support our company as being done in the past.

Thanking You,

Yours faithfully,

Director & Chief Executive

Registered & Corporate Office : Bombay Life Bldg., 2nd Floor, 45A/7, Veer Nariman Road, Mumbai - 400 001.  2204 6682 / 2204 9769 / 2204 2009 / 2204 9819 Fax : 2204 8639 E-mail : lichousing@lichousing.com Website : www.lichousing.com
CRISIL reaffirms ratings on LIC HOUSING FINANCE LIMITED

<table>
<thead>
<tr>
<th>Type of Instrument</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Term Bank Loans Aggregating Rs.138.95 Billion</td>
<td>AAA/ Stable (Reaffirmed)</td>
</tr>
<tr>
<td>Non-Convertible Debentures Aggregating Rs.325.84 Billion</td>
<td>AAA/ Stable (Reaffirmed)</td>
</tr>
<tr>
<td>Upper Tier II Bonds Aggregating Rs.16.00 Billion</td>
<td>AAA/ Stable (Reaffirmed)</td>
</tr>
<tr>
<td>Tier II Subordinated Bonds Aggregating Rs.17.50 Billion</td>
<td>AAA/ Stable (Reaffirmed)</td>
</tr>
<tr>
<td>Fixed Deposit Programme</td>
<td>FAAA/ Stable (Reaffirmed)</td>
</tr>
<tr>
<td>Rs.34.00 Billion Commercial Paper Programme</td>
<td>P1+ (Reaffirmed)</td>
</tr>
</tbody>
</table>

CRISIL has reaffirmed its ratings on LIC Housing Finance Ltd’s (LIC Housing’s) debt instruments and fixed deposit programme at ‘AAA/FAAA/Stable/P1+' following the recent investigation proceedings initiated against LIC Housing’s chief executive. CRISIL will continue to monitor this development.

The rating reaffirmation centrally factors in the continued support that LIC Housing is expected to continue to receive from its largest shareholder, the Life Insurance Corporation of India (LIC; owns 36.54 per cent of LIC Housing’s equity shares). Following the investigation proceedings, LIC’s chairman has publicly announced that LIC will continue to support LIC Housing. LIC has supported its announcement by making a speedy identification of a new chief executive for LIC Housing and by communicating to CRISIL that it will continue to support LIC Housing. CRISIL’s ratings on LIC Housing have always factored in the ongoing and need-based support from LIC.

LIC provides significant origination, operational, and managerial support to LIC Housing. The two entities also share a common brand name. LIC’s commitment that it will not allow its shareholding in LIC Housing to fall below 33 per cent continues to support the rating. CRISIL expects the support from LIC in terms of ownership, common branding, and managerial inputs to continue, and expects this support to offset the impact of any potential stress on LIC Housing.

LIC Housing’s exposure to the real estate developer segment (which is inherently riskier as an asset class than individual mortgage loans), though increasing over the past few years, is currently at a manageable level of around 11 per cent of its total loan book. The gross non-performing assets (NPAs) in this segment were negligible at 0.08 per cent as on October 31, 2010 (overall gross NPAs stood at 0.74 per cent as on September 30, 2010). However, the seasoning of the overall portfolio because of high growth is yet to happen. CRISIL will closely monitor LIC Housing’s asset quality till its portfolio gets seasoned.

The ratings also reflect LIC Housing’s diversified resource profile, healthy capitalisation, and adequate earnings profile. These rating strengths are partially offset by the threat to LIC Housing’s market position because of intense competition in the housing finance segment.

LIC Housing’s current liquidity is also comfortable, reflected in unencumbered cash and bank balances and investments in liquid mutual funds of around Rs.9.5 billion as on November 29, 2010. The mismatches in the near-term buckets are adequately covered by unutilised bank lines. For the half year ended September 30, 2010, the company reported a profit after tax (PAT) of Rs.4.5 billion on a total income of Rs.21.1 billion, compared with a PAT of Rs.3.0 billion on a total income of Rs.16.2 billion for the corresponding period of the previous year.

**Outlook: Stable**

CRISIL believes that LIC Housing will continue to benefit from the support it receives from LIC, and will maintain its healthy capitalisation and diversified resource profile. LIC Housing will continue to face intense competition from banks and other leading housing finance companies. The outlook may be revised to ‘Negative’ if there is a steep reduction in LIC’s ownership of, or support to, LIC Housing, or if in CRISIL’s opinion, LIC’s credit risk profile deteriorates. The outlook may also be revised if there is deterioration in LIC’s credit quality or if LIC’s support to LIC Housing is withdrawn.

file://G:\FINANCE\CRISIL\ratings\2010-11\Rating reaffirmation LIC Housing Finance ... 12/31/2010
About the Company
LIC Housing is India's second-largest housing finance company, with 181 marketing units and 2 overseas representative offices. LIC is the single-largest shareholder in LIC Housing, and owned 36.54 per cent of the latter's equity as on March 31, 2010. In 2009-10, LIC Housing's disbursements aggregated Rs.148.5 billion, compared with Rs.87.6 billion in 2008-09. In the first half of 2010-11, the company disbursed loans worth Rs.84.9 billion, 37 per cent higher than Rs.61.9 billion in the corresponding period of the previous year.

As on September 30, 2010; LIC Housing had a Tier I capital base of Rs.37.3 billion (Rs.32.9 billion as on March 31, 2010). As on September 30, 2010, LIC Housing reported a Tier I capital adequacy ratio (CAR) and an overall CAR of 9.2 per cent and 14.1 per cent respectively of risk-weighted assets (10.2 per cent and 14.9 per cent respectively as on March 31, 2010).

<table>
<thead>
<tr>
<th>Media Contacts</th>
<th>Analytical Contacts</th>
<th>CRISIL Rating Desk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nilu Samar</td>
<td>Pawan Agrawal</td>
<td>Tel: +91-22-3342 3047 / 3342 3064</td>
</tr>
<tr>
<td>Head, Market Development &amp; Communications</td>
<td>Director - CRISIL Ratings</td>
<td>Email: <a href="mailto:CRISILratingdesk@crisil.com">CRISILratingdesk@crisil.com</a></td>
</tr>
<tr>
<td>CRISIL Limited</td>
<td>Tel: +91-22-3342 1838</td>
<td></td>
</tr>
<tr>
<td>Email: <a href="mailto:nsamar@crisil.com">nsamar@crisil.com</a></td>
<td>Email: <a href="mailto:pagrawal@crisil.com">pagrawal@crisil.com</a></td>
<td></td>
</tr>
<tr>
<td>Tanuja Abhinandan</td>
<td>Suman Chowdhury</td>
<td>Tel: +91-22-3342 3293</td>
</tr>
<tr>
<td>Market Development &amp; Communications</td>
<td>Head - CRISIL Ratings</td>
<td>Email: <a href="mailto:scowdhury@crisil.com">scowdhury@crisil.com</a></td>
</tr>
<tr>
<td>CRISIL Limited</td>
<td>Tel: +91-22-3342 1818</td>
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<tr>
<td>Email: <a href="mailto:tabhinandan@crisil.com">tabhinandan@crisil.com</a></td>
<td>Email: <a href="mailto:abhinandan@crisil.com">abhinandan@crisil.com</a></td>
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Note:
This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper/ agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL. LIC Housing had a Tier I capital base of Rs.37.3 billion (Rs.32.9 billion as on March 31, 2010). As on September 30, 2010, LIC Housing reported a Tier I capital adequacy ratio (CAR) and an overall CAR of 9.2 per cent and 14.1 per cent respectively of risk-weighted assets (10.2 per cent and 14.9 per cent respectively as on March 31, 2010).

CRISIL Complexity Levels are assigned to various types of financial instruments. The CRISIL Complexity Levels are available on www.crisil.com/complexity-levels. Investors are advised to refer to the CRISIL Complexity Levels for Instruments that they propose to invest in. Investors can also call the CRISIL Helpline at +91 22 3342 3047 / +91 22 3342 3064 with queries on specific instruments.

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November 29, 2010
http://www.crisil.com

file://O:FINANCE\CRISIL\ratings\2010-11\Rating reafirmation LIC Housing Finance ... 12/31/2010

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CREDIT ANALYSIS & RESEARCH LTD.

4th Floor, Godrej Coliseum,
Somalaya Hospital Road,
Off Eastern Express Highway,
Sion (East), Mumbai - 400 022, INDIA.
Tel: 67543456 Fax: (022) 67543457
E-mail: care@coreratings.com
www.coreratings.com

December 6, 2010

REVALIDATION OF OUTSTANDING RATINGS

CARE hereby reaffirms the existing ‘CARE AAA’ (Triple A) rating to the Non-Convertible Debentures aggregating to Rs.18322 crore (Details of rated Non-Convertible Debentures provided in Annexure I). It has also been decided to reaffirm ‘CARE AAA’ (Triple A) rating for Tier II Bonds of Rs.750 crore and Upper Tier II bonds of Rs.1600 crore of LIC Housing Finance Ltd. Instruments with this rating are considered to be of the best credit quality, offering highest safety for timely servicing of debt obligations. Such instruments carry minimal credit risk.

2. Our rating symbols for various long & medium and short-term instruments and explanatory notes thereon are given in Annexure II.

3. A write-up on the above is proposed to be issued to the press shortly. A draft of the press release is annexed as Annexure III.

4. CARE reserves the right to suspend/withdraw/review the rating assigned on the basis of new information or in the event of failure on the part of the company to furnish such information, material and clarifications as may be required by CARE. CARE shall also be entitled to publicise/disseminate such suspension/withdrawal/review in the assigned rating in any manner considered appropriate by it, without reference to you.

5. CARE ratings are not recommendations to buy, sell, or hold any security.

6. If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

[Signature]
[Name: Ashvin Patil]
[Designation: Sr. Manager]

[Signature]
[Name: Vijay Agrawal]
[Designation: Jr. Gen Manager]

Disclaimer

CARE’s ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities within bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.
103rd Meeting of Finance & Investment Committee, EPF

TABLED ITEM

DATE 28.01.2011

TIME: 2:30 P.M

1. An Agenda Item on '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', was placed before the Board in its 190th meeting held on 15.09.2010 (copy of item along with the Relevant portion of the Minutes of 190th CBT are enclosed as Annexure - I-II respectively).

2. As desired by the CBT (190th Meeting), letter was written by Secretary, Ministry of Labour to the Secretary, Ministry of Finance, seeking Government guarantee on investments in the Capital Market.

3. In response a letter has been received from the Secretary, Ministry of Finance, whereby they have categorically refused to provide any Government guarantee (Copy enclosed as Annexure-III).

4. The EPFO's comments on the points raised in the letter of Secretary (Finance) are incorporated in the draft reply prepared by EPFO on behalf of Secretary (Labour), (Copy enclosed as Annexure- IV).

*The matter is placed before the Finance and Investment Committee for consideration and necessary recommendation to the CBT.*
Employees' Provident Fund Organisation,
Bhavishya Nidhi Bhavan,
14, Bhikajicama Place,
New Delhi-110 066

Please find enclosed a draft reply to D.O. letter No.7/3/07-
PR(PT) dated 10th December, 2010 from Shri R.Gopalan, Secretary,
Ministry of Finance, Department of Financial Services received through
appropriate action.

(S.CHATTERJEE)
Central Provident Fund Commissioner

Secretary, Ministry of Labour & Employment
CPFC's U.O.No.IMEC/05/Pattern/2008 dated 28-09-2011
Dear

Please refer to your D.O. letter No. 7/3/07-PR(Pt.) dated 10th December, 2010 wherein the proposal for providing guarantee for investment of EPFO corpus in stock markets was rejected.

2. EPFO is a Social Security Organisation which caters to the Social Security needs of approximately 4.5 crores workers. Social Security, as such is a very wide concept of which the old age income security is one of the aspects. It also includes the financial security at crucial junctures during the earning phase of a person especially a poor worker who incidentally form the major chunk of EPF subscribers. The financial contingencies may include treatment of life-threatening illness, construction of house, education of children etc. EPF, thus not only caters for the old-age income Security of the workers through Provident Fund and Employees Pension Scheme but also it takes care of their financial needs when they are in dire need of monitory help due to exigencies like disease, building house etc. It is true that such contingencies could be met by them through Education loan, house loans, medical insurance etc. through banks and another financial institutions. However, no one can be oblivious to the fact that very few percentage of people of lower strata of society have access to such facilities; In the present times of high inflation, it is even difficult to eke out daily living for the poor, it will be highly superfluous for them to talk of taking loan from the bank etc. Even if, they manage to get such loans, the cost of borrowing is quite high which may further cripple the already inflation-hit daily income of the poor workers. Since, the social obligations are also to be necessarily met, hence EPF gives the facility of partial withdrawal from their Provident Fund.
accounts for certain specified purposes. Hence, the poor worker is able to make use of his own money for certain unavoidable social obligations.

3. Moreover, even if the partial and pre-retiral withdrawals are all together stopped, then also, some amount of liquidity will always be required to be maintained as certain percentage of EPF subscribers will always be attaining superannuation age and retiring every year. In order to settle their PF claims, liquid cash is required to be maintained at any point of time.

4. Further, in the aforesaid letter, it is mentioned that Trustees are solely responsible for the investment decisions taken in accordance with the pattern of investment. On one hand, it is being stressed that the trustees have to take informed and prudent decision in the interest of the Trust and on the other hand, EPFO is being directed to make investment in Capital markets. When the Board of Trustees have taken informed decision of not to expose the PF corpus to vagaries of Capital market, it is not understood why EPFO is being forced to tread the path, it is not willing to undertake.

5. There is no doubt that Capital markets give higher returns in the long run but it is accompanied with higher risks which the Board of Trustees feel, is not prudent to get exposed to.

6. Hence, insisting on fiduciary responsibility and due diligence of trustees on one hand, and giving directions to invest in risky ventures without any guarantee on the other are contradictory to one another and highly unacceptable. It implies that CBT is investing funds currently in an imprudent manner.
7. Moreover, the system of investment in Govt. Securities and debt instruments have worked quite satisfactorily for EPFO for last 58 years and at the present juncture when the stock market is experiencing so much turbulence and volatility, the Board of Trustees feels that it will be prudent to continue with the time-tested pattern of investment.

The CBT will continue to invest workers money in the most prudent and judicious manner keeping the interest of workers in mind.

Yours Sincerely,

(Prabhat C Chaturvedi)

Shri R. Goaplan
Secretary, Ministry of Finance
Department of Financial Services
No.G-20031/1/2007 SS-II
Government of India
Ministry of Labour & Employment

New Delhi, dated the 24th December, 2010

To

The Central Provident Fund Commissioner,
Employees Provident Fund Organisation,
14, Bhikaiji Cama Place,
New Delhi.

Subject: Forwarding of letters of Secretary (Finance) regarding.

Sir,

The undersigned is directed to forward hereewith copy of two d.o. letters received from Secretary, Ministry of Finance, Department of Financial Services, one No.7/3/07-PR(Pt.) dated 10-12-2010 regarding adoption of investment pattern notified by the Ministry of Finance for EPF & Exempt Funds and another No.S-11011/2512010 dated 10-12-2010 regarding investment in LIC Housing Finance Limited.

2. In this connection you are requested to furnish comments of your organisation on both the issues mentioned in the above d.o. letters of Ministry of Finance to this Ministry immediately.

Encl: As above.

Yours faithfully,

Under Secretary to Govt. of India

(S.D. Xavier)

24 DEC 2010
Dear Shri Chathurvedi,

Please refer to your D.O. Letter D.O. No. D-20031/1/2007-SS.II dated 7th October, 2010 regarding adoption of investment pattern notified by the Ministry of Finance for Employees’ Provident Fund and “Exempt Funds.” The matter has been examined in the light of the observations made by the Ministry of Labour and our comments are as follows:

2. It appears that the Ministry of Labour is supporting the liberal advances and withdrawals from the EPF by its employees and that is why, short-term returns and liquidity of the fixed income investments are considered to be of paramount importance. This is the reason why long-term investment in financial instruments including in stock markets is not considered appropriate by the Ministry of Labour. The fallacy in this argument is that liberal advances and withdrawals are in conflict with the sole object of the EPF and that is that it should be used only for old age income security purpose and not for meeting the needs, such as, illness, education or house-building. The EPF, as one policy instrument, is being allowed to be used for meeting various needs like medical, education and house-building needs, whereas this instrument must be most appropriately used for meeting only one objective and that is to meet the age old-age income security of the employees. There are other instruments to be used for meeting the other needs, for example, medical needs could be met by medical insurance and house building needs or need of the educational loan could be satisfied by the house-building or educational loans from the banks and financial institutions. The distortion created in not adhering to “one instrument—one policy objective” principle is that most of the employees (say 75%) of EPF retire with as little as less than Rs. 35000/- in their accounts. The
Ministry of Labour should shun the liberal advances and withdrawal policy and allow EPF to be used as an instrument to achieve old-age income security for employees. The nominal returns of, say 8.5%, when coupled with over 8% rate of inflation, result into negative real returns.

3. It may not be correct to say that the investment returns in the NPS are “notional” while those under the Investment Pattern of Ministry of Labour are “real.” It is a matter of accounting principle that the entire holding of the EPF should be marked-to-market. EPFO is able to avoid this principle only because the yearly inflow of contributions and investment returns are more than the outflow on account of payment of retirement benefits and other monetary payments. This accounting principle is internationally used by all social security funds. In case, EPFO has to liquidate its securities in the investment portfolio to meet the requirements of the employees and the above balance is distributed, then it has to go to the market to liquidate its investments for which the market value becomes important. In any case, liquidation of a financial instrument becomes imminent when faced with default on such instrument.

4. As regards the proposal to provide guarantee is concerned, it may be clarified that there is no question of Government providing the sovereign guarantee to any Provident Fund, as this will create perverse incentives and “moral hazard” on the part of the trustees in exercising due diligence while exercising judgement on investment choices. It is to counter such a possibility of a “moral hazard” that the Ministry of Finance has laid down very clearly in the Investment Pattern 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. Government gives no guarantee of safety of return to any provident fund etc. by simply classifying the generic financial instrument for investment under the Investment Pattern as investing in a specific financial instrument is the fiduciary responsibility of the trustees of any fund.

5. It is felt that Government need not take recourse to the argument that the matter needs to be discussed by Central Board of Trustees, EPF. This policy is not always followed by the Ministry of Labour. The Ministry of Labour has introduced drastic changes in the benefit
structure of Employees' Pension Scheme, 1995 in 2008 without any
discussion in the Central Board of Trustees, EPF, as that was considered
to be necessary to ensure the financial viability of the Scheme. The
Ministry of Labour may take a similar view on the issue of investment
pattern keeping in mind the welfare of the organised sector and
especially of the "exempt funds" as following the old investment pattern
of the Ministry of Labour results into negative real returns vis-à-vis
positive returns earned while using the Investment Pattern of the
Ministry of Finance.

6. In view of the above, I strongly urge the Ministry of Labour to
reconsider the position and take action to adopt the Investment Pattern
of the Ministry of Finance urgently not only for the EPF, but also for the
"Exempt Funds."

with regards,

Yours sincerely,

(R. Gopalan)

Shri Prabhat C. Chaturvedi
Secretary (Labour)
Ministry of Labour and Employment
Shram Shakti Bhavan
New Delhi.
Item No.13: Agenda Note for amendment to the Employees' Deposit Linked Insurance Scheme, 1976.

Decision: The proposal contained in para 14 of the agenda item was approved by the Board. It was also decided that necessary amendments to the Scheme shall be initiated on priority.

Item No. 14: Cleaning of Data — Inoperative Accounts

Decision: The proposal contained in para 14 of the agenda item was approved by the Board. It was also decided that adequate publicity should be given for awareness creation. The decision to stop crediting interest on inoperative accounts will be implemented from 01.04.2011. Steps be taken to amend the scheme in the meantime as well as necessary amendment in the interest processing software.

Item No. 15: 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.

Decision: The CBT members expressed several concerns on the letter of the Ministry of Finance regarding the safety and security of the capital which is held in trust by the Board of Trustees.

After deliberations, it was concluded that if the investment in the capital market is as profitable and secure as is made out in the letter, then there should be no difficulty for the Government to provide a guarantee on the capital invested by the CBT and a minimum rate of interest being paid by the EPFO. If the Government agrees to this guarantee, then the matter could be discussed in the next CBT and an appropriate decision taken.
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) Recognized 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 Recognized 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

i. 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.

ii. The income earned on EPF investments are actually realized while the returns declared in the NPS are notional and their realisation is subject to market conditions.

iii. 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.

iv. The NAV approach is subject to market volatility thereby increasing the risk to subscribers' capital. Large quantum redemptions make it highly improbable to realize at the declared NAVs.

v. There is no risk of capital erosion in the case of EPF investments.

Part B: Background

4. 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.

5. In the light of the changing economic scenario, if need be, the Ministry of Labour (on the basis of the views of CBT EPF) makes recommendation to the Ministry of Finance to bring about certain modifications in the existing pattern to either include any other investment avenue or remove / amend any existing provisions. The Ministry of Finance while
Item 15 of 190\textsuperscript{th} CBT

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 Ministry of Labour.

6. The revised Pattern of Investment notified by the Ministry of Finance is discussed in the CBT EPF and is recommended to the adopted or otherwise, by the Ministry of Labour. Once it is so adopted by the Ministry of Labour (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 Ministry of Labour, the old pattern continues to apply under the Act.

7. Presently, the pattern being followed by the CBT EPF is dated 9\textsuperscript{th} July 2003. Subsequent to this, two notifications prescribing changes in the extant pattern have been issued by the Ministry of Finance on dates 24.01.2005 & 14.08.2008 respectively. The Ministry of Labour 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.

8. 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.

9. 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 - II to the above mentioned item.

10. The item was placed before 68\textsuperscript{th} Executive Committee meeting held on 06.08.2010 and Executive Committee recommended to place it before FIC.

11. The item was placed for consideration of FIC in its 100\textsuperscript{th} meeting held on 25.08.2010 and it observed as under:

i. Employees' representatives opposed the investment of EPF monies in the Equity.
Item 15 of 190th CBT

ii. Employers' representatives supported equity investment in AAA rated PSUs to begin with – to enhance EPF returns. They also expressed the urgent need for EPFO to upgrade its technical skills for handling such equity related operations.

iii. It was decided to place these views before the appropriate authority.

Proposal: The memorandum is placed before the CBT for deliberation and comments.
DO No. 7/3/2007-PR(PT)

Dear [Name],

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

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Contd. ...2/-
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-a-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'.

  Regards,

Yours sincerely,

(Ashok Chawla)

Shri P.C. Chaturvedi
Secretary (Labour)
Ministry of Labour and Employment
Shram Shakti Bhawan
New Delhi -110001