EMPLOYEES' PROVIDENT FUND ORGANISATION

NEW DELHI

109th Meeting of the
FINANCE AND INVESTMENT COMMITTEE

[CENTRAL BOARD OF TRUSTEES, EMPLOYEES' PROVIDENT FUND]

on
23/05/2012 at 11:00 A.M.

Venue:
Conference Room, 3rd Floor,
EPFO, Head Office,
Bhikaji Cama Place,
New Delhi
### EMPLOYEES' PROVIDENT FUND ORGANISATION

**AGENDA BOOK**

109\textsuperscript{th} Meeting of the Finance & Investment Committee, CBT, EPF

**Date:** 23.05.2012  
**Time:** 11:00 AM

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<th>Agenda</th>
<th>Page No.</th>
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<td>1.</td>
<td>Confirmation of the Minutes of 108\textsuperscript{th} Meeting of the Finance and Investment Committee held on 21.02.2012 at EPFO, Head Office, New Delhi.</td>
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<td>2.</td>
<td>Actions taken on the recommendations of the 108\textsuperscript{th} Finance &amp; Investment Committee meeting held on 21.02.2012.</td>
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<td>3.</td>
<td>Performance Evaluation of Portfolio Managers for the period 01.11.2011 to 31.03.2012</td>
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<td>4.</td>
<td>Proposal for classification of investments in Private Institutions notified as Public Financial Institutions (PFIs) under 30% category of Pattern of Investment in PSU/PFIs by Employees' Provident Fund Organisation (EPFO).</td>
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<td>5.</td>
<td>Proposal for expanding investment opportunity to increase the earnings of the Fund.</td>
<td>22-34</td>
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<td>6.</td>
<td>Any other item with the permission of the Chair</td>
<td>...</td>
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</tbody>
</table>
Item No.1:- Confirmation of the Minutes of the 108th meeting of the Finance & Investment Committee held on 21.02.2012 at EPFO, Head Office, New Delhi.

Minutes of 108th Finance and Investment Committee meeting held on 21.02.2012 were circulated vide letter No Invest.1(108)FIC/2012/ 25886-901 dated 24.2.2012. Copy of the minutes is enclosed as Annexure – A of this item.

Minutes may be taken as confirmed.
Minutes of the 108th meeting of Finance & Investment Committee held on 21.02.2012

The 108th meeting of the Finance and Investment Committee, Central Board of Trustees, Employees' Provident Fund was held at 11.00 a.m. on 21.02.2012, in the 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 R.C. Mishra</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 P.K. Pujari</td>
<td>Vice Chairman, Finance and Investment Committee, CBT, EPF and AS &amp; FA, 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 Subhash Kumar</td>
<td>Under Secretary, Social Security, Ministry of Labour and Employment, Government of India</td>
</tr>
<tr>
<td>7</td>
<td>Shri Rajesh Bansal</td>
<td>Convener and FA &amp; CAO, EPFO</td>
</tr>
</tbody>
</table>

Dr. G. Sanjeeva Reddy, Shri Ram S. Taneja and Shri Shard Patil could not attend the meeting.

(b) The following officers attended:

1. Shri P.K. Udgata, RPFC-I (F&A)
2. Shri Shyam Sunder, Director (Audit)
3. Shri Rajiv Bisht, RPFC-II (IMC)
4. Shri Manoranjan Kumar, RPFC-II (Investment)
5. Shri R.K. Kohli, APFC (Balance Sheet)

The Chairman welcomed all the members and officers present in the meeting.
Item No.1: Confirmation of the Minutes of the 107th meeting of the Finance & Investment Committee held on 22.12.2011 at EPFO, Head Office, New Delhi.

The minutes were approved by the Committee.

Item No.2: Statement showing the actions taken on the recommendations of the 107th Finance & Investment Committee meeting held on 22.12.2011.

The Committee took note of the Action Taken Report.

Item No 3: Audited Annual Accounts in respect of Employees' Provident Fund Scheme, 1952, Employees' Pension Scheme, 1995 and Employees' Deposit Linked Insurance Scheme, 1976 for the financial year 2010-2011.

At the outset the Chairman welcomed all the Committee members and made it open to the forum to deliberate on the Consolidated Audited Annual Accounts of the Organisation for the financial year 2010-11, the Separate Audit Report and Management Letter of the C&AG along with the replies of the Organisation.

After detailed deliberations, the Finance & Investment Committee recommended that the Audited Annual Accounts of EPFO in respect of all the three Schemes for the financial year 2010-11 be placed before the Executive Committee, CBT, EPF with the following observations:-

1. It should be ensured that Accounts of the EPF Organisation be prepared in the uniform format approved by Ministry of Finance, Govt. of India for the financial year 2013-14, along with the next phase of computerization which should be in place by April 01, 2013.

2. All pending individual accounts of the members, wherever returns are received from the employers, should be updated by the end of 2012-13 in order to have a clear picture of the Interest Suspense Account.

3. The difference between the figures of Balance Sheet and details of investments furnished by EPF Organisation should be reconciled.
4. Negative balance shown in the Balance Sheet against cash in bank and cash book be explained to C&AG during the next audit in order to clear the audit para.

5. Depreciation of building and expenditure of fixed assets be made part of the accounts at the time of adoption of uniform format of accounts.

6. Remittances in transit be reduced and year wise pendency as well as progress should be monitored.

7. Explanation from Field Offices be called for, wherever deviation from the normal procedure have been pointed out by the C&AG.

8. The pendency of audit paras be reduced. Any audit para which is pending more than 3 years be specifically monitored.

9. Overpayment/irregular payments should be monitored extensively and reasons for increase in such payments be analysed. The existing system of detection and recovery be re-examined to have effective control over such payments.


The performance evaluation criteria was explained and the performance for period 01.11.2011 to 31.12.2011 on the basis of evaluation criteria was presented to the FIC. The final performance evaluation ranking of portfolio managers for the period under consideration was as under:

<table>
<thead>
<tr>
<th>Name of Portfolio Manager</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>M/s. HSBC AMC</td>
<td>1</td>
</tr>
<tr>
<td>M/s. SBI</td>
<td>2</td>
</tr>
<tr>
<td>M/s. ICICI Securities PD Ltd.</td>
<td>3</td>
</tr>
<tr>
<td>M/s. Reliance Capital AML</td>
<td>4</td>
</tr>
</tbody>
</table>

On enquiry from the member it was informed that there was no default on receipt of interest or maturity during two months i.e. 1.11.2011 to 31.12.2011.
It was decided that the performance of the External Concurrent Auditor and Custodian should also be placed before FIC along with the performance evaluation of the portfolio managers.

Item No.5: Deletion of delayed period interest entries below Rs. 1000/- generated by the system of State Bank of India upto 31.10.2011.

The item was approved.

The meeting ended with vote of thanks to the Chair.
**Item No.2:** Statement showing the actions taken on the recommendations of the 108th Finance & Investment Committee meeting held on 21.02.2012.

<table>
<thead>
<tr>
<th>Reference</th>
<th>Subject</th>
<th>Decision</th>
<th>Action Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>108th FIC item No. 3</td>
<td>Audited Annual Accounts in respect of Employees' Provident Fund Scheme, 1952, Employees' Pension Scheme, 1995 and Employees' Deposit Linked Insurance Scheme, 1976 for the financial year 2010-2011.</td>
<td>It was decided this matter to be placed before the CBT,EPF.</td>
<td>The matter was placed before the 198th CBT,EPF held on 22.02.2011 and same was approved by the CBT,EPF. (Action Complete)</td>
</tr>
<tr>
<td>108th FIC item no. 5</td>
<td>Deletion of delayed period interest entries below Rs. 1000/- generated by the system of State Bank of India upto 31.10.2011.</td>
<td>It was decided this matter to be placed before the CBT,EPF.</td>
<td>The matter was placed before the 198th CBT,EPF held on 22.02.2011 and same was approved by the CBT,EPF. (Action Complete)</td>
</tr>
</tbody>
</table>
Item No 3: Performance Evaluation of Portfolio Managers for the period 01.11.2011 to 31.03.2012

The Central Board of Trustees in its 195th meeting held on 14.07.2011 approved the appointment of following four fund managers for managing the EPFO corpus for a period of three year:

1. State Bank of India.
2. ICICI Securities Primary Dealership Ltd.
3. Reliance Capital Asset Management Ltd.
4. HSBC Asset Management (India) Private Ltd.

The New Portfolio Managers have started managing EPFO corpus from 01.11.2011.

The Central Board of Trustees in its 191st meeting held on 09.12.2010 had also appointed CRISIL as a Consultant for Selection of New Multiple Fund Managers and their Performance Evaluation.

The first quarterly performance of the Fund Managers for the period 01.11.2011 to 31.12.2011 was placed on 21.02.2012 before FIC.

The second quarterly performance of the Fund Managers for the period 01.01.2012 to 31.03.2012 is as under.

The overall performance of the Portfolio Managers is evaluated on the basis of three criteria's i.e.

- Portfolio Yields (85% weight) – Higher the yield, better score in overall performance.

- Asset Quality (10% weight) – Asset Quality is measured using the credit quality scoring mechanism allotted by CRISIL to each security in the portfolio. G-Sec being risk free, have lowest credit score and corporate Bonds are assigned progressively higher score based on ratings. Lower the score better is ranking.
• Average Maturity (05% weight) – The average maturity of EPFO’s portfolio should ideally be between 1-20 years and there is penalty attached in scoring, if more than 5% of portfolio has a residual maturity of more than 20 year or less than 1 year.

The cumulative performance of the PMs individually on the three criteria during the period 01.11.2011 to 31.03.2012 is as under:

Portfolio Yield (85% weight)

<table>
<thead>
<tr>
<th>Portfolio Manager</th>
<th>Yield%</th>
<th>Benchmark Yield%</th>
<th>Weighted Average Score</th>
<th>Yield rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBI</td>
<td>9.31%</td>
<td>9.24%</td>
<td>1.000</td>
<td>1</td>
</tr>
<tr>
<td>HSBC AMC</td>
<td>9.23%</td>
<td>9.24%</td>
<td>0.991</td>
<td>2</td>
</tr>
<tr>
<td>Reliance Capital AML</td>
<td>9.22%</td>
<td>9.24%</td>
<td>0.990</td>
<td>3</td>
</tr>
<tr>
<td>ICICI Securities PD</td>
<td>9.20%</td>
<td>9.24%</td>
<td>0.987</td>
<td>4</td>
</tr>
</tbody>
</table>

Asset Quality (10% weight)

<table>
<thead>
<tr>
<th>Portfolio Managers</th>
<th>Asset Quality</th>
<th>Asset Quality Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Sec-PD</td>
<td>3.2193</td>
<td>1</td>
</tr>
<tr>
<td>Reliance Capital AML</td>
<td>3.4418</td>
<td>2</td>
</tr>
<tr>
<td>SBI</td>
<td>3.5732</td>
<td>3</td>
</tr>
<tr>
<td>HSBC AMC</td>
<td>3.5876</td>
<td>4</td>
</tr>
</tbody>
</table>
Average Maturity (05% weight)

<table>
<thead>
<tr>
<th>Portfolio Managers</th>
<th>Weighted Average Score</th>
<th>Maturity Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC AMC</td>
<td>1.00000</td>
<td>1</td>
</tr>
<tr>
<td>Reliance Capital AML</td>
<td>0.99998</td>
<td>2</td>
</tr>
<tr>
<td>SBI</td>
<td>0.99047</td>
<td>3</td>
</tr>
<tr>
<td>I Sec-PD</td>
<td>0.98872</td>
<td>4</td>
</tr>
</tbody>
</table>

Final Performance Evaluation (Ranking) on the basis of above three criteria

<table>
<thead>
<tr>
<th>Portfolio Manager</th>
<th>Aggregate Performance Score (Out of 100)</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBI</td>
<td>99.92</td>
<td>1</td>
</tr>
<tr>
<td>HSBC AMC</td>
<td>99.23</td>
<td>2</td>
</tr>
<tr>
<td>Reliance Capital AML</td>
<td>99.12</td>
<td>3</td>
</tr>
<tr>
<td>ICICI Securities PD</td>
<td>98.87</td>
<td>4</td>
</tr>
</tbody>
</table>

Performance of the Portfolio Manager during the quarter 01.11.2011 to 31.12.2011 & 01.01.2012 to 31.03.2012.

<table>
<thead>
<tr>
<th>Portfolio Manager yield</th>
<th>01.11.2011 to 31.12.2011</th>
<th>01.01.2012 to 31.03.2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBI</td>
<td>9.43%</td>
<td>9.22%</td>
</tr>
<tr>
<td>Reliance Capital AML</td>
<td>9.09%</td>
<td>9.16%</td>
</tr>
<tr>
<td>ICICI Securities PD</td>
<td>9.14%</td>
<td>9.10%</td>
</tr>
<tr>
<td>HSBC</td>
<td>9.58%</td>
<td>8.98%</td>
</tr>
</tbody>
</table>
Key observations on the Performance:

1. For the Jan-Mar'12 quarter, SBI generated the highest yield of 9.22% followed by Reliance AMC, I-Sec PD and HSBC AMC with yield of 9.16%, 9.10% and 8.98%, respectively.

2. SBI generated the highest yield mainly on account of higher allocation to high yielding FDs.

3. For Jan-Mar'12 quarter, all the Portfolio Managers have outperformed the benchmark yield of 9.00% except for HSBC AMC.

4. Yield differential between top performer and last performer has reduced to 24 basis points in Jan-Mar'12 quarter from 49 basis points in Nov-Dec 2011.

5. Cumulative benchmark yield for the 01st November 2011 to 31st March 2012 period is 9.24%.

6. SBI has outperformed the cumulative benchmark yield with a cumulative portfolio yield of 9.31% mainly on account of higher allocation in private sector bonds in comparison with other portfolio managers.

7. I-Sec PD generated the highest yield of 9.89% in March. This is primarily on account of higher exposure in FDs, which has given higher yields.

8. For the period November 1, 2011 to March 31, 2012, highest investment was made in public sector bonds, followed by SDLs, G-Secs and private sector bonds on consolidated portfolio.

The item is placed before the FIC for perusal and Consideration.
Item No 4: Proposal for classification of investments in Private Institutions notified as Public Financial Institutions (PFIs) under 30% category of Pattern of Investment in PSU/PFIs by Employees' Provident Fund Organisation (EPFO).


2. In the said pattern, investments in Bonds / Securities of Public Financial Institutions are permissible in 30% category under clause (iii) (a) of pattern of investment.

3. Public Finance Institution is mentioned under Section 4(A) of the Companies Act, while the Section 4(A)(1) of the Companies Act gives out a list of Public Financial Institutions.

4. Section 4(A)(2) of the Companies Act empowers the Central Govt. to specify by notification such other institutions as Public Financial Institutions in addition to the ones expressly provided for in Section 4A(1) of the Act. It states that subject to provisions of sub section (1), the Central Govt. may, by notification in the official Gazette, specify such other institution as Public Financial Institution,

Provided that no institution will be so specified, unless,

   i. It has been established or constituted by or under any Central Act or
   ii. Not less than Fifty-one percent, of the paid up share-capital of such institution is held or controlled by the Central Govt.

5. The initial list of PFIs under section 4 (A) (1) of the companies Act, included only those Financial Institutions which were in Public Sector. The initial list comprised of ICICI, IFCI, IDBI, LIC & UTI.

6. Infrastructure Development Finance Company Limited was included in the list of PFI in the year 1999 by notification of the Government U/S 4 (A) (2) of the Companies Act, when it was a public sector company.

7. In the Year 2005, the Government divested its share in the IDFC and it became a private sector company.
8. In the year 2007, Portfolio Manager SBI informed EPFO that they have stopped investments in IDFC ever since it became a private company and proposed to EPFO that the investment in IDFC may be classified as "Investment in Private Sector" subject to a maximum of \( \frac{1}{3} \)rd of Residual category of investments i.e. maximum of 10% vide letter dated 09.08.2007 (copy enclosed as ANNEXURE-B).

9. Accordingly, on the proposal of SBI to include investments in IDFC in the 10% category, an item was placed in the 181st meeting of CBT held on 24.01.2008 to include investments in IDFC in 10% category for private sector investments in the pattern. The CBT accepted the proposal of SBI. Since then all the investments in IDFC after 2008 have been made in PVT category (Copy of the minutes enclosed as ANNEXURE-C), in which only 10% of the incremental investments are permissible as per the investment pattern.

10. The Guidelines for notifying an institution as PFI, referred in Para 4 above, were revised by the Central Government vide Ministry of Corporate Affairs, General Circular No. 34/2011, F.No. 3/3/2010/CL.V dated 02.06.2011 (Copy enclosed as Annexure -D) under Section 4A of the Companies Act, 1956 – Public financial institutions – for Notified public financial institutions.

11. The new guidelines framed by the Central Government for notifying any financial institution as PFI under Section 4A of the Companies Act, 1956 are as under :-

   (a) A company or corporation should be established under a special Act or the companies Act being Central Act;

   (b) Main business of the company should be industrial/infrastructural financing;

   (c) The company must be in existence for at least 3 years and their financial statement should show that their income from industrial/infrastructural financing exceeds 50% of their income;

   (d) The net-worth of the company should be Rs one thousand crore;

   (e) Company is registered as Infrastructure Finance Company (IFC) with RBI or as an Housing Finance Company (HFC) with National Housing Bank;

   (f) In the Case of CPSUs/SPSUs, no restriction shall apply with respect to financing specific sector(s) and net-worth.
12. As per above referred guidelines even private sector companies can be notified as Public Financial Institution U/s 4 (A) (2) of the companies Act. Also a request has been received from IDFC to classify investments by EPF in its Bonds under 30% category for PFI/PSU, instead of 10% category for private sector.

13. In view of the above, the matter is placed for the consideration of the FIC to consider classification of investments in all Public Financial Institutions (PFIs) in the 30% category of investment in PSU/PFIs by Employees' Provident Fund Organization (EPFO), irrespective of the fact whether such institution fall under the category of Public Sector or not and the recommendation of the FIC will be placed in the 199th meeting of CBT.
APPENDIX

“subject to a minimum sum of rupees five per month per establishment.”

2. This notification shall come into force with effect from the 1st day of December, 1978.

Notification under Paragraph 52 (1)

New Delhi, the 9th July, 2003

1S.O. 2125. — In exercise of the powers conferred by sub-paragraph (1) of paragraph 52 of the Employees' Provident Funds Scheme, 1952 and in supersession of the Notification of the Government of India in the Ministry of Labour No. S.O. 1398, dated the 11th July, 1998 (dated 19-6-1998 published in the Gazette of India) the Central Government hereby directs that all incremental accretions belonging to the Fund shall be invested in accordance with the following pattern namely:

<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 section 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 section 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</td>
<td>15%</td>
</tr>
</tbody>
</table>

1 Vide the Gazette of India, Pt. II, Sec. 3 (ii), Issue No. 30, dated 20-26th July.
## APPENDIX

<table>
<thead>
<tr>
<th>Investment Pattern</th>
<th>Percentage amount to be invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>(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; &quot;Public Sector Companies &quot; as defined in Section 2 (26-A) of the Income Tax Act, 1961 including public sector banks; and/or (b) Short duration (less than one year) Term Deposit Receipt issued by public sector banks; and/or (c) Collateral Borrowing and Lending Obligation (CBLO) issued by Clearing Corporation of India Ltd and approved by the Reserve Bank of India.</td>
<td>30%</td>
</tr>
<tr>
<td>It is further provided that the investment in CBLO under (iii) (c) above shall not exceed 5% of the incremental accretions at any point of time and this route of investment shall be utilized only with a view to avoid parking of idle funds in the account at the end of the day.] (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 Trust, subject to their assessment of 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>

2. 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.

3. 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.

4. The investment pattern as envisaged in the above paragraphs may be achieved by the end of a financial year, and shall come into force with immediate effect.
ENHANCEMENT OF YIELDS
ELARGING INVESTMENTS IN PRIVATE SECTOR BONDS

With reference to the discussions you had with our Top Management on 26-07-2007, we have suggested the following measures to improve the yields and for reduction of idle funds:

i) Investment in G.Secs.

ii) Investment in Liquid Mutual Funds.

02. As regards enhancement in yields, we are of the view that there is further scope for EPFO to invest in Private Sector Bonds which generally carry higher rate of interest. In this connection, the extant instructions of EPFO permit investments in Triple A rated Private Sector Bond Funds, while other terms and conditions are similar to those applicable to Public Sector Bonds. As per the norms prescribed by EPFO, only papers of two banks qualify for such investments i.e., ICICI Bank and HDFC Bank Ltd. The other quality papers like those floated by Housing Development Finance Corporation Ltd. and Infrastructure Development Finance Corporation Ltd. are thus not considered for investments.

03. HDFC Ltd. is a dual AAA rated housing finance institution and it has been tapping the market regularly to meet its funding requirements. The coupon offered by the institution are also at attractive levels. The paper is being traded in the market and acceptability is of high degree. The papers floated by HDFC have been rated as A.A.A for the past few years. We are of the view that HDFC bond is worth considering for being in the list of eligible papers for investment.

04. Infrastructure Development Finance Corp. Ltd. (IDFC) was a Government undertaking till 2005 and it became a private sector organization on divesting of the stake by Government of India. We have stopped making investments in IDFC paper ever since the company has by then a private sector entity. EPFO had an exposure of Rs. 300 crs in IDFC prior to divesting of Government stake and the present exposure is at Rs. 30.00 crs. Most IDFC papers are dual AAA rated and they have been servicing the principal and interest without any default. IDFC, being an infrastructure financing institution floats long term paper and the yields on them are also attractive and hence recommended for making investments.

05. In view of the fact stated above, we suggest EPFO to examine if deemed fit, and approve them for making investments in the papers issued by these two institutions which are well established and have sound credentials. As risk mitigation measures, we propose that the investments in these institutions be restricted to a maximum of 15% of the issuer’sNAV. The investments in these papers may be classified as “Investments in Private Sector” subject to a maximum of 1/3rd of Residual category of investments i.e., maximum of 40%.

Yours faithfully,

Deputy General Manager
could be taken against the CPWD to seek compensation. As regards the comments of Shri P. Rajendran on the matter of date implementation of leave encashment, he clarified that in view of the directions of Hon'ble High Court of Madras, EPFO had filed an application before Hon'ble Supreme Court of India for expeditious hearing in the SLP filed already.

Shri A. Venkatram intervened and observed that the order of Karnataka and Bombay High Court are specific on the date of implementation. He desired to know whether a circular has gone to all Regions clarifying the position.

The CPFC clarified that the Supreme Court's interim order had been circulated to all Regions. At present all parties are subject to the interim orders of Hon'ble Supreme Court. The Supreme Court had also not given any direction to stay the orders of other High Courts and lower Courts. The specific orders of the Supreme Court on the question of law shall be awaited.

With the above discussion, the item was passed.

**Item No. 2: Changes in Investment Guidelines.**

The CPFC invited FA & CAO to introduce the item. FA & CAO introduced the item and informed the Board that as per the proposal of the SBI to enhance returns and decision of the Finance and Investment
Private Sector Bonds were made restricted to Private Sector Bank Bonds only. This restriction was placed by the CBT in the form of a Guideline. Now, in view of the suggestions put forward by the SBI for enhancing the returns, the Finance and Investment Committee has recommended to remove these restrictions, for the investment in HDFC or IDFC Bonds, though they are not Private Sector Banks. He also requested the Board to decide whether the proposed changes in guidelines would be applicable to these two entities only, or to other Private Sector Bonds also.

Shri A.D. Nagpal said that the matter could be approved as per the decision of Finance and Investment Committee.

Shri W.R. Varada Rajan said that Finance and Investment Committee had given case specific approval for HDFC and IDFC. F.A. (Labour) supported the views of Shri W.R. Varada Rajan.

Shri Shankar Saha said that the subscribers' money should not be exposed to any risk due to volatility of the capital market.

The Chairman remarked that it was basically the question of what we earn, and what we could pay, as we were not taking undue risks on our investments, we should not be tempted by high returns available in other risky instruments.

Shri Ashok Singh said that he was in favour of changing the guidelines as proposed and also favoured the idea of investing subscribers' money in safe securities only.
Shri B.S. Hegde said that on one hand we were expecting high returns and on the other hand we were not allowing any investments in stock market, which could improve the yields. He further said that LIC was already investing in Stock Market and we should also have a small beginning and should take calculated risk by investing a small proportion in equities.

Shri M.P. Mehrotra said that both HDFC and IDFC were working in Infrastructure Sector and had the best possible ratings; hence the Board should not have any reservations in approving Finance and Investment Committee's recommendations. He further said that the instruments under consideration were secured bonds and not equities subject to market speculation.

Shri W.R. Varda Rajan endorsed the views of Shri Sankar Saha to not to put the mandated savings to any market risk. He clarified that the CBT had already unanimously decided earlier not to exercise the option as per the investment pattern to invest in stocks. Hence investment in Stock Market was not advisable. He further said that earlier investments in Bonds were allowed only in Public Sector Banks; later on the guidelines were relaxed for investments in ICICI Bank and HDFC Bank. ICICI was earlier a public sector Institution. Though they are now private sector banks but there are two advantages. First they have good ratings and second that we have Deposit Insurance and Credit Corporation access. Hence we are not put to any risk. Similarly, IDFC till 2005 was public sector Institution. Now it was proposed to allow investments in HDFC and IDFC Bonds only as case specific recommendation.
FA (Labour) said that a condition of the bond issue being at least "AAA" rated should be incorporated.

Shri B.N. Rai observed that there must be a cap, also to have a review mid term review.

The Chairman accepted the suggestion and the Board approved the item subject to the condition that the investments shall be made only in stocks which are "AAA" rated and if any changes take place in the ratings, then matter need to be brought back to the Board for appropriate directions.

Item No. 3: Ratification of SBI Transactions with the Associates of SBI

FA & CAO introduced the item and said that the SBI deviated from the guidelines regarding investment through SBI subsidiary in April 2005.

Shri B.N. Rai said that as Finance and Investment Committee had already passed the item, the Board may also pass the same.

Shri Ashok Singh said that on one had SBI was earning less interest for the EPFO and on the other hand they were also violating the set guidelines. In such a case, there should be some penalty imposed on SBI.

FA & CAO said that the auditors were already asked to check up the matter and report whether EPFO incurred any loss due to such investments.
Guidelines for declaring financial institution as Public Financial Institutions under Section 4A of the Companies Act, 1956

Section 4A of the Companies Act, 1956 was inserted by the Companies (Amendment) Act, 1974 (41 of 1974) with effect from 01st February 1975. Sub-Section (2) of Section 4A of the Act empowers the Central Government that subject to the provision of sub-section (1) of the Act, to notify in the Official Gazette such other institutions as it may think fit to be a public financial institution (PFI).

2. In the past, the Ministry was declaring an institution as PFI if it meets any one of clause (i) and (ii) of sub-section (2) of section 4A of the Act. Now, the Central Government has framed following criteria for declaring any financial institution as PFI under Section 4A of the Companies Act, 1956:

(a) A company or corporation should be established under a special Act or the companies Act being Central Act;
(b) Main business of the company should be industrial/infrastructural financing;
(c) The company must be in existence for at least 3 years and their financial statement should show that their income from industrial/infrastructural financing exceeds 50% of their income;
(d) The net-worth of the company should be Rs one thousand crore;
(e) Company is registered as Infrastructure Finance Company (IFC) with RBI or as an Housing Finance Company (HFC) with National Housing Bank;
(f) In the case of CPSUs/SPSUs, no restriction shall apply with respect to financing specific sector(s) and net-worth.

3. In view of above, any financial institution applying for declaration as PFI shall fulfill the aforesaid criteria.

* * * * *
Item No 5: Proposal for expanding investment opportunity to increase the earnings of the Fund.

1. The rate of interest on EPF is declared annually on the basis of expected earnings of the Fund.

2. Last year i.e. 2011-12, 8.25% rate of interest was declared depending on the income of the Fund. However, there was a demand for higher rate of interest.

3. The earnings of the Fund are dependent on the investments of the Fund, which are regulated by the Investment Pattern prescribed by Ministry of Labour and Employment and Investment Guidelines issued by the Central Board of Trustees. The investment pattern and investment guidelines ensure safety of Fund along with best possible yields.

4. Following these guidelines and pattern, the return generated through investment of Fund is not meeting the expectation of the stake holders. It was felt that ways and means be explored to increase the earning of the Fund. Therefore, a meeting of the Portfolio Managers of EPFO, the Consultant M/s CRISIL and officers of the EPFO was held at Mumbai on 18.4.2012 to discuss this issue as to how to increase the earning of the Fund without compromising the safety and security of the invested Fund. (Copy of Minutes is enclosed as Annexure ‘A’).

5. As of now the investments are regulated through pattern of investment prescribed by Ministry of Labour & Employment (MOL&E) and further regulated by guidelines issued by the Central Board of Trustees, Employees’ Provident Fund Organisation (EPFO).

6. Therefore the avenues to increase the yield on the basis of suggestions discussed in the said meeting can be broadly classified into following two groups i.e..

A. Suggestions for modification in existing guidelines of CBT EPF for which CBT is the Competent Authority
B. Suggestions for amendments in the present pattern of investment, 2003 prescribed by MOL&E for which the Central Government is the Competent Authority.

7. Suggestions for relaxation in Existing Investment Guidelines of CBT EPF for which CBT is the Competent Authority

A. Existing Investment Guidelines

I. The investment in PSU's/Public Sector Banks/PSFI's is presently permitted in companies with ratings up to dual AA for maximum tenure of 8 years.

II. Presently, the investment in Private Sector Bank/Private Sector Companies is permitted in companies having dual AAA rating for maximum tenure of 15 years. Further the maximum exposure limits for Private Banks is 30% of net worth while same is 25% for Private Sector companies. In case of Private Sector Company only two entities i.e. HDFC Ltd. and IDFC Ltd. are approved by the Board while for other private sector companies Board has allowed investment in only such Private Companies having a minimum 26% share holding by the Central Government/State Government (jointly and singly/PSU's).

III. In total only seven entities fulfill the eligibility criteria of Private Sector stipulated for EPF investment by the CBT, EPF. Out of these seven entities three are private sector banks (HDFC Bank, ICICI Bank and Axis Bank) and four private sector companies (HDFC Ltd., IDFC Ltd., LIC Housing Finance Company Ltd. & Infrastructure Leasing and Finance Services Ltd.)

B. LIMITATIONS OF THE EXISTING GUIDELINES

(i) Since the exposure limit prescribed by CBT guidelines for private sector companies is 25% of net worth only, the exposure limit for the four private sector companies is already exhausted. EPFO is left with option of investment in private sector category in three private sector banks only. The three private sector banks being aware of the limitation of the EPFO for investments in private sector category in their bonds only, are taking advantage of same by offering rates on their Bonds at the levels near the Public Sector Companies and thus the true advantage of capturing higher yield in private sector investment is not being realized to the best extent.
The 10% investment allowed in private sector category gets highest yield but in view of limited number of entities in this category, this advantage is not being utilized to the fullest extent. In the year 2011-12 against the total amount of Rs 5760 crore permissible to be invested in private sector, an amount of Rs 5460 crore could only be invested. Even out of Rs 5460 crores, major amount was invested in Private Sector Banks only where interest rates were less than other private sector companies.

C. Suggestion of Portfolio Manager & Consultant Crisil

Gradually expand the investment universe of AAA rated securities and subsequently also move to AA and A rated securities. Also for AA rated papers it can invest in papers with 5 years maturity and A with 3 years maturity as default rate is lower in initial years.

D. RECOMMENDATION OF EPFO

i. It is proposed to consider the proposal for gradually increasing the investment basket in the private category without compromising security and safety of the investments (by retaining the dual AAA ratings and reducing the maximum tenure for investments in non-banking private sector companies from existing 15 to 10 years).

It is proposed that initially the Board may consider expansion of the basket of investment universe for Private Sector for those companies fulfilling the following five criteria's

(a) Which are listed,
(b) Have dual AAA ratings,
(c) Have continuously paid dividend during last 5 years,
(d) Had continuously made net profit during last 5 years and
(e) Having positive net worth of minimum Rs. 5,000 crores.

ii. It is also recommended that the maximum tenure for investment in private sector non banking companies be uniformly restricted to maximum 10 years while for dual AAA rated private sector banks who are regulated by RBI the maximum tenure of investment be kept unchanged at 15 years.
iii. The maximum exposure limit for Private Sector Bank and Private Sector Company should continue to be unchanged at 30% and 25% of net worth respectively for Private Banks and Non Banks.

E. Advantage from the proposal if approved
The existing universe of basket of entities in private sector will be expanded and thus provide opportunity for capturing higher yields. This will also enable complete utilization of 10% investment limit permissible under this category.

8. Suggestions for modification in existing investment pattern by the Central Government on the recommendation of CBT.

Existing Provisions of Investment Pattern in which changes are proposed

A. Collateral & Borrowing Lending Obligation (CBLO) issued by Clearing Corporation of India Ltd. and approved by Reserve Bank of India: Investment in CBLO was allowed under (iii) (c ) of the 2003 pattern of investment(Copy enclosed as Annexure-B ) with a view to facilitate investment of idle funds in short term securities of maturity less than 7 days.

i. Current Constraint
As of now whenever funds are available with the Portfolio Managers (PMs) of EPFO but no opportunities are available at that point of time to invest in permissible securities, to avoid loss of interest due to idling of funds, the same are invested in CBLO . Sometimes auction of Government securities is announced by RBI on a particular date but funds are not available with the PMs and therefore investments are not made. When the funds become available, the same government securities are purchased from secondary market at high price than the price which could have been obtained, if securities were purchased directly from RBI at the time of auction. Since borrowing for short term are not allowed out of CBLO, EPFO is compelled to purchase Government securities in such circumstances at higher price from the secondary market.
ii. Suggestion of Portfolio Manager & Consultant Crisil

PMs have suggested that they be allowed to borrow for short term from CBLO market against our existing G Sec securities so as to enable them to borrow for short term from CBLO market for participation in PRIMARY ISSUES only and thus enabling them to capitalize on all primary opportunities during all time.

iii. EPFO’s Recommendations

It is recommended that this suggestion of the PM’s to allow use of CBLO for both borrowing and lending instead of only lending be approved and recommended to the Government, so as to provide more flexibility for investments in primary auctions of RBI. The Borrowings from CBLO shall not exceed 5% of the incremental accritions at any point of time. The borrowings shall be made only when the difference in price of Government Security purchased in RBI auction over the price of same security in the secondary market is more than the cost of borrowings out of CBLO and as such is beneficial to the EPFO even after paying the cost of borrowings.

B. Allowing Investment in Certificate of Deposit (CD) issued by Public Sector Banks: CDs are negotiable/tradable money market instrument issued in demat form or as a Usance Promissory Notes. CDs are like bank term deposits but unlike traditional time deposits these are freely negotiable and are often referred to as Negotiable Certificates of Deposit. CDs normally give a higher return than Bank term deposit. CDs are rated by approved rating agencies (e.g. CARE, ICRA, CRISIL, and FITCH) which considerably enhance their tradability in the secondary market, depending upon demand.

i. Current Constraint

Although the returns on CD’s are higher than Term Deposit, EPFO is not able to use this instrument for cash management as they are not included in the existing Investment Pattern.
ii. Suggestion of Portfolio Manager & Consultant Crisil

There was a suggestion to allow investment in three months Certificate of Deposit (CD) which are issued by Banks for better cash management purpose.

iii. EPFO's Recommendations

It is recommended that Central Government may be recommended to include investments in CDs of Public sector banks only, in the 30% PFI/PSU category of the current pattern in addition to short term TDRs.

C. Increase the current allowable maturity of Fixed Deposits from less than a year to up to 5 years.

The current investment pattern allows exposure in PSU bank term deposit receipts (TDR's) maturing less than a year.

i. Current Constraint

Under clause (iii) of the Investment pattern, 30% investments are allowed in Public Sector companies, TDRs of Public Sector Bank and CBLOs. Sometimes interest on TDRs with the maturity of more than a year is higher than the interest available on Public Sector Bonds. Since investments in TDRs with a maturity period of more than a year are not permissible, the investments are made in Public Sector Bonds at lower interest rate than it could have been obtained if investments were allowed in TDRs with maturity of more than a year. This adversely affects the overall yields on EPF investments.

ii. Suggestion of Portfolio Manager & Consultant Crisil

In order to avoid investments in lower yielding Public Sector Bonds as compared to higher yielding TDRs with maturity period of more than a year, it was proposed by the PMs to increase the maturity of TDR's from existing less than a year to up to 5 years.

iii. EPFO's Recommendations

It is recommended that the proposal of the PMs for increasing the maximum tenure of Term Deposit Receipt from existing less than a year to
up to 5 Years be approved and recommended to the Government, as it will help us capture higher yields on investments in the PSU segment.

A table of comparison of existing investment pattern, 2003 Vs. proposed pattern as per recommendations of the meeting is as under:-

<table>
<thead>
<tr>
<th>PATTERN 2003 INVESTMENT PATTERN</th>
<th>%age amount to be invested</th>
<th>PROPOSED PATTERN INVESTMENT PATTERN</th>
<th>%age 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>
<td>(i) No change</td>
<td>No Change</td>
</tr>
<tr>
<td>(ii) 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</td>
<td>15%</td>
<td>(ii) No Change</td>
<td>No Change</td>
</tr>
</tbody>
</table>
(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

<table>
<thead>
<tr>
<th>(iii) (a)</th>
<th>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</th>
</tr>
</thead>
<tbody>
<tr>
<td>(iii) (b)</td>
<td>Short duration (less than a year) Term Deposit Receipts (TDR) issued by public sector banks.</td>
</tr>
<tr>
<td>(iii) (c)</td>
<td>Collateral Borrowing and Lending Obligation (CBLO) issued by Clearing Corporation of India Ltd and approved by the Reserve Bank of India</td>
</tr>
</tbody>
</table>

It is further provided that the investment in CBLO under (iii) (c) above shall not exceed 5% of the incremental accretions at

| (iii) No Change |
|----------------|-------------------------------------------------|
| (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 |
| (iii) (b) Term Deposit Receipts (TDR) issued by public sector banks of maturities upto 5 Years |
| (iii) (c) Collateral Borrowing and Lending Obligation (CBLO) issued by Clearing Corporation of India Ltd and approved by the Reserve Bank of India for both lending as well as borrowing to take care of temporarily mismatch in cash flows. |

It is further provided that the
any point of time and this route of investment shall be utilized only with a view to avoid parking of idle funds in the account at the end of the day.

<table>
<thead>
<tr>
<th>(iv)</th>
<th>To be invested in any of the above three categories as decided by their Trustees.</th>
<th>30%</th>
<th>(iv)</th>
<th>To be invested in any of the above three categories as decided by their Trustees.</th>
<th>No Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>(v)</td>
<td>The Trust, subject to their assessment of risk-return prospects, may invest upto 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>(v)</td>
<td>The Trust, subject to their assessment of risk-return prospects, may invest upto 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>

The proposed suggestions outlined as EPFOs recommendation in Para 7 D (i, ii & iii) & 8 A (iii), B (iii) & C (iii) above are placed before the FIC for consideration and recommendation to CBT.
Minutes of Meeting with EPFO and Fund Managers

Date: 18th April, 2012
Time: 11:00 AM
Held at: CRISIL House

Participants
1. Representatives from EPFO, CRISIL, HSBC AMC, ICICI Securities PD, Reliance AMC and SBI

Agenda:
• Challenges for EPFO Investments in 2012-13 and measures to be adopted for countering the same.
• Suggestive changes in existing Investment Guidelines/Investment pattern of EPFO to improve the yields.
• Investment strategy to be adopted by EPFO to meet the rising expectation of its subscribers, to not only match but better the interest rates being declared by GOI on small savings schemes like PPF/NSC/Post Office etc by linking the same to G sec rates and declaring the same in advance of every financial year. Suggestions on how this expectation should be matched, communication to subscribers, strategy that can be followed and challenges in the existing systems that limit EPFO from meeting this expectation.

Minutes
1. CRISIL and all the fund managers also made presentations addressing above stated agenda.
2. CRISIL made a presentation on How 'A' rated instruments provide a superior risk adjusted return.

Key Point Discussed:

I. Discussion point: - EPFO portfolio has fully utilized issuer-wise investment limits for 'on the run' frequent public issuers. Also investments in private sector are permitted only in issuances of 7 corporate, 7 of which are AAA limiting the investment universe of the portfolio. Previous financial year also saw limited issuance by public sector undertakings. This has caused higher investments in SDL category and has also resulted in high concentration risk in the existing portfolio. In addition to concentration risk, yield on the portfolio is also limited on account of limited investment universe.

Proposed suggestion: -Gradually expand the investment universe of AAA rated securities and subsequently also move to AA and A rated securities. Also for AA rated papers it can invest in papers with 5 years maturity and A with 3 years maturity as default rate is lower in initial years.

II. Discussion point: - There was a concern raised on Special deposit scheme (SDS) investments. SDS rates have recently been changed to 8.6% and there is uncertainty on what these rates would be going forward. This in turn leads to uncertainty of returns from SDS investments. Another challenge that is faced by fund managers is in the deployment of interest that is earned on SDS. Interest is paid at the beginning of the year and leads to predictability of cash flows from EPFO. On account of this, lower yields are offered by the market during that point of time.

Proposed suggestion: - There were options proposed related to investments in SDS as follows
1. Link SDS rate to G-Sec yields of various maturities.
2. Approach Government to give interest on SDS on quarterly basis so that deployment process can be eased out.
3. Convert SDS to government security of various maturities.
III. **Discussion point:** - There was a concern raised on missed opportunity to participate in auctions on account of mismatch in timing of cash inflows and auction dates.

**Proposed Suggestion:** - There was a suggestion to borrow funds through CBLO route to enable participation in auctions to take care of temporary mismatch in cash flows. There was also a suggestion to allow investments in 3 months CDs for cash management purposes.

**Common Suggestions for Yield Improvement:**

1. Increase current allowable maturity of FD from 1 year to 3-5 years
2. Allow investments in Infrastructure debt funds (IDF). However there was a concern on the credit quality of such investments.
3. Set company-wise limits on the basis of percentage of inflows for a particular year. It was however felt that this will still not take care of the risk on account of company-wise concentration.
4. Define sector level limits to address the risk of sector concentration. It was however felt that this may not be feasible given that most issuances are from a few select sectors such as power.

**General Discussion on existing evaluation methodology of Portfolio Managers.**

**Discussion point:** - There could be some difference in the issued / traded levels for SDLs and private sector corporate bonds vis-a-vis the levels used in the benchmark index which is one of the reasons for funds underperforming the index.

**Proposed Suggestion:** - The spreads used for SDLs and private sector corporate bonds will be reviewed by CRISIL at regular intervals in order to align them to the market levels. CRISIL will review this and get back to EPFO and fund managers.
Subject to a minimum sum of rupees five per month per establishment.

2. This notification shall come into force with effect from the 1st day of December, 1978.

Notification under Paragraph 52 (1)

New Delhi, the 9th July, 2003

S.O. 2125. — In exercise of the powers conferred by sub-paragraph (1) of paragraph 52 of the Employees' Provident Funds Scheme, 1952 and in supersession of the Notification of the Government of India in the Ministry of Labour No. S.O. 1398, dated the 11th July, 1998 (dated 19-6-1998 published in the Gazette of India) the Central Government hereby directs that all incremental accretions belonging to the Fund shall be invested in accordance with the following pattern namely :

<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 section 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 section 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</td>
<td></td>
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</tbody>
</table>

Vide the Gazette of India, Pt. II, Sec. 3 (ii), Issue No. 30, dated 20-26th July.
APPENDIX

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<tr>
<td>fully and unconditionally guaranteed by the Central Government or any State</td>
<td></td>
</tr>
<tr>
<td>Government except those covered under (iii) (a) below.</td>
<td></td>
</tr>
<tr>
<td>(iii) (a) Bonds/Securities of Public Financial Institutions as specified under</td>
<td>30%</td>
</tr>
<tr>
<td>section 4 (1) of the Companies Act; “Public Sector Companies” as defined in</td>
<td></td>
</tr>
<tr>
<td>Section 2 (26-A) of the Income Tax Act, 1961 including public sector banks; and/or</td>
<td></td>
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<tr>
<td>(b) Short duration (less than one year) Term Deposit Receipt issued by public</td>
<td></td>
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<tr>
<td>sector banks; and/or</td>
<td></td>
</tr>
<tr>
<td>(c) Collateral Borrowing and Lending Obligation (CBLO) issued by Clearing</td>
<td></td>
</tr>
<tr>
<td>Corporation of India Ltd and approved by the Reserve Bank of India.</td>
<td></td>
</tr>
<tr>
<td>It is further provided that the investment in CBLO under (iii) (c) above shall</td>
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<td>not exceed 5% of the incremental accretions at any point of time and this route</td>
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<td>up to 1/3rd of (iv) above, in private sector bonds/securities, which have an</td>
<td></td>
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<tr>
<td>investment grade rating from at least two credit rating agencies.</td>
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</table>

2. 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.

3. 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.

4. The investment pattern as envisaged in the above paragraphs may be achieved by the end of a financial year, and shall come into force with immediate effect.