EMPLOYEES' PROVIDENT FUND ORGANISATION
NEW DELHI

119th Meeting of the
FINANCE INVESTMENT AND AUDIT COMMITTEE
[A SUB-COMMITTEE OF THE CENTRAL BOARD OF TRUSTEES, EMPLOYEES' PROVIDENT FUND]

On
26.03.2015 at 11:00 A.M.

VENUE:
Conference Hall,
3rd Floor, EPFO (Head Office),
Bhavishya Nidhi Bhawan,
14, Bhikaiji Cama Place,
NEW DELHI - 110066.
## EMPLOYEES' PROVIDENT FUND ORGANISATION

### AGENDA BOOK

**119th Meeting of the Finance Investment and Audit Committee, CBT, EPF**

**Date:** 26.03.2015  
**Time:** 11:00 A.M.

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<th>Agenda</th>
<th>Page No.</th>
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<td>2.</td>
<td>Action taken report on the recommendation of the 117th &amp; 118 Meeting Finance Investment &amp; Audit Committee (FIAC) held on 20.1.2015</td>
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<td>3.</td>
<td>New Pattern of Investment notified by Ministry of Finance on 02nd March, 2015</td>
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<td>4.</td>
<td>Action taken note on regulation of the Role of Advisors and Fund Managers in the Investments by the EPF Exempted Trusts (Agenda item no. 7 of 114th FIAC).</td>
<td>34-44</td>
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<td>5.</td>
<td>Risk Management Policy for investment in EPFO.</td>
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<td>Performance Evaluation of Portfolio Managers for the period 01.04.2014 to 31.12.2014 (i.e. three quarters).</td>
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<td>7.</td>
<td>Finalization of draft Portfolio Management Service Agreement to be entered between EPFO and selected Portfolio Managers.</td>
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<td>8.</td>
<td>Status on Audit Paras</td>
<td>147-150-A</td>
</tr>
<tr>
<td>9.</td>
<td>Any other item (s) with the permission of the Chair</td>
<td></td>
</tr>
</tbody>
</table>
Item No. 1: Confirmation of the Minutes of 117th & 118th Meeting of the Finance Investment and Audit Committee held on 20.01.2015 at EPFO Headquarter, New Delhi

Minutes of 117th & 118th Finance Investment and Audit Committee meeting held on 20.01.2015 was circulated vide letter No. Invest.1/(117th & 118th Mtg.)FIAC/2014-15/17005 dated 09.02.2015. Copies of the minutes are enclosed as Annexure -1 of this item.

Minutes may be taken as confirmed.
Minutes of the 117th and 118th Meetings of Finance Investment & Audit Committee (FIAC) held in continuation on 20.01.2015 from 01:30 P.M. onwards.

1. The 117th and 118th Meetings of Finance Investment & Audit Committee were held in continuation on 20.01.2015 from 01:30 P.M. onwards in the Conference Hall, 3rd Floor EPFO, Head Office, New Delhi.

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

3. The Agenda wise discussions for the respective FIAC meetings (i.e. 117th and 118th) are recorded below:

The following members were present in the meetings:

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Shri K.K. Jalan</td>
<td>Chairman, Finance Investment &amp; Audit Committee (FIAC), CBT, EPF and Central Provident Fund Commissioner, Employees’ Provident Fund Organisation, Head Office.</td>
</tr>
<tr>
<td>2</td>
<td>Ms. Meenakshi Gupta</td>
<td>Joint Secretary &amp; Financial Advisor, Ministry of Labour and Employment, Govt. of India.</td>
</tr>
<tr>
<td>3</td>
<td>Dr. G. Sanjeeva Reddy</td>
<td>Member, CBT, EPF (Employees’ Representative)</td>
</tr>
<tr>
<td>4</td>
<td>Shri J. P. Chowdhary</td>
<td>Member, CBT, EPF (Employers’ Representative)</td>
</tr>
</tbody>
</table>

The following members could not attend the meetings:

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sh. Deepak Kumar</td>
<td>Additional Secretary, Ministry of Labour and Employment, Govt. of India.</td>
</tr>
<tr>
<td>2</td>
<td>Dr. Ram S. Tarneja</td>
<td>Member, CBT, EPF (Employers’ Representative)</td>
</tr>
<tr>
<td>3</td>
<td>Shri Prabhakar J. Banasure</td>
<td>Member, CBT, EPF (Employees’ Representative)</td>
</tr>
<tr>
<td>4</td>
<td>Shri Anup Wadhawan</td>
<td>Joint Secretary, DFS, Ministry of Finance (Domain Expert)</td>
</tr>
</tbody>
</table>
The list of officers of EPFO and the Consultant's representatives present during the respective meetings is placed as Annexure 'A'.

**Minutes of 117th meeting of Finance Investment & Audit Committee (FIAC)**

**Item No 1:** Confirmation of the Minutes of 116th Meeting of the Finance Investment and Audit Committee held on 09.01.2015 regarding - Opening of financial bid of bidders successful in technical stage for appointment of Portfolio Managers, and further action thereon.

The minutes were confirmed by the Committee.

**Item No 2:** Action Taken Report on the recommendations of the 116th Finance Investment Audit Committee held on 09.01.2015

Action taken report as placed was taken note of by the Committee.

**Item No 3:** Opening of Financial bid of bidders successful in technical stage and further action thereon for Appointment of Portfolio Managers by EPFO.

1. The meeting started with CRISIL's presentation on the status of deviations discussed during the Pre-Qualification bid held on January 09, 2015. The decision taken by FIAC on the deviations is summarized below:

<table>
<thead>
<tr>
<th>Applicant</th>
<th>Deviation in Pre-Qualification bid</th>
<th>Status of Deviation</th>
<th>Decision taken by FIAC</th>
</tr>
</thead>
</table>
| Birla Sun Life AMC | • The Applicant was asked to re-submit the following documents by 5 pm on January 14, 2015:  
1. Affidavit as per the required format  
2. 2 copies of CDs of the proposal  
3. Undertaking as per the required format | • Status:  
1. The Affidavit as per the required format was submitted within the stipulated time  
2. The Applicant also submitted the 2 copies of CDs, but without the required excel files  
3. The Undertaking | FIAC decided to consider the Applicant for Technical bid evaluation. The Applicant was asked to submit a copy of undertaking by FAX or e-mail immediately on January 20, 2015 and submit the |
<table>
<thead>
<tr>
<th>Applicant</th>
<th>Deviation in Pre-Qualification bid</th>
<th>Status of Deviation</th>
<th>Decision taken by FIAC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance AMC</td>
<td>The Applicant was asked to re-submit the following documents by 5 pm on January 14, 2015: 1. Affidavit as per the required format 2. Undertaking as per the required format</td>
<td>The Applicant has submitted the required documents as per the required formats within the stipulated time</td>
<td>The points were noted and the FIAC decided to continue with the Technical bid evaluation for the AMC.</td>
</tr>
<tr>
<td>UTI AMC</td>
<td>During the Pre-Qualification Bid, the FIAC had asked for the Technical Bid of UTI AMC to be opened, subject to a legal opinion being taken on investigations listed in the Annexure of the Affidavit submitted by UTI AMC. Legal opinion had been sought on the same and it was suggested to take another affidavit from UTI AMC stating that “none of the matters disclosed is expected to have a material adverse impact on UTI Asset Management Company Limited’s ability to perform its obligations as will be required under the RFP or, if awarded the contract to perform the services to which the RFP pertains” in the format prescribed by CRISIL.</td>
<td>FIAC decided to consider the Applicant for Technical bid evaluation. UTI AMC will be required to submit the additional affidavit, as per the prescribed format.</td>
<td></td>
</tr>
</tbody>
</table>
2. CRISIL informed that the Technical bids of all the 6 Applicants who qualified the Pre-Qualification bid held on January 09, 2015 had been evaluated. CRISIL also highlighted that Axis AMC had been disqualified in the Pre-Qualification evaluation since it did not meet the minimum required assets under management of Rs. 15,000 cr. in debt funds. It was further stated that the Technical bid for State Bank of India (SBI) was not evaluated since it had been appointed on nomination basis.

3. Certain observations made by CRISIL during the Technical bid evaluation were first highlighted for consideration by FIAC. The decisions taken by FIAC on the observations are summarized as follows:

<table>
<thead>
<tr>
<th>Applicant</th>
<th>Clause in RFP</th>
<th>Observation</th>
<th>Relevant content from RFP</th>
<th>Recommendation</th>
<th>Decision taken by FIAC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Birla Sun Life AMC</td>
<td></td>
<td>The Company seal and signature are missing in several sections of the document except shareholding pattern and profile of board of directors. Name of authorized signatory and company seal are missing in covering letter. The signature of the authorized signatory is missing in the document.</td>
<td>Technical bid including all the information, as laid down in Section 8.3, duly filled in along with all attachments/schedule duly completed and with a covering letter, as per the format defined in Section 9.2, signed by the authorized representative of the Applicant. (Company seal and authorized signatory were required in covering letter)</td>
<td>CRISIL has yet evaluated the Applicant’s Technical bid.</td>
<td>FIAC decided to consider the Applicant’s Technical bid in view of the relevant content of RFP which was brought to the consideration of FIAC by the consultant.</td>
</tr>
<tr>
<td>Applicant</td>
<td>Clause in RFP</td>
<td>Observation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>---------------</td>
<td>-----------------------------------------------------------------------------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Birla Sun Life AMC</td>
<td>8.3.3.4</td>
<td>The contribution of BSLAMC to the overall group bottom line (PAT) is 9%.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>The Applicant has considered 100% profit of BSLAMC for the calculation.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Parent support and quality - Commonality of business,</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Contribution to overall group bottom line (PAT)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>The contribution to profits should be in the order of the shareholding of the parent. Accordingly, 51% of BSLAMC's profit i.e. in proportion to the shareholding by the parent be considered. The revised contribution (4.41%) be used after informing the Applicant.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Birla Sun Life AMC</td>
<td>8.3.3.7</td>
<td>The RFP had requested for average experience of senior management in the current role. It is observed that the Applicant has reported average experience of senior management across different roles in the organisation.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>The lowest score be assigned, after informing the Applicant.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICICI Prudentialia</td>
<td>Company seal and</td>
<td>Technical bid including all the</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>CRISIL has yet evaluated the</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Decision taken by FIAC</th>
</tr>
</thead>
<tbody>
<tr>
<td>FIAC approved the recommendation. The Applicant's representative accepted the recommendation and gave an undertaking for the same.</td>
</tr>
<tr>
<td>FIAC approved the recommendation. The Applicant's representative accepted the recommendation and gave an undertaking for the same.</td>
</tr>
<tr>
<td>Applicant</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>1 AMC</td>
</tr>
<tr>
<td>ICICI Prudential 1 AMC</td>
</tr>
<tr>
<td>Applicant</td>
</tr>
<tr>
<td>-------------------</td>
</tr>
<tr>
<td>ICICI Prudentia 1 AMC</td>
</tr>
<tr>
<td>ICICI Prudentia 1 AMC</td>
</tr>
<tr>
<td>Applicant</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>UTI AMC</td>
</tr>
<tr>
<td>UTI AMC</td>
</tr>
<tr>
<td>Applicant</td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>HSBC AMC</td>
</tr>
<tr>
<td>I-Sec PD</td>
</tr>
<tr>
<td>I-Sec PD</td>
</tr>
<tr>
<td>Applicant</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>Reliance AMC</td>
</tr>
<tr>
<td>Reliance AMC</td>
</tr>
<tr>
<td>Applicant</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>Reliance AMC</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
CRISIL also informed the FIAC that asset weighted purchase yield of HTM portfolios could not be verified by CRISIL using publicly available data. It was further informed by CRISIL that as per the terms of RFP document, there is no provision for third party verification of the information and the data submitted by the bidders. However, as a matter of abundant pre-caution and to introduce higher level of comfort in the reliability in the data provided by the bidders, data relating to bidders who are maintaining the funds on Marked-to-Market (MTM) basis was verified from the periodical information submitted by such Portfolio Managers in public domain. Similarly, the data related to bidders who are maintaining funds on Held-till-Maturity (HTM) basis was compared with the data available with CRISIL. The rank order of the data submitted by such bidders was in line with the data available with CRISIL. The above process for arriving at technical score for the bidders was informed to all the bidders present before the FIAC and all the bidders were unanimous that the procedure followed by the CRISIL is as per terms given in RFP.

CRISIL further informed that in any case EPFO has the power to cancel the services of the Portfolio Managers if it comes to its notice that any of the information submitted by the bidder is incorrect.

Considering the above, FIAC decided to go ahead with the opening of financial bids in respect of the qualified Bidders.

4. It was informed by CRISIL that all the 6 Applicants had scored above 65% in Technical bid. Based on this, FIAC decided to open the Financial bids of all the 6 Applicants.

5. The Financial bids were opened in the presence of the Authorised representatives from the Applicants. The bids of the 6 Applicants were announced as below:

<table>
<thead>
<tr>
<th>Applicant</th>
<th>Financial bid (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Birla Sun Life AMC</td>
<td>0.05</td>
</tr>
<tr>
<td>HSBC AMC</td>
<td>0.0043</td>
</tr>
<tr>
<td>ICICI Prudential AMC</td>
<td>0.0061</td>
</tr>
<tr>
<td>1-Sec PD</td>
<td>0.00000000005</td>
</tr>
<tr>
<td>Reliance AMC</td>
<td>0.00009</td>
</tr>
<tr>
<td>UTI AMC</td>
<td>0.0025</td>
</tr>
</tbody>
</table>


The Financial bid submitted by SBI was placed before the FIAC. In response to the appointment of SBI as portfolio manager for the EPFO corpus on nomination basis, the FIAC recommended to place the bid before the Central Board of Trustees (CBT) for final decision.

6. The Applicants were asked to vacate the room after the announcement of the Financial bids. CRISIL was thereafter asked to evaluate the composite scores of all the 6 Applicants based on the scores in Technical bid (80% weight) and Financial bid (20% weight). CRISIL calculated the same, and the composite scores and the linear ranks of the 6 Applicants were informed to the FIAC.

<table>
<thead>
<tr>
<th>Applicant</th>
<th>Technical bid score</th>
<th>Financial bid score</th>
<th>Final score (Technical 80% and Financial 20%)</th>
<th>Final Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>I-Sec PD</td>
<td>0.8752</td>
<td>1.0000</td>
<td>0.9001</td>
<td>1</td>
</tr>
<tr>
<td>Reliance AMC</td>
<td>0.9487</td>
<td>0.0000</td>
<td>0.7590</td>
<td>2</td>
</tr>
<tr>
<td>HSBC AMC</td>
<td>0.8248</td>
<td>0.0000</td>
<td>0.6599</td>
<td>3</td>
</tr>
<tr>
<td>UTI AMC</td>
<td>0.7854</td>
<td>0.0000</td>
<td>0.6283</td>
<td>4</td>
</tr>
<tr>
<td>ICICI Prudential AMC</td>
<td>0.7506</td>
<td>0.0000</td>
<td>0.6005</td>
<td>5</td>
</tr>
<tr>
<td>Birla Sun Life AMC</td>
<td>0.7040</td>
<td>0.0000</td>
<td>0.5632</td>
<td>6</td>
</tr>
</tbody>
</table>

7. FIAC recommended that the results of the evaluation may be placed before the CBT for final decision.

Minutes of 118th meeting of Finance Investment & Audit Committee (FIAC)

Item No. 1: Action Taken Report on the recommendations of the 115th Finance Investment Audit Committee held on 11.11.2014.

Action taken report as placed was taken note of by the Committee.

Item No. 2: Confirmation of the Minutes of 117th Meeting of the Finance Investment and Audit Committee held on 20.01.2015 Regarding - Opening of financial
bid of bidders successful in technical stage for appointment of Portfolio Managers, and further action thereon.

Since the minutes of both 117th & 118th meetings have been compiled together, the same shall be placed for confirmation together in the next meeting of FIAC.

**Item No. 3:** To take necessary decision pursuant to the outcome of the 117th FIAC meeting and to recommend accordingly to the CBT and any further action thereupon.

Since the minutes of both 117th & 118th meetings have been compiled together, the minutes of this item may be read same as that of Item no. 3 of 117th FIAC meeting as narrated above.

Further, the FIAC decided that its recommendations may be placed before the next meeting of CBT for consideration.

**Item No: 4** 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 2013-2014.

The Consolidated Annual Accounts with Audit Report and comments of the Organisation thereon was placed before the 118th Meeting of FIAC held on 20.01.2015. FA & CAO of the Organisation informed that the Consolidated Annual Accounts of Employees’ Provident Fund Organisation for the year 2013-14 was sent to all the C.B.T. Members on 16-09-2014 for kind perusal. Further, on receipt of the Audit Report from the Comptroller & Auditor General of India after auditing the Consolidated Annual Accounts of the Employees’ Provident Fund Organisation for the year 2013-14, the copy of said Audit Report alongwith the comments of the Organisation thereon were forwarded to all the C.B.T. Members on 08.01.2015 for comments.

JS & FA of the Labour Ministry stated that the issue of inoperative accounts is being highlighted by Audit very often. Details of principal amount & interest under inoperative account may be shown separately. FA & CAO of the organisation replied that contribution in inoperative account has been coming for years and they have become inoperative because contribution had not been received for the last 36 months. The amount of interest has been credited to this account on yearly basis and the consolidated amount has been treated as
opening balance in the following year. Thus, it may not be possible to bifurcate the consolidated amount into contribution and interest credited every year particularly in view of the fact that account prior to 2010 was being maintained manually.

JS & FA of the Ministry also highlighted that many audit observations particularly regarding non disclosures and inadequate disclosures are due to non adherence to Uniform Format of Accounts as prescribed by the CAG. As these issues will be taken care of with the migration to double entry accounting system timelines for same may be decided and meticulously adhered. It was informed that EPFO has engaged ICAI ARE to migrate the existing single entry accounting system to accrual based accounting system.

After deliberation, the FIAC recommended that the Audited Annual Accounts of EPFO for the year 2013-14 in respect of all three Schemes be placed before the ensuing meeting of Executive Committee, CBT, EPF.

Item No. 5: View of the CBT, EPF on the 14th, 15th & 16th (Combined) Valuation Report of the Employees' Pension Fund as on 31.03.2012 – Report submitted by M/s. K.A. Pandit, Consultants & Actuaries, the Valuer, appointed by the Central Government.

The above agenda item was placed before the FIAC during the meeting with the permission of the Chair.

The actuarial valuation report for the period 2009-10 to 2011-12 in respect of the Employees' Pension Fund had been referred back to the FIAC by the CBT, EPF in its 205th Meeting held on 19.12.2014 with the direction to examine in detail the reasons for the variation in the net surplus / deficit of the fund.

The FIAC had earlier examined the issue and arrived at the conclusion that the actuarial valuation reports for the EPS-95 may be accepted by the CBT. Deliberating on the detailed reasons for the variation the FIAC observed that the valuation results flow out from the data that was available for the valuation exercise and the extrapolations and valuation assumptions applied on them. While the quality of data that has been provided to the actuary for valuation over a period of time had improved considerably, a lot of work yet needs to be done in cleaning and updating the data further. It is noteworthy that the quality and quantity of data for active members has improved considerably but the same progress has not been achieved in respect of the inactive members. Along with the implementation of the UAN a number of steps are being taken to address the data cleaning and updating process. It was expected that it will take possibly another 1-2 years before reliance on the completeness and accuracy of data could be made with a fair degree of certitude.
The actuarial findings are in essence the Net Present Value of all the anticipated income and expenditure streams of the Fund taking into consideration all the members and beneficiaries of the fund as on the date of valuation. The various elements constituting the income and expenditure streams and the actuarial assumptions applied to these were as under:

**Income Streams**

(a) **Value of Future Contributions:** The incomes from all future contributions in respect of the existing contributing members are assessed. The contributions are dependent upon the wages for which a year on year increase of 7% has been assumed. The assessments are made of members contributing with the wage ceiling applied and those contributing beyond the wage ceiling separately. The assessment of future contributions also takes into account the attrition of employees based on the age cohorts as derived from scheme experience as well as Mortality as per the standard Indian Assured Life Mortality (IALM 2006-08). A discounting rate of 8% is used in arriving at the present value.

(b) **Value of current Assets:** The present value of the accumulated corpus of the funds constituting the year wise net contributions with interest thereon from the scheme's inception. The book values of investments have been taken in determining the value of the corpus.

**Expenditure Streams**

(a) **Value of Pension benefits:** The value of all benefits in the nature of pension is determined for existing pensioners as well as members, both active and inactive, who would become pensioners in future. It is assumed that 25% of the inactive members are eligible for pension and since data is not fully available for them the length of service, wages, etc. is assumed to follow profile of active members. The attrition factor based on age cohorts and Mortality as per the standard Indian Assured Life Mortality (IALM 2006-08) is applied to this computation. A discounting rate of 8% is used in arriving at the present value.

(b) **Value of Withdrawal Benefits:** Withdrawal benefits in respect of active contributing members are determined after applying the age cohort based attrition factor and taking into account the length of service, wages at exit, etc. In respect of inactive members it is assumed that 75% would be eligible only for withdrawal benefit and since the details of such members are not available an approximation based on average payment for withdrawal benefit is taken for purpose of valuation. A discounting rate of 8% is used in arriving at the present value.

As could be seen from the above the valuation results are dependent upon the accuracy of data that is made available for the valuation purpose. The year on
year variation in the key data elements available for valuation is given in the table below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>31.03.2010</th>
<th>31.03.2011</th>
<th>31.03.2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Members</td>
<td>2,81,47,028</td>
<td>2,60,94,893</td>
<td>3,27,66,321</td>
</tr>
<tr>
<td>Y-o-Y Variation (%)</td>
<td>-13.89</td>
<td>-25.57</td>
<td></td>
</tr>
<tr>
<td>Pensioners</td>
<td>35,10,006</td>
<td>36,00,089</td>
<td>41,03,014</td>
</tr>
<tr>
<td>Y-o-Y Variation in Pensioners (%)</td>
<td>2.57</td>
<td></td>
<td>13.97</td>
</tr>
<tr>
<td>Inactive Members</td>
<td>3,06,81,972</td>
<td>3,54,93,107</td>
<td>5,27,33,679</td>
</tr>
<tr>
<td>Y-o-Y Member Variation (%)</td>
<td>15.68</td>
<td></td>
<td>48.57</td>
</tr>
<tr>
<td>Value of Corpus (in crores)</td>
<td>1,23,790.43</td>
<td>1,42,050.82</td>
<td>1,61,780.08</td>
</tr>
<tr>
<td>Y-o-Y Variation in Corpus (%)</td>
<td>14.75</td>
<td></td>
<td>13.89</td>
</tr>
</tbody>
</table>

The degree of reliability and the reasons for variation in the key elements of data for actuarial valuation are as below:

(a) Pensioners Data: This data is provided as per actual and completeness of the data is quite high. The data is fully available in the computer system and the degree of reliability and accuracy is quite high.

(b) Data on Accumulated Corpus: This information is as per actuals and based on the books of accounts and the degree of reliability and accuracy of this data is quite high.

(c) Data of Active Members: Major improvements in the quality and accuracy of this data have been achieved over a period of time. Through a special drive using a web-based tool for employers details of active members have been collected to the extent of almost 80%. With introduction UAN there will be further improvements. From the figures for variation it can be seen.
that there was a drop of 7% in active members between 2010-11 and a sudden spurt of 25% between 2011-12, the possible reason for which could be attributed to the implementation of computerization in the year 2010-11 due to which many accounts were in the phase of transition from one system to the new system and could not be properly reflected. This situation is corrected from 2012 onwards when the new system started stabilizing. At present the active members data is reported from the online ECR based system payment collection system from the actual member-wise contributions are accounted and the data is accurate to a high degree.

(d) Data of Inactive Members: These are members who have in all probability left employment and this data is the weakest link in the actuarial exercise. It is extremely difficult to collect the relevant information as they are no longer in employment. As can be seen from the table above, there are wide variations in the figures for inactive member's data. As the organization has been updating the accounts of members and establishments over the years after implementing its new computerization programme, the true quantum of the inactive accounts data is emerging. With the introduction of UAN and continuing efforts to collect the data of all members the level of accuracy and confidence in this element of data would improve. It is expected that it would take another 1-2 years for that stage to be achieved provided there is no flagging in the efforts with UAN.

The FIAC noted that the variations are a result of the shortcomings in the data, primarily of the inactive members. Steps are being taken to fill this gap and it is expected that in 1-2 years the accurate picture would emerge. Given the situation presented above, the FIAC recommends that the valuation reports may be accepted by the CBT.

*The Meetings ended with vote of thanks to the Chair.*
ANNEXURE 'A'

EPFO Officers Present during 117th FIAC Meeting:
1. Sh. Sanjay Kumar – Financial Advisor and Chief Accounts Officer
2. Sh. Abhay Ranjan – Regional P F Commissioner, Grade I, IMC
3. Sh. Vishal Agarwal – Regional P F Commissioner, Grade II, IMC
4. Sh. Ajay Kumar – Regional P F Commissioner, Grade II, IMC
5. Sh. Amul Raj Singh – Regional P F Commissioner, Grade II, IMA

Consultant Representatives present during 117th FIAC Meeting:
1. Sh. Sandeep Sabharwal – Senior Director, CRISIL Research
2. Sh. Jiju Vidyadharan – Director, CRISIL Research
3. Sh. Piyush Gupta – Associate Director, CRISIL Research
4. Sh. Vikram Shastry – Manager, CRISIL Research

EPFO Officers Present during 118th FIAC Meeting:
1. Shri Sanjay Kumar, FA & CAO, EPFO, Head Office
2. Shri Abhay Ranjan, RPFC-I (IMC), EPFO, Head Office
3. Shri Sanjay Kumar, RPFC-I (FA), EPFO, Head Office
4. Shri Chandramauli Chakraborty, RPFC-I (Pension), EPFO, Head Office
5. Shri Amul Raj, RPFC-II (Investment), EPFO, Head Office
6. Shri Ajay Kumar, RPFC-II (IMC), EPFO, Head Office
7. Shri Vishal Agarwal, RPFC-II (IMC), EPFO, Head Office
Item No 2: Action Taken Statement on the minutes of 117th & 118 th meeting of Finance Investment and Committee (FIAC) held on 20.01.2015.

<table>
<thead>
<tr>
<th>Item no.</th>
<th>Agenda</th>
<th>Action Taken Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item no. 3 of 117th FIAC</td>
<td>Opening of Financial bids of bidders successful in technical stage and further action thereon for Appointment of Portfolio Managers by EPFO.</td>
<td>As per the decision, the recommendations of FIAC were placed before 206th Meeting of CBT held on 11.03.2015.</td>
</tr>
</tbody>
</table>

The Consultant, M/s. CRISIL made a presentation before the Committee on the status of deviations discussed during the Pre-Qualification bid held on January 09, 2015 and the decision taken by FIAC on the deviations. The CRISIL informed that all the 6 Applicants had scored above 65% in the Technical bid. Based on this, FIAC decided to open the Financial bids of all 6 Applicants. After evaluation of Technical bids and Financial bids, the Committee recommended the following bidders in the below ranking to the Board for final decision:

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Applicant</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>ICICI Sec. PD Ltd</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>Reliance Capital AML</td>
<td>2</td>
</tr>
<tr>
<td>3.</td>
<td>HSBC AMC</td>
<td>3</td>
</tr>
<tr>
<td>4.</td>
<td>UTI AMC</td>
<td>4</td>
</tr>
<tr>
<td>5.</td>
<td>ICICI Pru.AMC</td>
<td>5</td>
</tr>
<tr>
<td>6.</td>
<td>Birla Sun Life</td>
<td>6</td>
</tr>
</tbody>
</table>

(Item no. 3 of 117th FIAC)
<table>
<thead>
<tr>
<th>Item no. 3 of 118th FIAC</th>
<th>To take necessary decision pursuant to the outcome of the 117th FIAC meeting and to recommend accordingly to the CBT and any further action thereupon. Since the minutes of both 117th &amp; 118th meetings have been compiled together, the minutes of this Item may be read same as that of Item No.3 of 117th FIAC meeting as narrated above. Further, the FIAC decided that its recommendations may be placed before the next meeting of CBT for consideration. (Item no.3 of 118th FIAC)</th>
<th>The action taken for this item may be read same as above at Sl. No. 1.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item no. 4 of 118th FIAC</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 2013-14 (Item no.4 of 118th FIAC)</td>
<td>The consolidated Annual Accounts of the Organisation for the year 2013-14 were placed before the Executive Committee, CBT in its 81st Meeting held on 17.02.2015</td>
</tr>
<tr>
<td>Item no. 5 of 118th FIAC</td>
<td>View of the CBT,EPF on the 14th, 15th &amp; 16th (Combined) Valuation Report of the Employees’ Pension Fund as on 31.03.2012 – Report submitted by K.A. Pandit, Consultants &amp; Actuaries, the Valuer, appointed by the Central Government. (Item no. 5 of 118th FIAC)</td>
<td>Combined Actuarial report for 14th, 15th and 16th valuation for the period 31.03.2010, 31.03.2011 and 31.03.2012 was placed for consideration of the CBT, EPF in its 206th meeting held on 11.03.2015, the report have been accepted by the CBT,EPF.</td>
</tr>
</tbody>
</table>
**Item no 3: - New Pattern of Investment notified by Ministry of Finance on 02\textsuperscript{nd} March, 2015.**


2. This pattern was discussed in various meeting of Central Board of Trustees i.e. 187\textsuperscript{th}, 188\textsuperscript{th}, 189\textsuperscript{th}, 190\textsuperscript{th} & 192\textsuperscript{nd} meeting. Finally, the Board in its 201\textsuperscript{st} Meeting held on 25.02.2013 decided to recommend adoption of 2008 pattern of Investment of Ministry of Finance, Government of India to Ministry of Labour & Employment (MoL&E) without investment in equity. The MoL&E vide notification no 3450 (E) dated 21.11.2013 notified the same for investments by EPFO (copy enclosed as Annexure 'A'). The same is being presently followed by EPFO for its investments w.e.f. 01\textsuperscript{st} January, 2014.

3. Now, the Ministry of Finance in partial modification of its earlier Investment Pattern dated 14\textsuperscript{th} August, 2008, notified a new Investment Pattern on 2\textsuperscript{nd} March, 2015 vide notification dated 02\textsuperscript{nd} March, 2015 for Non Government Provident Funds, Superannuation Funds and Gratuity Funds with effect from 1\textsuperscript{st} April, 2015 (copy enclosed as Annexure 'B').

4. A comparative Gist on the 2013 Pattern of Investment notified by Ministry of MoL&E on 21\textsuperscript{st} November, 2013 and 2015 Pattern of Investment notified by MoF on 2\textsuperscript{nd} March, 2015 is placed as Annexure 'C'.

5. An item on the matter was placed before CBT, EPF in its 206\textsuperscript{th} Meeting held on 11.03.2015. The Board decided to refer the item to FIAC for detailed examination and recommendation to the Board.

*The new Pattern of Investment notified by Ministry of Finance on 02\textsuperscript{nd} March, 2015 is placed before the FIAC for perusal and recommendation to the Board.*

23
**MINISTRY OF LABOUR AND EMPLOYMENT**

NOTIFICATION

New Delhi, the 21st November, 2013

S.O. 3456(E) — 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. 2125 dated the 9th July, 2003 the Central Government hereby directs that all incremental accruals belonging to the Fund shall be invested in accordance with the following pattern, namely:

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Investment Pattern</th>
<th>Percentage amount to be invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>(a) Government securities</td>
<td>Upto 55</td>
</tr>
<tr>
<td></td>
<td>(b) Other securities, the principal whereof and interest whereon is fully and unconditionally guaranteed by the Central Government or any State Government except those covered under (ii) (a) below.</td>
<td></td>
</tr>
<tr>
<td>(c)</td>
<td>Units of mutual funds set up as dedicated funds for investment in Government securities and regulated by the Securities and Exchange Board of India;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>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)</td>
<td>Debt securities with maturity of not less than three years issued by Bodhisat Corporate including banks and public financial institutions:</td>
<td>Upto 55</td>
</tr>
<tr>
<td></td>
<td>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 agency.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(b) Term Deposit Receipts of not less than one year duration issued by scheduled commercial banks.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provided that the scheduled commercial banks must meet conditions of;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) Continuous profitability for immediately preceding three years;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(ii) Maintaining a minimum Capital to Risk Weighted Assets Ratio of 9%;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(iii) Having net non-performing assets of not more than 2% of the net advances;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(iv) Having a minimum net worth of not less than Rs. 200 crores.</td>
<td></td>
</tr>
<tr>
<td>(c)</td>
<td>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></td>
<td>(iii) Money market instruments including units of money market mutual funds</td>
<td>Upto 5</td>
</tr>
<tr>
<td></td>
<td>(iv) Shares of companies on which derivatives are available in Bombay Stock Exchange or National Stock Exchange or equity linked scheme of mutual funds regulated by the Securities and Exchange Board of India.</td>
<td>Nil</td>
</tr>
</tbody>
</table>

T Government Securities as defined in Section 2(b) of the Securities Contracts (Regulation) Act, 1956.

T' Securities as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956

T'II Public Financial Institutions as specified under Section 4A of the companies Act, 1956.

2 Any moneys received on the maturity of earlier investments reduced by obligatory outgoing shall be invested in same category.

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 as envisaged above may be achieved by the end of the financial year. However any volatility re-balancing at the end of the year may be avoided.

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.
To be published in the Gazette of India
Extraordinary Part 1 - Section 1
Government of India

MINISTRY OF FINANCE
(Deartment of Financial Services)
NOTIFICATION

New Delhi, the 2nd March, 2015

F. No. 11/14/2013 -PR.- In partial modification of this Ministry's Notification No. 5(88)/2006- PR dated 14th August, 2008, 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, 2015:-

<table>
<thead>
<tr>
<th>Category</th>
<th>INVESTMENT PATTERN</th>
<th>Percentage amount to be invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>Government Securities and Related Investments</td>
<td>Minimum 45% and upto 50%</td>
</tr>
<tr>
<td></td>
<td>(a) Government Securities,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(b) Other Securities (&quot;Securities&quot; as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956) the principal whereof and interest whereon is fully and unconditionally guaranteed by the Central Government or any State Government.</td>
<td>The portfolio invested under this sub-category of securities shall not be in excess of 10% of the total portfolio of the fund.</td>
</tr>
<tr>
<td></td>
<td>(c) Units of Mutual Funds set up as dedicated funds for investment in Govt. securities and regulated by the Securities and Exchange Board of India:</td>
<td>Provided that the portfolio invested in such mutual funds shall not be more than 5% of the total portfolio at any point of time and fresh investments made in them shall not exceed 5% of the fresh accretions in the year.</td>
</tr>
<tr>
<td>(ii)</td>
<td>Debt Instruments and Related Investments</td>
<td>Minimum 35% and upto 45%</td>
</tr>
<tr>
<td></td>
<td>(a) Listed (or proposed to be listed in case of fresh issue) debt securities issued by bodies corporate, including banks and public financial institutions (&quot;Public Financial Institutions&quot; as defined under Section 2 of the Companies Act, 2013), which have a minimum residual maturity period of three years from the date of investment.</td>
<td></td>
</tr>
</tbody>
</table>
(b) Basel III Tier-I bonds issued by scheduled commercial banks under RBI Guidelines:

Provided that in case of initial offering of the bonds the investment shall be made only in such Tier-I bonds which are proposed to be listed.

Provided further that investment shall be made in such bonds of a scheduled commercial bank from the secondary market only if such Tier I bonds are listed and regularly traded.

Total portfolio invested in this sub-category, at any time, shall not be more than 2% of the total portfolio of the fund.

No investment in this sub-category in initial offerings shall exceed 20% of the initial offering. Further, at any point of time, the aggregate value of Tier I bonds of any particular bank held by the fund shall not exceed 20% of such bonds issued by that Bank.

(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 Asian Development Bank.

(d) Term Deposit receipts of not less than one year duration issued by scheduled commercial banks, which satisfy the following conditions on the basis of published annual report(s) for the most recent years, as required to have been published by them under law:

(i) having declared profit in the immediately preceding three financial years;

(ii) maintaining a minimum Capital to Risk Weighted Assets Ratio of 9%, or mandated by prevailing RBI norms, whichever is higher;

(iii) having net non-performing assets of not more than 4% of the net advances;

(iv) having a minimum net worth of not less than Rs.200 crores.

(e) Units of Debt Mutual Funds as regulated by Securities and Exchange Board of India:
<table>
<thead>
<tr>
<th>Category</th>
<th>INVESTMENT PATTERN</th>
<th>Percentage amount to be invested</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Provided that fresh investment in Debt Mutual Funds shall not be more than 5% of the fresh accretions invested in the year and the portfolio invested in them shall not exceed 5% of the total portfolio of the fund at any point in time.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(f) The following infrastructure related debt instruments:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) Listed (or proposed to be listed in case of fresh issue) debt securities issued by body corporates engaged mainly in the business of development or operation and maintenance of infrastructure, or development, construction or finance of low cost housing.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Further, this category shall also include securities issued by Indian Railways or any of the body corporates in which it has majority shareholding.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>This category shall also include securities issued by any Authority of the Government which is not a body corporate and has been formed mainly with the purpose of promoting development of infrastructure.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>It is further clarified that any structural obligation undertaken or letter of comfort issued by the Central Government, Indian Railways or any Authority of the Central Government, for any security issued by a body corporate engaged in the business of infrastructure, which notwithstanding the terms in the letter of comfort or the obligation undertaken, fails to enable its inclusion as security covered under category (i) (b) above, shall be treated as an eligible security under this sub-category.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(ii) Infrastructure and affordable housing Bonds issued by any scheduled commercial bank, which meets the conditions specified in (ii) (d) above.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(iii) Listed (or proposed to be listed in case of fresh issue) securities issued by Infrastructure debt funds operating as a Non-Banking Financial Company and regulated by Reserve Bank of India.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(iv) Listed (or proposed to be listed in case of fresh issue) units issued by Infrastructure Debt Funds operating as a Mutual Fund and regulated by Securities and Exchange Board of India.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>It is clarified that, barring exceptions mentioned above, for the purpose of this sub-category (f), a sector shall be treated as part</td>
<td></td>
</tr>
<tr>
<td>Category</td>
<td>INVESTMENT PATTERN</td>
<td>Percentage amount to be invested</td>
</tr>
<tr>
<td>----------</td>
<td>--------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td></td>
<td>of infrastructure as per Government of India's harmonized master-list of infrastructure sub-sectors.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provided that the investment under sub-categories (a), (b) and (f) (i) to (iv) of this category No. (ii) shall be made only in such securities which have minimum AA rating or equivalent in the applicable rating scale from at least two credit rating agencies registered with Securities and Exchange Board of India under Securities and Exchange Board of India (Credit Rating Agency) Regulation, 1999. Provided further that in case of the sub-category (f) (iii) the ratings shall relate to the Non-Banking Financial Company and for the sub-category (f) (iv) the ratings shall relate to the investment in eligible securities rated above investment grade of the scheme of the fund.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provided further that if the securities / entities have been rated by more than two rating agencies, the two lowest of all the ratings shall be considered.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provided further that investments under this category requiring a minimum AA rating, as specified above, shall be permissible in securities having investment grade rating below AA in case the risk of default for such securities is fully covered with Credit Default Swaps (CDSs) issued under Guidelines of the Reserve Bank of India and purchased along with the underlying securities. Purchase amount of such Swaps shall be considered to be investment made under this category.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>For sub-category (c), a single rating of AA or above by a domestic or international rating agency will be acceptable.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>It is clarified that debt securities covered under category (i) (b) above are excluded from this category (ii).</td>
<td></td>
</tr>
<tr>
<td>(iii)</td>
<td>Short-term Debt Instruments and Related Investments</td>
<td>Upto 5%</td>
</tr>
<tr>
<td></td>
<td>Money market instruments:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provided that investment in commercial paper issued by body corporates shall be made only in such instruments which have minimum rating of A1+ by at least two credit rating agencies registered with the Securities and Exchange Board of India.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provided further that if commercial paper has been rated by more than two rating agencies, the two lowest of the ratings shall be considered.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provided further that investment in this sub-category in</td>
<td></td>
</tr>
<tr>
<td>Category</td>
<td>INVESTMENT PATTERN</td>
<td>Percentage amount to be invested</td>
</tr>
</tbody>
</table>
|----------|--------------------|---------------------------------
<p>| (iv) Equities and Related Investments | | Minimum 5% and up to 15% |
| | Shares of body corporates listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), which have: | |
| | (i) Market capitalization of not less than Rs. 5000 crore as on the date of investment; and | |
| | (ii) Derivatives with the shares as underlying, traded in either of the two stock exchanges. | |
| | (b) Units of mutual funds regulated by the Securities and Exchange Board of India, which have minimum 65% of their investment in shares of body corporates listed on BSE or NSE. | |
| | Provided that the aggregate portfolio invested in such mutual funds shall not be in excess of 5% of the total portfolio of the fund at any point in time and the fresh investment in such mutual funds shall not be in excess of 5% of the fresh accretions invested in the year. | |
| | (c) Exchange Traded Funds (ETFs) / Index Funds regulated by the Securities and Exchange Board of India that replicate the portfolio of either BSE Sensex Index or NSE Nifty 50 Index. | |
| | (d) ETFs issued by SEBI regulated Mutual Funds constructed specifically for disinvestment of shareholding of the Government of India in body corporates. | |
| | (e) Exchange traded derivatives regulated by the Securities and Exchange Board of India having the underlying of any permissible listed stock or any of the permissible indices, with the sole purpose of hedging. | |
| | Provided that the portfolio invested in derivatives in terms of contract value shall not be in excess of 5% of the total portfolio invested in sub-categories (a) to (d) above. | |</p>
<table>
<thead>
<tr>
<th>Category</th>
<th>INVESTMENT PATTERN</th>
<th>Percentage amount to be invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>(v)</td>
<td>Asset Backed, Trust Structured and Miscellaneous Investments</td>
<td>Upto 5%</td>
</tr>
<tr>
<td></td>
<td>(a) Commercial mortgage based Securities or Residential mortgage based securities.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(b) Units issued by Real Estate Investment Trusts regulated by the Securities and Exchange Board of India.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(c) Asset Backed Securities regulated by the Securities and Exchange Board of India.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(d) Units of Infrastructure Investment Trusts regulated by the Securities and Exchange Board of India.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provided that investment under this category No. (v) shall only be in listed instruments or fresh issues that are proposed to be listed.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provided further that investment under this category shall be made only in such securities which have minimum AA or equivalent rating in the applicable rating scale from at least two credit rating agencies registered by the Securities and Exchange Board of India under Securities and Exchange Board of India (Credit Rating Agency) Regulations, 1999. Provided further that in case of the sub-categories (b) and (d) the ratings shall relate to the rating of the sponsor entity floating the trust.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provided further that if the securities / entities have been rated by more than two rating agencies, the two lowest of the ratings shall be considered.</td>
<td></td>
</tr>
</tbody>
</table>

2. Fresh accretions to the fund will be invested in the permissible categories specified in this investment pattern in a manner consistent with the above specified maximum permissible percentage amounts to be invested in each such investment category, while also complying with such other restrictions as made applicable for various sub-categories of the permissible investments.

3. Fresh accretions to the funds shall be the sum of un-invested funds from the past and receipts like contributions to the funds, dividend / interest / commission, maturity amounts of earlier investments etc., as reduced by obligatory outgo during the financial year.

4. Proceeds arising out of exercise of put option, tenure or asset switch or trade of any asset before maturity can be invested in any of the permissible categories described above in the manner that at any given point of time the percentage of assets under that category should
not exceed the maximum limit prescribed for that category and also should not exceed the maximum limit prescribed for the sub-categories, if any. However, asset switch because of any RBI mandated Government debt switch would not be covered under this restriction.

5. Turnover ratio (the value of securities traded in the year / average value of the portfolio at the beginning of the year and at the end of the year) should not exceed two.

6. If for any of the instruments mentioned above the rating falls below the minimum permissible investment grade prescribed for investment in that instrument when it was purchased, as confirmed by one credit rating agency, the option of exit shall be considered and exercised, as appropriate, in a manner that is in the best interest of the subscribers.

7. On these guidelines coming into effect, the above prescribed investment pattern shall be achieved separately for each successive financial year through timely and appropriate planning.

8. The investment of funds should be at arms length, keeping solely the benefit of the beneficiaries in mind. For instance, investment (aggregated across such companies / organizations described herein) beyond 5% of the fresh accretions in a financial year will not be made in the securities of a company / organization or in the securities of a company / organization in which such a company / organization holds over 10% of the securities issued, by a fund created for the benefit of the employees of the first company / organization, and the total volume of such investments will not exceed 5% of the total portfolio of the fund at any time. The prescribed process of due diligence must be strictly followed in such cases and the securities in question must be permissible investments under these guidelines.

9. The prudent investment of the Funds of a trust / fund within the prescribed pattern is the fiduciary responsibility of the Trustees and needs to be exercised with appropriate due diligence. The Trustees would accordingly be responsible for investment decisions taken to invest the funds.

ii. The trustees will take suitable steps to control and optimize the cost of management of the fund.

iii. The trust will ensure that the process of investment is accountable and transparent.

iv. It will be ensured that due diligence is carried out to assess risks associated with any particular asset before investment is made by the fund in that particular asset and also during the period over which it is held by the fund. The requirement of ratings as mandated in this notification merely intends to limit the risk associated with investments at a broad and general level. Accordingly, it should not be construed in any manner as an endorsement for investment in any asset satisfying the minimum
prescribed rating or a substitute for the due diligence prescribed for being carried out by the fund / trust.

v. The trust / fund should adopt and implement prudent guidelines to prevent concentration of investment in any one company, corporate group or sector.

10. If the fund has engaged services of professional fund asset managers for management of its assets, payment to whom is being made on the basis of the value of each transaction, the value of funds invested by them in any mutual funds mentioned in any of the categories or ETFs or Index Funds shall be reduced before computing the payment due to them in order to avoid double incidence of costs. Due caution will be exercised to ensure that the same investments are not churned with a view to enhancing the fee payable. In this regard, commissions for investments in Category III instruments will be carefully regulated, in particular.

(Shashank Saksena)

Economic Adviser-II
Comparative gist between 2013 Pattern of Investment notified by Ministry of Labour (MoL&E) for EPFO and 2015 pattern of Ministry of Finance (MoF).

<table>
<thead>
<tr>
<th>Instrument</th>
<th>Investment Pattern of 2013 (MoL&amp;E)</th>
<th>Investment Pattern to be notified with effect from April 1, 2015 (MoF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Securities</td>
<td>upto 55%</td>
<td>Minimum 45% and upto 50%</td>
</tr>
<tr>
<td>Debt Securities and term deposits of banks</td>
<td>upto 55%</td>
<td>Minimum 35% and upto 45%</td>
</tr>
<tr>
<td>Money Market Instruments</td>
<td>upto 5%</td>
<td>upto 5%</td>
</tr>
<tr>
<td>Equity and equity related instruments</td>
<td>Nil</td>
<td>A Minimum of 5% and upto 15%</td>
</tr>
<tr>
<td>Exchange Traded Funds/ Index Funds</td>
<td>Nil</td>
<td>Exchange Traded Funds, Index Funds and derivatives are part of the a minimum 5% and Upto 15% limit for equity and equity related instruments</td>
</tr>
<tr>
<td>Asset Backed Securities, Units of Real Estate / Infrastructure Investment Trusts</td>
<td>Nil</td>
<td>Upto 5% limit</td>
</tr>
</tbody>
</table>
Item No. 4: Action taken note on regulation of the Role of Advisors and Fund Managers in the Investments by the EPF Exempted Trusts (agenda item no. 7 of 114th FIAC).

1. The FIAC in its 114th meeting held on 25.06.2014 deliberated on the issue on Role of Advisors and Fund Managers in the Investments by the EPF Exempted Trust (Agenda placed as Annexure 'A') and empowered CPFC/FA&CAO for further necessary action in the matter (relevant portion of minutes placed as Annexure 'B').

2. In compliance to the decision of the Committee, it was decided to sought comments of SEBI for setting up regulations for the role of Advisors and Fund Managers in the Investments of funds of the EPF Exempted Establishments vide letter dated 25th September, 2014 (Copy of the letter placed as Annexure 'C').

3. In response to EPFO's letter, SEBI vide its letter dated 25.11.2014 (Copy of the letter placed as Annexure 'D') had forwarded its comments as follows:

(a) The regulations of SEBI are applicable on all investment advisors as well as portfolio/fund managers. Accordingly, it has been clarified by SEBI that portfolio/fund managers and investment advisors engaged by EPF exempted establishments in respect of services related to investing in securities for consideration will require to comply with conduct regulations imposed by the applicable Regulations of SEBI.

(b) With reference to some instances of malpractices in the investments of funds of exempted establishments in the absence of guidelines from the regulating/monitoring authority, it has been informed that though the regulations contain a framework for examining the complaints received from investors on matters having a bearing on the conduct of the portfolio manager/adviser, inter se disputes or claims between the advisors/fund managers and such clients or EPF exempt establishments may fall outside SEBI's purview and such disputes or claims can be adjudicated before appropriate forum such as Arbitration or Civil Courts.

4. The Comments of SEBI were considered and it was decided that an advisory may be issued to all exempted establishments to engage only SEBI registered Portfolio Managers/Advisors and in case of any malpractices reported, the case may be forwarded to SEBI for necessary action as they are the regulator for the industry. Accordingly, an advisory letter to all exempted establishments on Regulation of the Role of Advisors and Fund Managers in the Investments of the funds of EPF Exempted Establishments for appointing only such entities as Fund Managers/Advisors that are duly registered with SEBI for the purpose has been issued on 13th January, 2015 (copy of letter issued to all exempted establishments is placed as Annexure 'E' for ready reference and perusal). Further, as decided, as and when any case of malpractice, etc. by Portfolio Manager/Advisor engaged by any exempted establishments is brought to the notice of EPFO, the same will be forwarded to SEBI for necessary action at its end in its capacity as 'Regulator' for them and will be follow up with it.

The action taken note on regulation for role of Fund Manager/Advisor is placed before the Committee for perusal and further directions.
Item: Regulation of the Role of Advisors and Fund Managers in the Investments of the EPF Exempted Trusts.

Central Government i.e. Ministry of Labour & Employment, Govt. of India has an overarching role of monitoring and regulating the management of the EPF fund by the exempted trusts under Section 17(1A)(d)(iii) of EPF & MP Act - 1952. The role of regulator becomes very important in view of the overall responsibility of EPFO to extend statutory benefits to eligible employees of exempted establishments.

2. The process of investment by the Trust usually involve the role of the advisor, role of Fund Manager and role of the decision making body within the Trust. Accordingly, there are three broad aspects which need to be monitored in this process in order to ensure that investments by the Trust are being done in a bona fide manner.

i) Adherence to the pattern and the guidelines notified by Central Government from time to time: This area has long been neglected. However, proposal has been made to prescribe some basic guidelines for investments of the Trust money by the trusts that was approved in the 111th Meeting of FIA held on 27th March, 2014. Currently, the proposal to notify the guidelines is pending with the Central Government.

Initiatives have also been taken to provide facility for online submission of the returns by the exempted trusts. These online returns would ensure that at the end of the financial year, the exempted trusts disclose their investments made during the year in detail.

Adherence to the Pattern of Investment prescribed by Ministry of Labour & Employment and the guidelines which is pending for notification as on date may be ensured by EPFO at the time of annual inspection of these trusts.

ii) Role of Advisors: Ministry of Labour & Employment has never attempted to prescribe the criteria for qualification of a person or agency that can act as an Advisor to the exempted trusts. No process of registration of a person willing to act as an Advisor to the trusts exists as on date. Similarly, the conduct of an Advisor in order to ensure that it gives bona fide commercial advice in the best interest of the Trust is also not being monitored. EPFO does not have requisite experience or resources to qualify, register, monitor or regulate advisors.

iii) Role of Fund Managers: Ministry of Labour & Employment has never attempted to prescribe the criteria for qualification of a person or agency that can act as a Fund Manager of the exempted trusts. No process of registration of a person willing to act as a Fund Manager of the trusts exists as on date. Similarly, the conduct of a Fund Manager in order to ensure that it makes prompt and prudent investments in the best
interest of the Trust is also not being monitored. EPFO does not have requisite experience or resources to qualify, register, monitor or regulate fund managers.

3. The Committee may like to be informed that SEBI has been regulating the securities market in India so as to protect the interests of the investors as a specialized regulator for various financial intermediaries like mutual funds. It has already come out with SEBI (Investment Advisers) Regulations, 2013 and SEBI (Portfolio Managers) Regulations, 1993 in order to regulate the functioning of the person or agency that can as an Advisor and as a Fund Manager respectively. While providing their services to the exempted trusts, since the role of the Advisor or the Fund Manager is likely to be identical to the role they need to perform in some other similar set up like mutual funds or portfolio management services (PMS), the possibility of entrusting this job to SEBI may be explored.

4. In this context, FA & CAO had a telephonic discussion with Mr. Ananta Barua, E.D. of SEBI who oversees the overall regulatory function in the above context. He has shown interest in exploring the possibility for putting uniform regulation for regulating the conduct of Advisors as well as Fund Managers.

5. FIAC may peruse the above Agenda item and if it decides that regulation of the role of Advisors as well as Fund Managers engaged by the exempted trusts is required in the context of the management of the EPF funds by exempted establishments, it may give appropriate directions.

6. FIAC may also like to empower CPFC / FA & CAO to explore the possibility of putting a uniform regulator mechanism alongwith SEBI (in its consultation or through it) for regulating the roll of Advisors and Fund Managers.

Proposal: The suggestions outlined in Para 5 and 6 above are placed before the FIAC for consideration.
To

All Members,
Finance Investment & Audit Committee,
Central Board of Trustees, Employees' Provident Fund.

Sub: Forwarding minutes of the 114th meeting of the Finance Investment & Audit Committee (FIAC), CBT, EPF held on 25.8.2014 at EPFO, Head Office, New Delhi – Reg.

Sir,

Minutes of 114th meeting of the Finance Investment & Audit Committee held on 25.08.2014, duly approved by the Chairman are enclosed herewith for your information and necessary action.

Yours faithfully,

( MANORANJAN KUMAR )
REGIONAL P.F. COMMISSIONER-II (INVEST.)

Ends:· As above
The committee after detailed discussion decided to recommend the item to the CBT for approval.

**Item No. 6: Finalization of comments on Revised Investment Pattern proposed by the Ministry of Finance, Govt. of India.**

FA & CAO introduced the agenda item to the Committee. He explained that the Ministry of Finance periodically notifies the Investment Pattern. It has recently brought the draft Pattern of Investment and has sought comments of all stakeholders including EPFO.

A Four Members Committee was constituted headed by Sh. S.Visvanathan, Ex-MD, SBI to examine the Draft Revised Investment Pattern, which had suggested that EPFO should start investment in equity.

The FIAC appreciated the work done by the Four Members Committee.

Shri J.P. Chowdhary agreed to the proposal of the committee of some investment in equity. However he suggested that maximum cap on Investment in Government Securities should be removed and accordingly advised that the matter be taken up with DFS in this regard.

After detailed discussion the Committee recommended the item to the Board for consideration with the observation of Shri J.P. Chowdhary

**Item No. 7: Regulation of the Role of Advisors and Fund Managers in the Investments by the EPF Exempted Trusts.**

FA & CAO introduced the agenda item to the Committee.

While acknowledging the concern raised in the item the committee approved the proposal to empower CPFC/FA&CAO for further necessary action in the matter.
File no. HO/IMC/121/Investment Guidelines/2013

To,

The Chairman,
Securities Exchange Board of India,
Plot No.C4-A, 'G' Block, Bandra Kurla Complex,
Bandra (East), Mumbai 400051.

(By name to: Shri Anant Barua, Executive Director)

Sub: Regulation of the Role of Advisors and Fund Managers in the Investments of the funds of EPF Exempted Establishments.

Sir,

The Central Board of Trustees, CBT, EPF grant Exemptions to the Establishments under Section 17 (1) of EPF & MP Act - 1952 with certain conditions. In a nutshell these are:

i. The rate of interest declared by such exempted establishment should not be less favorable than EPFO.

ii. The Exempted Establishment should invest its funds in accordance with the instructions of the Government of India from time to time.

iii. The Employees of the Exempted Establishment should also be in enjoyment of other benefits which on the whole should not be less favorable than the benefits provided under EPF Scheme 1952.

2. As on today the exempted establishments are managing their funds in accordance with the investment pattern prescribed by the Government of India without any further guidelines from any of the regulating/monitoring authority. While the EPFO is following 2013 Pattern of Investment notified by Ministry of Labour & Employment, Govt. of India, exempted establishments continue to follow 2003 Pattern. It has come to the notice of EPFO that some of the exempted establishments engage fund manager/advisor for efficient and prompt investment of their funds. The Fund Managers/Advisors so engaged are required to aid them in the
assigned task. However, it has been brought to the notice of EPFO that in the absence of guidelines from the regulating/monitoring authority, there have been some instances of malpractices in the investment of funds of exempted establishments.

3. In this connection, kind reference is invited to SEBI (Investment Advisor) Regulations, 2013 and SEBI (Portfolio Managers) Regulations, 1993, wherein some regulations have been prescribed by SEBI for regulating the role of Advisor and Portfolio Managers for investment by them. However, it is not evident whether these regulations are applicable on the conduct of advisors and Fund Managers engaged by EPF Exempted Establishments.

4. Accordingly, it is felt by EPFO that in view of safety of the investments made by the Fund Managers/Advisors of EPF Exempted Establishments, some regulation for the role of Fund Managers/Advisors engaged by such establishments may be put in place. Accordingly, internally it was decided to explore the possibility of putting a uniform regulator mechanism along with SEBI (in its consultation or through it) for regulating the role of Advisors and Fund Managers.

4. In this regard, reference is also invited to the deliberations we had on this issue wherein you had shown interest in exploring the possibility for putting in place uniform regulations for regulating the conduct of Advisors as well as Fund Managers engaged by EPF Exempted Establishments.

5. In view of above, it is kindly requested to suggest your valuable comments/views for setting up regulations for the role of Advisors and Fund Managers in the Investments of funds of the EPF Exempted Establishments. We may also depute some officers from each organization to work out the possibilities.

Yours faithfully,

(Sanjay Kumar)
Financial Advisor & Chief Accounts Officer

[Stamp: जारी दिया ISUED]
Dear Sir,

Sub: Comments on Regulation of the Role of Advisors and Fund Managers in the Investment of the Funds of EPF Exempted Establishments

This has reference to the letter dated September 25, 2014, wherein the comments of SEBI have been sought on the above mentioned subject.

The comments of SEBI on the issues raised in the letter are as below:

1. It is not evident whether SEBI (Investment Advisor) Regulations, 2013 and SEBI (Portfolio Managers) Regulations, 1993 are applicable to the conduct of advisors and fund managers engaged by EPF Exempted Establishments. Views of SEBI have been sought on the issue of setting up regulations for the role of advisors and fund managers in the investment of funds of exempted establishments.

SEBI's view:

In view of the definition of 'investment adviser' as per the SEBI (Investment Adviser) Regulations, 2013 and the definition of 'portfolio manager' as per the SEBI (Portfolio Managers) Regulations, 1993 and the exemptions from registration given therein, it follows that any person who provides portfolio management services or investment advice in respect of securities to its...
Investment advice in respect of securities to its clients in return for a consideration will fall within the SEBI (Investment Advisor) Regulations, 2013 and SEBI (Portfolio Managers) Regulations, 1993. Hence, fund managers and investment advisors engaged by EPF exempted establishments in respect of services related to investing in securities for consideration will require to comply with conduct regulations imposed by the applicable Regulations.

2. There have been some instances of malpractices in the investments of funds of exempted establishments in the absence of guidelines from the regulating/monitoring authority.

SEBI's view:

In this regard, it is stated that both Investment Advisers Regulations and Portfolio Manager Regulations contain a framework for examining the complaints received from investors on matters having a bearing on the conduct of the portfolio manager/adviser. However, it is informed that inter se disputes or claims between the advisors/fund managers and such clients or EPF exempt establishments may fall outside SEBI's purview and such disputes or claims can be adjudicated before appropriate forum such as Arbitration or Civil Courts.

Yours faithfully,

Barnali Mukherjee
To,

All Exempted Establishments

Sub: Regulation of the Role of Advisors and Fund Managers in the Investments of the funds of EPF Exempted Establishments.

Sir,

The Central Board of Trustees, CBT, EPF grant Exemptions to the Establishments under Section 17 (i) of EPF & MP Act - 1952 with certain conditions. In a nutshell these are;

i. The rate of interest declared by such exempted establishment should not be less than that declared by EPFO.

ii. The Exempted Establishment should invest its funds in accordance with the instructions of the Government of India from time to time.

iii. The Employees of the Exempted Establishment should also be in enjoyment of other benefits which on the whole should not be less favorable than the benefits provided under the EPF Act-1952 & schemes framed therein.

2. Presently, exempted establishments are managing their funds in accordance with the investment pattern prescribed by the Government of India without any further guidelines from any of the regulating/monitoring authority. While the EPFO is following 2013 Pattern of Investment notified by Ministry of Labour & Employment, Govt. of India, exempted establishments continue to follow 2003 Pattern as on today. It has come to the notice of EPFO that some of the exempted establishments engage fund managers/advisors for efficient and prompt investment of their funds. The Fund Managers/Advisors so engaged are required to aid them in the assigned task. However, it has been brought to the notice of EPFO that there have been some instances of malpractices in the investment of funds of exempted establishments.
3. In this connection, your attention is drawn to SEBI (Investment Advisor) Regulations, 2013 and SEBI (Portfolio Managers) Regulations, 1993, wherein some regulations have been prescribed by SEBI for regulating the role of Advisor and Portfolio Managers for investment by them. Accordingly, it is felt by EPFO that in view of safety of the investments made by the Fund Managers/Advisors, EPF Exempted Establishments must ensure that they must, at the time of appointment of Fund Managers/Advisors, appoint only such entities that are duly registered with SEBI for the purpose.

5. It is further highlighted that in case of such malpractices reported to or brought to the notice of EPFO in respect of such establishments, apart from referring the matter to SEBI for corrective action at its end, legal action as deemed appropriate by EPFO within the framework of existing rules and provision may also be initiated.

6. This issues with the approval of CPFC.

Yours faithfully,

(Abhay Ranjan)
Regional P.F. Commissioner-I (IMC)

Copy to:

1. All ACC (Zones)
2. All RPFC-I, Regional Offices For necessary follow-up.
3. PS to Joint Secretary, (Ministry of Labour & Employment) – for information in continuation of MoL&E letter dated 01.04.2014 and EPFO letter dated 30.05.2014.

(Abhay Ranjan)
Regional P.F. Commissioner-I (IMC)
Item no 5 :  Risk Management Policy for investment in EPFO.

The Finance Investment and Audit Committee (FIAC) in its 111th meeting held on 27.03.2014 has decided to formulate a Risk Management Policy for EPFO (copy of the Minutes is placed as Annexure-A). Accordingly, comments on Risk Management Policy which includes investment risk, credit risk and also operational risk was called from our Consultant M/s CRISIL and all the four Portfolio Managers.

The Risk Management Policy for EPFO drafted by Consultant M/s CRISIL is as under:-

RISK MANAGEMENT FRAMEWORK OVERVIEW

Risk Management Function

The Fund should have an independent risk management function for identifying, evaluating or measuring all risks inherent in portfolio management, as well as establishing controls to mitigate such risks. The risks include:

- **Fund Management**: volatility in performance, portfolio concentration, interest rate movements, credit risk.
- **Operations**: deal errors, settlement problems, inaccurate financial reporting, fraud, failure of mission critical systems and infrastructure, obsolete systems.
- **Other Business Risks**: critical knowledge loss, skills shortage, non-compliance, third party risks.

Risk management should be separate from fund management. The function could be carried out in a number of ways:

- As an additional function of existing employee, e.g. the Compliance Officer or Internal Auditor;
- Through a Risk Management Committee;
- Outsourced to an external agency

FUND MANAGEMENT

Policies and Procedures

- The Fund should have a documented investment policy. This should:
  - articulate its investment strategy and risk philosophy (i.e. its attitude towards risk, and the amount of risk it is willing to take as part of its investment strategy)
  - define the objectives of the Fund, asset allocation targets and model portfolios (if used)
- define the investment process
- define limits and mechanisms for monitoring limits at various levels: asset class, industry sector, security, counterparty
- define exceptions and their monitoring
- include an approved list of brokers
- provide guidelines for transactions with associate companies
- define investment norms for debt instruments based on credit ratings

**Systems**

- The Fund should ideally implement a front office system which is integrated with the back office system. This will facilitate:
  - setting up of parameters such as asset allocation limits, counterparties, securities, associate classifications and authority levels
  - Straight-through processing (i.e. the flow of order and trade information from the front office to the back office without any manual intervention) to allow one time capture of investment decisions
  - system check on pre-set parameters and reporting of breaches e.g. whether investments have been made in permitted securities or limits on deal size, etc. have been exceeded
  - automatic time-stamping of deals
  - maker-checker authorisations
  - exception reporting
  - monitoring of outstanding confirmations, settlements and payments
  - access controls and firewall
  - decision support capabilities and portfolio modelling (e.g. scenario analysis, what-if analysis)

**Organisation**

- The Fund should establish an Investment Committee. This committee will be responsible for:
  - laying down the Fund’s investment policy and philosophy with regard to different asset classes, industry sectors, counterparties, etc., as defined in the Investment Policy Manual
  - reviewing performance and positions with regard to the objectives of the schemes
- researching and reviewing counterparties and debt issuers with regard to credit risk

- The front office (fund management) and back office functions must be segregated.

- The Fund should ideally have segregated research, portfolio management and dealing teams in the front office.

- The risk management function should be responsible for risk measurement, management and monitoring.

**OPERATIONS RISKS**

**Policies and Procedures**

- The Fund must buy insurance cover against third party losses arising from errors and omissions. Third party liabilities refer to liabilities arising out of financial loss to investors or any other third party, incurred due to errors and omissions of officers, employees, trustees, etc. The level and type of cover should be determined by the Trustees, subject to a minimum level.

- Custodians must also buy separate insurance cover for errors and omissions.

- The Fund should purchase insurance to cover first party losses. First party losses are those which impact the insured and include asset based losses (due to natural or unnatural disasters such as fire, flood, burglary, etc.) as well as financial or data losses. They also include losses due to acts of infidelity by employees of the insured and computer based crimes such as hacking or virus attacks that may impact the data of the Fund.

- Compliance should review all trading activities at frequent intervals.

- Operating procedures should lay down reconciliation activities and their frequency:
  - End-of-day broker confirmations with records of deals
  - End-of-day reconciliation of positions with custodian data
  - At least once a week complete reconciliation of Fund manager records with custodian records
  - Daily reconciliation between Fund and others (banks, counterparty, etc.)

All the four Portfolio Managers have also forwarded their comments on Risk Management Policy for consideration. The same are placed as Annexure-'B'.

*The draft Risk Management Policy for EPFO is placed before the Committee for consideration.*
Minutes of the 111th Meeting of Finance Investment & Audit Committee  
held on 27.03.2014

The 111th Meeting of the Finance Investment & Audit Committee, Central Board of Trustees, Employees’ Provident Fund was held at 02.30 p.m. on 27.03.2014 at EPFO, Head office, New Delhi.

(a) The following were present in the meeting:

1. Shri Y.K. Jalan    Chairman, Finance Investment & Audit Committee (FIAC), CBT, EPF and Central Provident Fund Commission, Employees’ Provident Fund Organisation, Head Office.
3. Shri Anil Kumar Khachi,  Joint Secretary (Social Security), MOL&E
4. Dr. G. Sarvee Reddy      Member, CBT, EPF (Employees’ Representative).
5. Shri Prabakar J. Banarjee    Member, CBT, EPF (Employees’ Representative).
6. Shri J.P. Chowdhary      Member, CBT, EPF (Employers’ Representative).
7. Dr. Shashank Sakeena  Domain Expert, Director (Representative of Sh. Anup Wadhawan, Joint Secretary, OAP, DFC, MOF)
8. Shri Sanjay Kumar      Convener and FA & CAO, EPFO

The following member could not attend the meeting:

1. Shri Dr. Ram S. Tarneja could not attend the meeting and had sought leave of absence.

(b) The following officers also attended the meeting:

1. Shri P.C. Pari, Director (Audit)
2. Shri Manoranjan Kumar, PFP-C-II (Investment)
3. Shri Ajay Kumar, PPF-C-II (MC)
4. Shri Vishal Agarwal, PPF-C-II (MC)

The Chairman welcomed all the members and officers present in the meeting.
The members shown concern for delayed or non receipt of the agenda booklet in hard copy. It was decided to arrange to deliver the agenda booklet through local PF offices. It was also decided to inform the members about the schedule of the meeting and dispatch of agenda through SMS.

Item No. 1: Confirmation of the Minutes of the 110th meeting of the Finance & Investment Committee held on 15.02.2013 at PFU, Head Office New Delhi.

The minutes were approved by the Committee.

Item No. 2: Actions taken on the recommendations of the 110th meeting of Finance & Investment Committee held on 15.02.2013.

The Committee took note of the Action Taken Report.


The FA & CAO introduced the item and the performance evaluation criteria were explained. The quarterly performance for the quarters starting from September to December 2012 to September to December 2013 on the basis of evaluation criteria was presented to the NIAC that was taken note of. The final performance evaluation ranking of portfolio managers for the cumulative period from 1st November, 2011 to 31st December, 2013 was as under:

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

The Committee took note of the performance evaluation of the portfolio managers from cumulative period as well.
Director (MoF) desired to know the Investment and Risk Management Policy of EPFO to which it was replied that there is no such policy in EPFO as of now. Presently, EPFO invests its funds as per regulations notified by the Ministry of Finance, Govt. of India and subsequently by the Ministry of Labour & Employment. The risk factors are taken into consideration at the time of evolving regulations. However, the need to have a risk management policy will be separately examined and if need be, formulated. The FIAC will be informed about the development in this regard.

Further, Shri J. P. Chowdhary desired that since EPFO is managing public money, in order to have transparency and accountability, information pertaining to investments of EPF funds may be made available on the website; FA & CAO informed that such information as can be disclosed has already been approved by him for hosting on the EPF website.

Item No. 4: Additional investment guidelines for new pattern of investment (decided in 302nd meeting of CBT).

FA & CAO introduced the agenda item to the Committee and explained the changes suggested in the guidelines. After detailed discussion, the Committee approved the following guidelines:

**Government Securities**

1. No investment in STG.
2. Minimum 15% investments in CTG category.
3. Minimum 10% investments in SDL category.

**Corporate Bonds**

1. Investment in PSU category Upto 55%
2. Investment in Private category Upto 10%

It was brought to the notice of the Committee that there were some companies which as per the definition in Companies Act as illustrated in the agenda note did not qualify to be Public Sector Undertaking as none of the Public Sector Undertaking or the Govt.
INVESTMENT AND RISK POLICIES: PORTFOLIO MANAGEMENT SERVICES (PMS)
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<td>REGISTER</td>
<td>2</td>
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<td>9</td>
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<tr>
<td>GLOSSARY</td>
<td>52</td>
</tr>
</tbody>
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1. INTRODUCTION

The focus of a risk management system must be to anticipate the risks, consciously-plan for them and be better prepared for any uncertainty. Investment decisions should be taken with maximum emphasis on safety, prudence, optimum return, sound commercial judgment and avoiding funds to remain idle.

ICICI Securities Primary Dealership Ltd (I-Sec PD) acts as Portfolio Investment Manager within the broad framework of investment guidelines of individual portfolio schemes and internal risk policies set by the Corporate Risk Management Group (CRMG).

2. RISK MANAGEMENT ORGANISATION

The risk management function for the portfolio management services is handled by the Corporate Risk Management Group (CRMG) at I-Sec PD within the broad framework of risk policies and guidelines established by the Portfolio Management Services (PMS) Management Committee.

CRMG is responsible for managing the credit and market risk associated with the portfolio management services. To manage credit risk, CRMG sets counterparty limits by actively monitoring the financial profiles of counterparties and providing proactive risk recommendations.

2.1. PMS MANAGEMENT COMMITTEE

The PMS Management Committee has the MD & CEO as the convener of all meetings. Apart from this, the group has members drawn from various resources like treasury, risk, financials and operations.

2.1.1. Responsibilities

The PMS Management Committee discusses and decides, inter alia, on the following:

- The risk and investment policies and methodologies to be used for measurement of risks.
- Ensuring compliance with risk management policies.
- Ensuring compliance with investment guidelines pertaining to individual portfolio schemes.
- Evaluation and adoption of any modification in methodology pertaining to measurement of credit risk. This would include changes in internal credit risk models and usage of the same for the purpose of setting counterparty limits.
- Review the results and progress in implementation of the decisions taken in the previous meetings.

2.1.2. Frequency & Quorum of Meetings
The PMS Management Committee meets at least once in a financial quarter. However, it may meet more frequently on a need basis. The quorum for the Committee meeting is four members with at least two representatives from Groups other than the Fixed Income Group shall remain present at all meetings of the PMS Management Committee. Further, the Risk and Compliance groups to be represented at all the meetings.

3. RISK POLICY

To mitigate the credit risk arising on account of investment of accretions to individual portfolio schemes, exposure limits are set for issuer counterparties. The Counterparty List is a list of companies which have been approved by CRMG for the purpose of investing in fixed income instruments issued by them. The Counterparty List is reviewed annually by adding/deleting companies from the list and assigning limits to them. Additionally, the counterparties are monitored periodically for any adverse changes impacting its credit quality (for example rating watch by credit rating agencies, press releases, notifications, etc) and intimated to the dealer.

The specific methodologies for determining the limits are detailed in the sections that follow.

3.1. PRODUCT COVERAGE

The products covered under PMS comprise fixed income and equity instruments subject to investment guidelines of the specific client. The limits for these investments shall be set up as per the investment guidelines specific to the client.

3.2. RISK POLICIES FOR FIXED INCOME SECURITIES

3.2.1. RISK POLICY FOR INVESTING IN PUBLIC SECTOR BANK BONDS:

CRMG sets exposure limits for bonds/securities and short-term deposit receipts of Public Sector Banks.

CRMG reviews the performance of select nationalised banks with NPA ratio of 3% and below, networth of not less than Rs2,000mn and capital adequacy of minimum 9% to determine the limits. The methodology adopted is based on the widely accepted CRAMEL. CRAMEL is a mnemonic for the six parameters against which performance is measured.

The six parameters are:

- Capital
- Resources
The CRAMEL methodology is a globally recognised methodology for assessing the credit quality of banks and financial institutions and is also used by rating agencies like S&P, Moody’s etc.

3.2.2. RISK POLICY FOR INVESTING IN CORPORATE BONDS

As mentioned earlier, CRMG sets exposure limits for bonds and debentures issued by corporates and public sector undertakings.

CRMG has a review methodology to assess the credit quality of different counterparties and determine the appropriate exposure limits for each counterparty. Investment is allowed in fixed income instruments of only such companies which are part of the CRMG Counterparty List. CRMG may however, at its discretion, allow investment in companies which are not part of the counterparty list based on credit ratings by external agencies.

The CRMG review methodology focuses on the three broad areas of business risk, financial risk and management risk.

Business risk analysis covers the business fundamentals, operational efficiencies, industry analysis and an analysis of the company's competitive market position. The analysis of the operational efficiencies includes an assessment of capacity and production levels, costs and revenues, average realisation, operating margins, capital expenditure etc. The industry analysis covers the industry structure, demand drivers, supply and capacity, prices of raw materials and finished products, government policies etc. Analysis of the market position involves an evaluation of the company's market share, its main competitors, distribution network, brand equity, client profile etc.

Financial risk analysis involves an assessment of the company's past financials, its future expected financials and its financial flexibility, with particular emphasis on cash flows. The company's investments in its subsidiaries are also analysed to assess the impact of loss making subsidiaries on the parent's financial health.

Management risk analysis involves an assessment of the company's management, its risk appetite, strategies, etc. Other aspects of management evaluated include parental support, corporate governance standards followed, relationship with employees etc.
The CRMG review methodology involves an analysis of both the quantitative as well as the qualitative aspects of a company’s performance in the above mentioned areas.

### 3.2.3. RISK POLICY FOR INVESTMENT IN PUBLIC FINANCIAL INSTITUTION (PFI) BONDS

For determining bonds/securities limits for PFIs the CRAMEL methodology used for setting limits for banks is adopted. (Refer Section 3.2.1 above).

A detailed analysis is carried out to evaluate the performance of a PFI on all six CRAMEL parameters of Capital, Resources, Asset Quality, Management Evaluation, Earnings Analysis and Liquidity.

### 3.2.4. RISK POLICY FOR INVESTING IN STATE GOVERNMENT GUARANTEED SECURITIES

Although there is a fair level of predictability of Central Government transfers and the tightly regulated framework within which the States operate, it cannot be construed as indications of the Government of India’s support towards debt servicing, unless the borrowings are explicitly counter-guaranteed by the sovereign. Hence, CRMG determines limits for State Government Securities.

The limits are based on the fiscal and economic positions of the States concerned, which is published by the RBI, apart from credit ratings from external credit rating agencies. The key parameters on which limits are based are given below:

1. Economic Strength
2. Political Stability & Administrative Capability
3. Revenue & Expenditure Performance
4. Financial Position - Borrowings
5. Financial Position - Liquidity
6. Contingent liabilities

### 3.2.5. POLICY FOR DEBT MUTUAL FUNDS

CRMG approves and sets limits for mutual funds in which investments can be made. Limits are also set for the broad class of schemes offered by each mutual fund house. For example, exposure limit is defined for the maximum investment in the Liquid Scheme/s of a particular mutual fund.

#### 3.2.5.1. Pre-requisites for Investment in Mutual Funds

Only those mutual fund houses with assets under management (AUM) of more than Rs10bn are considered for approval, to ensure investments only in funds with a large pool of assets.
For a particular scheme of a mutual fund to qualify for limits, the minimum corpus has been set at Rs 1bn, to ensure investments only in schemes with a large pool of assets to withstand sudden and/or heavy pressure of redemptions.

At least 65% of the fund’s portfolio should consist of investments in AA+ and above long-term or P1+ or any other equivalent ratings. In this case G-Secs, T-bills, cash, call and repo positions are considered as equivalent to AAA.

The fund’s exposure to those corporates, which are rated “A” and below should be less than 5% of the total corpus.

3.2. DEALER LIMITS

To manage investments on behalf of individual portfolio schemes, I-Sec PD designates a ‘Fund Manager’ and an ‘Associate Fund Manager’ with respective dealer limits based on the assets under management (AUM) of individual portfolio schemes.

Any investment beyond the limits for the Fund Manager and Associate Fund Manager would require a pre-approval from the MD & CEO.

3.3. RISK POLICIES FOR EQUITY INVESTMENTS

The current risk policy covers only exchange-traded, cash-settled products. In the event of any change viz. introduction of delivery based settlement contracts in options, the risk policy would be revisited.

Considering the inherent volatility and generally higher risk associated with equity investments, CRMG has established a multi-pronged risk policy for the equity trading portfolio. The key features of this risk management policy are:

- Defining a trading universe to mitigate liquidity risk
- Establishing diversification limits to mitigate unsystematic risk
- Setting up dealer limits

3.3.1. Trading Universe

To mitigate liquidity risk, a trading universe consisting of widely traded and benchmarked indices has been defined for equity investments. Accordingly, trading is permitted in all groups of stocks except ‘Z’ group stocks.
For mutual funds, trading is permitted in funds approved by CRMG. CRMG sets limits for mutual funds based on parameters such as assets under management, fund size of individual schemes, performance track records of the schemes, and the fund manager etc.

3.3.2 Diversification Limits
The risk associated with equity investments can be classified into systematic and unsystematic risk. While it is difficult to escape systematic risk, since it affects the entire universe of companies/stocks, the unsystematic risk, which is company specific, can be reduced by diversifying the portfolio.

In order to minimise the unsystematic risk, the maximum investment in equity instruments of a single company has been capped at 10% of the equity corpus for scrips forming part of the BSE A and B group of stocks and Initial Public Offerings (IPO’s). This limit is, however, not applicable to investments in stock indices.

Investment is permitted up to a maximum of 5% of the equity corpus for each trading position in scrips other than BSE A and B group, subject to a maximum aggregate limit of 10% of the equity corpus on investments in such groups.

A snapshot of investment in equity instruments of a single company is given in the table:

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A &amp; B</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other than A &amp; B</td>
<td>5%</td>
<td>Subject to aggregate limit of 10% of equity corpus</td>
<td></td>
</tr>
</tbody>
</table>

It is also desirable to avoid sector concentration risk and to this end, the maximum exposure to a single sector has been capped at 25% of equity corpus. Investments in sector specific mutual funds are included for the purpose of determining the exposure to a particular sector.

For monitoring the diversification limits, the exposure in a single stock/scrip is computed by netting off long and short positions in that scrip across the cash and derivatives markets. Accordingly, the exposure in the cash, options and futures segments is computed as given in the following table and aggregated to arrive at the net exposure in that stock/scrip:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Cost</td>
<td>NA</td>
</tr>
<tr>
<td>Futures</td>
<td>MTM of futures as positive exposure</td>
<td>MTM of futures as negative exposure</td>
</tr>
</tbody>
</table>
Options

<table>
<thead>
<tr>
<th>Calls: MTM of underlying multiplied by delta</th>
<th>Puts: MTM of underlying multiplied by delta</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calls: MTM of underlying multiplied by delta</td>
<td>Puts: MTM of underlying multiplied by delta</td>
</tr>
</tbody>
</table>

For each underlying, the exposure computed as explained above, must be added. The absolute value of the exposure so computed is added for every underlying to arrive at the exposure for the prop book. For example, exposure in Infosys will be:

<table>
<thead>
<tr>
<th>Section</th>
<th>MTM</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>200,000</td>
<td>100 nos. (x) Rs2000 – Long Position</td>
</tr>
<tr>
<td>Futures</td>
<td>450,000</td>
<td>200 futures (x) Rs2250 – Short Position</td>
</tr>
<tr>
<td>Total</td>
<td>250,000</td>
<td>Though exposure is (250,000), the absolute value is taken.</td>
</tr>
</tbody>
</table>

3.3.3. Dealer Limits

To manage investments on behalf of individual portfolio schemes, I-Sec PD designates a ‘Fund Manager’. The Fund Manager can invest a maximum amount of 10% of the equity corpus per deal.

Any investment beyond the limits for the Fund Manager would require a pre-approval from the MD & CEO.

3.4. POLICY FOR VALUATION

Valuation in case of fixed income securities would be done based on yield curves and spreads provided by FIMMDA at the end of the month. Further, in case of equity market securities, the closing market prices would be used for valuation. The frequency of valuation is monthly.

3.5. POLICY ON SALE/DIVESTMENT OF SECURITIES

Securities held in the PMS account can be sold as per the sale policy specific to each individual PMS account.

3.6. POLICY ON REPORTING TO CLIENTS

The reports to be forwarded to clients and the frequency of such reporting will be documented in the Investment and Risk policy for each individual client. These reports would be sent by Operations.

3.7. RISK POLICY FOR TRADING PORTFOLIO

A trading portfolio can be carved out of an individual portfolio account if permitted by the applicable guidelines of the particular portfolio account.

Value at Risk (VaR) limits along with stop-loss limits are set for the trading portfolio in consultation with the respective client. The VaR on the trading portfolio is calculated on a daily basis and reported to MD & CEO, Fund Manager, Head CRMG and Head Operations.
In case, any of the limits are triggered, action would be taken based on the policy devised in consultation with the client.

To manage investments on behalf of individual portfolio schemes, I-Sec PD designates a ‘Fund Manager’ with respective dealer limit based on the assets under management (AUM) of individual portfolio schemes.

Any investment beyond the limits for the Fund Manager would require a pre-approval from the MD & CEO.

### 3.8. EMPANELMENT OF BROKERS

All deals done by individual portfolio schemes are done in the wholesale debt market and trades in equity / derivatives market through brokers of the BSE/NSE.

The brokers through whom transactions can be carried out are approved by the PMS Management Committee and reviewed annually. CRMG recommends empanelment of debt and equity brokers, based on their business and financial strength, market reputation etc. On the basis of this recommendation, the PMS Management Committee then approves the empanelment. New brokers introduced between two meetings of the PMS Management Committee are approved by CRMG and ratified by the PMS Management Committee in its next meeting.

The empanelled brokers are reviewed annually on the following basis for empanelment.

a) Verification of NSE, BSE and SEBI broker registration list to confirm the registration status of the broker with these entities.

b) Any pending legal action by SEBI against brokers.

The empanelled brokers are also monitored on a continuous basis for interim orders, legal actions, etc initiated by SEBI.

A limit of 5% of total transactions (both purchase and sales) entered into by I-Sec PD on behalf of individual portfolio schemes during a year is set as the upper contract limit for each of the empanelled brokers. The 5% limit includes brokered and direct deals. In case of any excession of broker limits CRMG can authorise the excession which later has to be ratified by the PMS Management Committee.

### 3.9. PORTFOLIO GUIDELINES & RISK POLICY MONITORING
All investment guidelines of individual portfolio schemes and risk policies are monitored through the Quantis System, a software system used exclusively for processing all trading transactions of the portfolio management services.

The system has its own access control modules, through which the user access is restricted. Thus, only those employees associated with the PMS business have access to the PMS system. Further access controls are in place to restrict the employees' access to the functions and roles that are limited according to their defined responsibilities. Further, each PMS client is created as a separate entity within the system.

3.9.1. Monitoring Investment Guidelines of Individual Portfolios

CRMG sets limits in the 'Compliance Module' of the Quantis System, to which only CRMG has access. The limits are based on the guidelines issued by individual portfolio scheme.

Every time a dealer enters a deal in the system, the system computes the exposure and checks for violations of investment guidelines, if any. In case of any violation, the deal cannot be processed further. The deal has to be approved by the PMS Management Committee, following which CRMG authorises the deal in the Quantis System for further processing and settlement.

3.9.2. Monitoring Risk Policy

CRMG sets limits in the 'Compliance Module' of the Quantis System, to which only CRMG has access. The limits are based on the risk policies as mentioned in Section 3.

Every time a dealer enters a deal in the system, the system computes the exposure and checks if it is within the limits specified by CRMG. In case the exposure exceeds the limits, the deal cannot be processed further. In such a case, dealers request an approval from CRMG, by way of an e-mail. CRMG may, based on its assessment of the risk involved, approve the excess, as a reply to the e-mail sent by the dealer. Once an excess has been approved, it is communicated to the dealers and Operations and authorised in the Quantis System, to enable further processing and settlement.
ANNEXURE 1 - OPERATIONAL RISK

MANAGEMENT OF OPERATIONAL RISKS
I-Sec PD has a dedicated officer in charge of the Operational activities for the Portfolio Management Services (PMS). As and when more clients are empanelled for the PMS business, the staffing in Operations will be scaled up.

The Operations officers designated for the PMS business are in charge of deal confirmations with counterparties and settlement of trades. The confirmation and settlement processes are segregated from, and independent of, the dealing desk. All deals entered by the Dealer are telephonically confirmed with the counterparty by the operations officer on the trade date itself. Physical confirmations are also exchanged by physical delivery/fax.

All payments and settlement instructions are jointly validated and authorised by two senior Operations officials. Reconciliations are reviewed by one senior official.

SEGREGATION OF TECHNOLOGY PLATFORMS
For the PMS business, I-Sec PD has commissioned an entirely different transaction system than the one used for its own proprietary trades and investments.

Each of these systems has its own access control modules, through which the user access is restricted. Thus, only those employees associated with the PMS business has access to the PMS system. Further access controls are in place to restrict the employees' access to the functions and roles that are limited according to their defined responsibilities. Thus, a dealer does not have settlement rights, the settlement staff do not have dealing rights, etc. Further, each PMS client is created as a separate entity within the system.

SEGREGATION OF FINANCE AND ACCOUNTS
Absolute segregation of accounts and portfolios is achieved between I-Sec PD and PMS clients, through the use of entirely independent transaction systems. Accounts and portfolios are segregated for each PMS client also, as they are defined as separate entities.

As a corollary, the profits and losses on such portfolios are also segregated from one another.

Accounting is automated. Accounting entries are generated by the system for each event like inception of deals, settlement, accruals and redemption, on pre-defined parameters.
The reference data for securities and counterparties are maintained in the system by the Mid Office, independent of the Dealing and Settlement desks. The reference data input on the system becomes valid only with a make-checker validation process.
EPFO Review Meeting for the period ended June 2014

Reply/comments to the Minutes of the review meeting held on 31.07.2014 at EPFO’s HQ.

In terms of para 8 of the final minutes of the meeting relating to risk management by the fund managers and assessment of risks for overall improvement of risk profile of the fund and also keeping in view of the heightened risk environment, it has become imminent to have a sound risk management system in place. The system will help in identifying and mitigating the risk as associated with the investment of such large funds.

In this regard, we enclose Annexure-A wherein we have prepared a brief write up on Risk Management Policy.

However, we believe preparing a Risk Management Policy is an extremely comprehensive and organization specific exercise which involves various levels of hierarchy and encompasses areas pertaining to Operational Risk, Credit Risk, Market Risk e.t.c. Accordingly, we are of the opinion that EPFO may explore the possibility of taking expert opinion to prepare a comprehensive Risk Management Policy, best suited and customized for EPFO’s requirements.
In terms of para 3 of the final minutes of the meeting pertaining to repo ability on government securities, as of now repo on government securities are available to market participants under LAF window and in normal markets for various market players. Now, RBI has introduced term repos auction up to 14 days. These term repos will be subject to some restrictions such as cap on NDTL etc. However, the volume of term repos for longer duration is almost negligible. Most of the volume in repo happens under overnight category. Under Indian context, developing longer term repo appears to be a challenge due non presence of market players and lack of robust mechanisms and liquidity.

As of now there are various RBI guidelines for repo transaction of Government Securities. We enclose herewith as, Annexure B, RBI circular no. IDMC/PDRS/3432/10.02.01/2002-03 dated February 21, 2003, Circular No. IDMD/PDRS/4779/10.02.01/2004-05 dated May 11, 2005 and circular no. IDMD.DOD.No.334/11.08.36/2009-10 dated July 20, 2009 for your perusal and guidance. In this regard, RBI has also permitted repos upto 1 year for corporate bond. We enclose herewith RBI circular no. RBI/2009-10/284 IDMD.DOD. 05 /11.08.38/2009-10 dated January 8, 2010 wherein they have approved repo in corporate bonds and have issued detailed guidelines for the same for a period ranging from minimum of one day to a maximum of one
Using Government securities under repo for enhancing portfolio yield would entail initiating carry trade. Under the mechanism, Government securities kept in HTM will be used to generate cash by vending securities under repos. Purchase of fresh securities can be financed by the cash generated out of the repos. However, the gain under carry trade will depend upon the market movement of overnight rates, if it is financed by overnight repos. Alternately, if longer term money in repos is available, it will allow institutions to lock in a spread which can be higher depending on investment asset class.

However, it is advised that EPFO may examine whether such carry trade is desirable in view of its constant accreting corpus where in managing of its incremental inflow in itself is a mammoth exercise.

Further, in order to effectively manage near term (1-3 year) maturing securities, EPFO may consider the following options:

a) Outright switch with RBI for government securities.

b) Outright sale of government securities if interest rate differential between short and long term is profitable.
c) Hedge government securities portfolio by taking exposure in interest rate derivatives.

In this regard, we also enclose herewith extract from the RBI's report as Annexure C of Working Group on Enhancing Liquidity in Government Securities and Interest Rate Derivatives Markets wherein sections 5.12, are relevant for EPFO.

In terms of Para 9 pertaining to investment in infrastructure bonds by banks:

Action Point: portfolio managers were advised to initiate discussion with banks and possibly negotiate on pricing of such bond issuance by banks.

Response: Noted for compliance. We will follow up on the leads and keep EPFO informed of the developments.
Annexure-A

RISK MANAGEMENT POLICY

Organisations dealing in financial markets are confronted with various types of financial as well as non-financial risks, viz., credit, interest rate, foreign exchange rate, liquidity, equity price, commodity price, legal, regulatory, reputational, operational etc. These are highly interdependent and events that affect the area of risks can have ramifications for a range of other risk categories.

The risks are broadly categorized as under:

Credit Risk:
It is defined as the possibility of losses associated with diminution in the credit quality of borrowers or counterparties. In an organisation's portfolio, losses stem from outright default due to inability or unwillingness of a customer or counterparty to meet commitments in relating to lending, trading, settlement and other financial transactions.

Market Risk:
It is defined as the possibility of losses to an organisation caused by changes in the market variables. In other words, market risk is the risk to the Organisation's earnings and capital due to changes in the market level of interest rates or prices of securities, foreign exchange and equities, as well as the volatilities of those prices.
Operational Risk:

It is defined by the Basel Committee as 'the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events'. RBI defines Operational Risk as any risk which is not categorised as market or credit risk, or the risk of loss arising from various types of human or technical error.

What is Risk Management?

Risk Management is a planned method of dealing with uncertainties to estimate expected and unexpected losses.

Risk Management essentially implies identification, measurement, monitoring and controlling risks. Identification of risk is the first and essential step in risk management to assess the extent to which risk could or should be taken and put in place risk mitigation measures to contain that level of risk. Risk Management is not a one stop process rather it is a continuous uninterrupted process which is to be actively pursued has to be followed to be an on-going process as the dynamics change with time.

RBI has clarified that given the diversity of balance sheet profile, it is difficult to adopt a uniform framework for management of risks in India. The design of risk management functions should be organisation specific, dictated by size, complexity of functions, the level of technical expertise and the quality of MIS. The RBI guidelines on risk management provides broad parameters and each organisation may evolve their own systems compatible to their risk management architecture and expertise.
Broad framework of risk management should encompass:

- Organizational structure;
- Comprehensive risk management approach;
- Risk management policies approved by the Trust/Board which should be consistent with the broader business strategies, capital strength, management expertise and overall willingness to assume risk;
- Guidelines and other parameters used to govern risk taking including detailed structure of prudential limits;
- Strong MIS for reporting, monitoring and controlling risks;
- Well laid down procedures, effective control and comprehensive risk reporting framework;
- Separate risk management framework independent of operational Department and with clear delineation of levels of responsibility for management of risk; and
- Periodical review and evaluation.
Broad framework of risk management should encompass:

✓ Organizational structure;
✓ Comprehensive risk management approach;
✓ Risk management policies approved by the Trust/Board which should be consistent with the broader business strategies, capital strength, management expertise and overall willingness to assume risk;
✓ Guidelines and other parameters used to govern risk taking including detailed structure of prudential limits;
✓ Strong MIS for reporting, monitoring and controlling risks;
✓ Well laid down procedures, effective control and comprehensive risk reporting framework;
✓ Separate risk management framework independent of operational Department and with clear delineation of levels of responsibility for management of risk; and
✓ Periodical review and evaluation.
EPFO Risk Management Policy
1. Introduction:

The Employees' Provident Fund came into existence with the promulgation of the Employees' Provident Funds Ordinance on the 15th November, 1951. It was replaced by the Employees' Provident Funds Act, 1952. It is now referred as the Employees' Provident Funds & Miscellaneous Provisions Act, 1952 which extends to the whole of Indian except Jammu and Kashmir.

The Act and Schemes framed there under are administered by a tri-partite Board known as the Central Board of Trustees, Employees' Provident Fund, consisting of representatives of:

- Government (Both Central and State),
- Employers, and
- Employees

The EPFO administers two separate schemes: the EPF (Employees' Provident Fund) and the EPS (Employees' Pension Scheme), hereinafter referred to as “Schemes”.

The schemes have been defined with the aim to act as; vehicles for channelizing long term savings, which generates the sustainable returns over long periods of time while ensuring safety and liquidity of the sums invested.

2. Objectives

This policy provides a framework for the Risk Management of the Employees Provident Fund Organization. Its objective is to assist the Central Board of Trustees in effectively supervising and monitoring Employees Provident Fund Organization.
The objective of this policy is to outline guidelines for identification, assessment, measurement, monitoring and reporting of all risks associated with the activities conducted at EPFO to achieve its goals. Some of the broader risks pertaining to investment and operations are in the areas of:

- Duration risk
- Credit risk
- Operational risk

Based on the above risk, the policy outlines the approach to:

- assess the likelihood and consequences;
- outlines the control mechanisms;
- highlights how they will be monitored on an on-going basis.

3. Pillars of Investment Decision Process:
EPFO funds are the long term savings of pensioners and provident fund holders, whose needs are to gain the safety of principal and earn sustainable high returns for long period.

1) Long Term Savings
2) Sustainable Returns
3) Safety of Principal

4. Key Risks:

Investment Risk

1) Interest Rate Risk:

Changes in interest rates will affect the Scheme's investments as interest rate movements in the debt markets can be volatile leading to the possibility of large yield movements up or down in debt securities.

2) Liquidity or Marketability Risk:

This refers to the ease at which a security can be sold at or near its true value. Given the fact that a lot of bonds are not listed in the Indian market, and the limited numbers of players in the market, many bonds face liquidity risk.
3) Reinvestment Risk:

This risk refers to the interest rate levels at which cash flows received from the securities in the Scheme or from maturities in the Scheme are reinvested. The additional income from reinvestment, part of which is the “interest on interest” component, may not earn at the same levels as earlier investments in a falling interest rate scenario.

4) Asset-liability risks

The contributions made to schemes by members depend inter alia on their date of retirement, longevity, date of leaving scheme, salary increases of the members as well as macro risks such as inflationary pressures, maturity of existing assets and market yields. Because these are all uncertain, they are all sources of risk. The PFMs have to find remunerative investment avenues with acceptable risk levels, for these contributions.

At the EPFO level, the liabilities to subscribers for superannuation and repayment of provident funds to retirees need to be budgeted for.

So the investments have to be made, so as to create approximate matches to aggregated cash outflows, or estimates thereof.

Credit Risk:

Credit risk or default risk refers to the risk which may arise due to default on the part of the issuer of the fixed income security (i.e. it will be unable to make timely principal and interest payments on the security). Because of this risk debentures are sold at a yield spread above those offered on Treasury securities, which are sovereign obligations and generally considered to be free of credit risk.

1. Issuer Rating changes due to changes in financial parameters.
2. Non adherence to Investment universe
3. Issuer and Sector concentration risk

Operational risks:

1) Allocation Risk

   a) Contribution Collection risk:

   This risk stems from non-collection of monthly contribution from EPFO Offices present across the country into pool account for making timely investments.

   b) Allocation risk:

   This risk stems from improper allocation of funds for investments between appointed Portfolio Managers.

2) Investment operation risks
5. Techniques Used to Measure and Monitor Risks:

Monitoring of Investment related risks:

Maturity Profile:

All future maturities need to segregated based on Maturity buckets

For Example:

<table>
<thead>
<tr>
<th>Maturity Buckets</th>
<th>0-1 Year</th>
<th>1 to 5 Yrs</th>
<th>5 to 10 Yrs</th>
<th>10 to 15 Yrs</th>
<th>15 to 30 yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount (interest + maturities)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The above analysis would help to match maturity buckets and cash flows with future liabilities (Asset Liability Management) and hence future investment can be concentrated on such maturity buckets.

Duration Analysis:

Keeping in mind current market conditions, Investment committee at EPFO shall decide ideal Duration of portfolio (ideally of next 6 months) in consultation with portfolio managers as target duration. Duration is the measure of sensitivity of bond price to change in yield. A long duration portfolio would be more desirable at times when yields are expected to remain at elevated levels in the near future (of next 6 months) and short duration investments can be expected during the lower interest rates regime depending upon the views shared among the Portfolio Managers and IMC EPFO. This has to be in line with funding requirements that arise out of the ALM exercise referred in the maturity profile section.
Investment in Liquid Instruments:

Liquidity or marketability risk can be mitigated by making investment in asset classes as well as issuers which are highly liquid in nature.

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Asset class as % of total corpus</th>
<th>Liquidity Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Government Securities</td>
<td>XX%</td>
<td>Very High</td>
</tr>
<tr>
<td>State Development Loans</td>
<td>XX%</td>
<td>High</td>
</tr>
<tr>
<td>PSU Corporate bonds AAA</td>
<td>XX%</td>
<td>Moderate</td>
</tr>
<tr>
<td>Private Corp Bonds AAA</td>
<td>XX%</td>
<td>Moderate</td>
</tr>
<tr>
<td>PSU Corporate bonds AA+</td>
<td>XX%</td>
<td>Low</td>
</tr>
<tr>
<td>PSU Corporate bonds AA</td>
<td>XX%</td>
<td>Low</td>
</tr>
</tbody>
</table>

Risk Weighting of Assets:

Weights shall be allocated to category of investments based on credit quality which would reflect how much risk is built in the portfolio. More weights should be given to asset classes which are riskier ad vice-versa.

For example;

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Risk Weights (A)</th>
<th>Portfolio Investment (Crs) (B)</th>
<th>Risk Weighted Value (A*B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Government Securities</td>
<td>0%</td>
<td>XX</td>
<td></td>
</tr>
<tr>
<td>State Development Loans</td>
<td>5%</td>
<td>XX</td>
<td></td>
</tr>
<tr>
<td>AAA PSU/PSB/PSFI Bonds</td>
<td>10%</td>
<td>XX</td>
<td></td>
</tr>
<tr>
<td>AAA Private Bonds</td>
<td>15%</td>
<td>XX</td>
<td></td>
</tr>
<tr>
<td>AA+ Bonds</td>
<td>20%</td>
<td>XX</td>
<td></td>
</tr>
<tr>
<td>AA Bonds</td>
<td>25%</td>
<td>XX</td>
<td></td>
</tr>
<tr>
<td>Total (C)</td>
<td></td>
<td>XXX</td>
<td></td>
</tr>
<tr>
<td>EPFO Corpus (D)</td>
<td></td>
<td>XXX</td>
<td></td>
</tr>
</tbody>
</table>
VaR:

Value at Risk (VaR) models usually use historical data to evaluate maximum (worst case) trading losses for a given portfolio over a certain holding period at a given confidence interval. As a result, it is essentially determined by two parameters, (holding) time period and a confidence level (say 95%). It is a measure of the loss (expressed in say Rupees crores) on the portfolio that is not expected to be exceeded by the end of the time period with the specified confidence level.

This can be computed either by using certain parameters like standard deviation of the portfolio returns and a normal curve (parametric VaR), which is perhaps the simplest to use, or using simulation models (Monte Carlo methods) or the more intuitive historical VaR using past data.

Computing MTM returns on a daily basis is a precursor to VaR computation.

Stress Testing:

Stress testing can be done in following ways to forecast impact on the portfolio

Within the historical Stress Testing methodology, all risk factors in the portfolio are identified and any historical changes for each of these risk factors are applied in the revaluation of the portfolio.

**Interest Rate Shocks**

**Parallel Shift**

This method help the fund manager to understand what would be impact on his portfolio, when the interest rates across the maturities increase or decrease by 100 bps.

<table>
<thead>
<tr>
<th>Maturity Buckets</th>
<th>0-1 Year</th>
<th>1 to 5 Yrs</th>
<th>5 to 10 Yrs</th>
<th>10 to 15 Yrs</th>
<th>15 to 30 yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present Value (A)</td>
<td>A</td>
<td>A</td>
<td>A</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Present yield curve</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Parallel shift in the yield curve</td>
<td>x+100bps</td>
<td>x+100bps</td>
<td>x+100bps</td>
<td>x+100bps</td>
<td>x+100bps</td>
</tr>
<tr>
<td>Projected Portfolio Value (B)</td>
<td>xx</td>
<td>xx</td>
<td>xx</td>
<td>xx</td>
<td>xx</td>
</tr>
</tbody>
</table>
NON Parallel shift

This method help the fund manager to understand what would be impact on his portfolio, when the interest rates change differently across different maturities.

<table>
<thead>
<tr>
<th>Maturity Buckets</th>
<th>0-1 Year</th>
<th>1 to 5 Yrs</th>
<th>5 to 10 Yrs</th>
<th>10 to 15 Yrs</th>
<th>15 to 30 yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present Value (A)</td>
<td>A</td>
<td>A</td>
<td>A</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Present yield curve</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Non Parallel Shift in the yield curve</td>
<td>x+200 bps</td>
<td>x+150 bps</td>
<td>x+100 bps</td>
<td>x-100bps</td>
<td>x-25 bps</td>
</tr>
<tr>
<td>Projected Portfolio Value</td>
<td>xx</td>
<td>xx</td>
<td>xx</td>
<td>xx</td>
<td>xx</td>
</tr>
</tbody>
</table>

Credit Shocks

This method help the fund manager to understand what would be the impact on his portfolio, when credit rating shocks such as downgrade of sovereign rating happen.

Monitoring of Credit risks:

Credit profile / fundamental analysis

A credit rating is a financial indicator of an obligor’s level of creditworthiness. Most firms issuing publicly traded debt are rated by various rating agencies like ICRA, CRISIL, CARE and Brickworks. Apart from such rating rationale of the issuer where EPFO has invested, the in-house credit team should also periodically (semi annually) review the balance sheet and profitability of the approved issuer in the universe. This will enable constant monitoring of the Credit risk that might be getting built up in the portfolio during the life of investments.

Process of Credit Risk Analysis

- Detailed analysis for approving any new issuer which includes:
Business & Financial Analysis
- Management analysis.
- Peer firm review.
- Access to banking sector / capital market
- Feedback from market participants.
- Notching up for Parent Support

- Interaction with Corporate on regular basis to assess general / specific business environment changes on an ongoing basis which may impact the creditworthiness favorably / adversely
- Interaction with rating agencies, banks & other capital market participants frequently to understand rating processes & their views on concern on various credits.
- Periodic review of approved corporate following all the above three steps to identify improvement or deterioration in credit worthiness.

Entry of Issuer in Approved Universe;

Based on the outcome of credit risk analysis process, some of the preconditions for a new issuer in the universe shall be as follows,

- Net worth exceeding certain threshold level.
- Continuous profitability for certain years
- Condition with respect to Maximum NPA Level

Setting of Issuer Investment Limits

There should be maximum investment limits fixed on approved issuers based on below mentioned criteria. Such as,

- Nature of Borrowing Entity
  - Manufacturing Companies based on below mentioned ratios can be considered while deciding limits
    a. Capital ratios such as Return of Equity Return on Capital Employed
    b. Profitability Ratios such as Operation Margin and Net Profit Margin
c. Liquidity Ratios such as Current Ratio, Quick Ratio and working capital Intensity  
(Average Net working capital/Sale)

- Financial Organizations based on below mentioned ratios can be considered while deciding limits
  a. Capital Adequacy ratio (Tier 1 and Tier 2)
  b. Asset Quality Ratios such as Gross and Net NPA %
  c. Efficiency Ratios which is Expenses / (Net Interest Income + Other Income), Net Interest Margin, proportion of Fee and Net interest Income to Total Income(NII+OI)

- Limit based on Industry Sector Concentration

Legal Cell for NPA Monitoring:

In case of default or non-payment of interest and maturity by Issuer, there should be an identified Legal/recovery cell in EPFO, which would take responsibility of recovering due amounts from issuer as well as invoking guarantees (in case of guaranteed bonds).

Operational Risk Management

EPFO should focus on managing operational risks through the segregation of Custodian, CMS Banker, fund management and day to day Operations; putting in place adequate internal controls like maker-checker.

Independent periodic process reviews should be undertaken at Custodian, Fund Manager and CMS Banker with respect to all critical processes which can have monetary or reputational impact.

Conclusion

The Risk policy as highlighted above can bring more impact with its implementation. The frequency of monitoring and report generations on monthly and quarterly basis can be co-ordinated with all the related counterparts and going forward if the online information system is developed then the real time basis the risk management can be implemented.
Note on Risk Management

Risk management is a central part of any organization’s strategic management. It is the process whereby organizations methodically address the risks attaching to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities. The focus of good risk management is the identification and treatment of these risks.

The objective of Risk Management team is to add maximum sustainable value to all the activities of the organization. It marshals the understanding of the potential upside and downside of all those factors which can affect the organization. It increases the probability of success, and reduces both the probability of failure and the uncertainty of achieving the organization’s overall objectives.

Risk management is a continuous and developing process which runs throughout the organization’s strategy and the implementation of that strategy. It addresses methodically all the risks surrounding the organization’s activities past, present and in particular, future.

This is integrated into the culture of the organization with an effective policy and a program led by the senior most management. It translates the strategy into tactical and operational objectives, assigning responsibility throughout the organization with each manager and employee responsible for the management of risk as part of their job description. It supports accountability, performance measurement and reward, thus promoting operational efficiency at all levels.
The key risk areas include:

The risks faced by an investment entity and its operations activities can result from factors both external and internal to the organization. Risks occurring in these areas of business include:

- Market Risk
- Operational Risk
- Credit Risk
- Liquidity Risk
- Strategic Risk
- Reputational Risk

The risk management team in accordance to the investment mandate would determine the risk profiling and parameters for each of above parameters.

Over and above, considering the profile of retirement funds, we propose that the ALM and risk management policy needs to be customized so as to generate healthy accruals through the life of investments without diluting the credit and duration profile of portfolio. Basis the same, we have outlined the Asset Liability Management (ALM) and Risk management policies for the EPFO funds.

Asset Liability Management:
ALM policy is generally undertaken by entities on the basis of demand and liabilities across different tenors so that the liabilities are met by corresponding assets. With reference to EPFO investments, presuming the liability profile of over 15 years we believe the corresponding asset side needs to be met by maintaining higher average maturity on the portfolio. We can achieve an optimum ALM policy by defining minimum duration of the portfolio.

As the investment statute allows exposure across asset classes and across the yield curve fund managers would derive greater flexibility in optimizing returns without diluting the duration profile of the portfolio. Defining duration limit would provide the fund manager flexibility to
invest higher amounts in higher accruing asset class provided higher exposure is maintained in the longer end of the curve.

For example, in case the fund manager has initiated higher exposure in short duration assets providing higher accrual; defining a minimum average maturity would ensure that the fund manager would need to maintain higher exposure in the longest maturing segment (like 30 yr guvies). This would ensure that the accruals are earned without compromising the average maturity profile of the portfolio.

Hence, this would not only ensure higher average maturity of the portfolio at all times but also lead to assigning fewer sub limits for monitoring investments as the overall investment portfolio would be guided by one variable.

Risk Management for investments:
Risk management policy could be devised to govern the risk that the portfolio could undergo on account of variance in interest rate movements corresponding to the views undertaken by the respective fund manager. As the primary motive of the fund manager is to optimize the yield without diluting the duration and credit profile of the portfolio, we believe the risk management policy should dis incentivise implementation of trades based on short term movements in the rates markets. This would negate the possibility of implementing intraday/short term trading calls.

Further to the above, the risk management framework would involve the following:

Risk Identification
- Market, Credit, Operational, Liquidity, Reputational, Strategic

Risk Measurement
- Management Action Triggers for Market and credit risk
- Key Risk indicators and Heat Map reports for Operational risk
Risk Monitoring

- System coded issuer and counterparty limits
- Limit exception reports

Risk Adjusted Performance measurement

- Tracking error: ex-ante risk measurement
- Performance attribution

Risk Governance/Policy

- Investment Management Committee
- Risk Management Committee
- Valuation Committee
- Credit Committee

Integrated Risk Management Framework
### Item No. 6: Performance Evaluation of Portfolio Managers for the period 01.04.2014 to 31.12.2014 (i.e. three quarters).

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 years:

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.

CRISIL evaluates the performance of the four portfolio managers of EPFO on the basis of following criteria:

- **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 basing on aggregate performance score and portfolio yield for the period i.e. 01.04.2014 to 31.12.2014 is as under:

<table>
<thead>
<tr>
<th>Portfolio Managers</th>
<th>period 01.04.14 to 30.06.14 (Rank)</th>
<th>period 01.07.14 to 30.09.14 (Rank)</th>
<th>period 01.10.14 to 31.12.14 (Rank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBI</td>
<td>99.96 (1)</td>
<td>99.82 (2)</td>
<td>99.80 (1)</td>
</tr>
<tr>
<td>HSBC AML</td>
<td>99.81 (2)</td>
<td>99.87 (1)</td>
<td>99.79 (2)</td>
</tr>
<tr>
<td>Reliance CAML</td>
<td>99.73 (3)</td>
<td>99.67 (3)</td>
<td>99.63 (3)</td>
</tr>
<tr>
<td>ICICI Sec.Pd</td>
<td>99.52 (4)</td>
<td>99.54 (4)</td>
<td>99.61 (4)</td>
</tr>
</tbody>
</table>
Portfolio Yield (85% weight)

<table>
<thead>
<tr>
<th>Portfolio Managers</th>
<th>period 01.04.14 to 30.06.14 (Rank)</th>
<th>period 01.07.14 to 30.09.14 (Rank)</th>
<th>period 01.10.14 to 31.12.14 (Rank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benchmark Yield%</td>
<td>9.40%</td>
<td>9.09%</td>
<td>8.72%</td>
</tr>
<tr>
<td>SBI</td>
<td>9.52% (4)</td>
<td>9.45% (1)</td>
<td>8.93% (3)</td>
</tr>
<tr>
<td>Reliance CAML</td>
<td>9.58% (3)</td>
<td>9.31% (2)</td>
<td>8.99% (2)</td>
</tr>
<tr>
<td>ICICI Sec.Pd</td>
<td>9.64% (1)</td>
<td>9.28% (3)</td>
<td>8.93% (4)</td>
</tr>
<tr>
<td>HSBC AML</td>
<td>9.61% (2)</td>
<td>8.97% (4)</td>
<td>9.14% (1)</td>
</tr>
</tbody>
</table>

Cumulative yield comparison (November 2011 to December 2014)

<table>
<thead>
<tr>
<th>Portfolio Manager</th>
<th>Yield%</th>
<th>Benchmark Yield%</th>
<th>Yield Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBI</td>
<td>9.25%</td>
<td>9.14%</td>
<td>1</td>
</tr>
<tr>
<td>Reliance Capital AML</td>
<td>9.23%</td>
<td>9.14%</td>
<td>2</td>
</tr>
<tr>
<td>HSBC</td>
<td>9.23%</td>
<td>9.14%</td>
<td>2</td>
</tr>
<tr>
<td>ICICI Sec PD</td>
<td>9.22%</td>
<td>9.14%</td>
<td>3</td>
</tr>
</tbody>
</table>

Key observations on the Performance:

1. All the Portfolio Managers have performed above the benchmark in all the quarters except quarter ended September 2014, wherein HSBC performed below the benchmark.
2. For the cumulative period November 1, 2011 to December 31, 2014, benchmark yield was 9.14%. All portfolio managers outperformed the cumulative benchmark yield.
3. SBI generated the highest yield of 9.25% for the period mainly on account of higher allocation to SDLs, among portfolio managers, with relatively higher weighted average yield.

The Item is placed before the FIAC for perusal and Consideration.
Item No. 7: Finalization of draft Portfolio Management Service Agreement to be entered between EPFO and selected Portfolio Managers.

1. The tenure of current Portfolio Managers of EPFO is expiring on 31st March, 2015. The selection process for appointment of new Portfolio Managers of EPFO is under process and likely to be finalized soon.

2. Accordingly, a draft Portfolio Management Service Agreement was prepared on the lines of the Agreement entered on the last occasion and the same was vetted by Legal Advisor, Mr. Amit Tyagi, our panel advocate of Supreme Court.

3. The vetted agreement has also been examined by the Consultant of EPFO for the purpose. The Consultant has made certain changes in the draft Portfolio Management Service Agreement. The draft Portfolio Management Service Agreement as vetted by Legal Advisor and as modified by the Consultant is placed before the FIAC for perusal and approval (Annexure 'A').

4. It has further been suggested by the Consultant that Investment Manual of EPFO may be shared with the Portfolio Managers preferably at the time of signing the Portfolio Management Service Agreement so that they are aware of all the process and provisions to be followed during their tenure. The Investment Manual of EPFO was approved by CBT, EPF in its 188th Meeting held on 05.12.2009. Subsequently, the changes in the Investment guidelines/exposure limits as approved by the CBT were incorporated in the Investment Manual circulated in 2012. No major changes except change in Investment Pattern and Guidelines as duly approved by the CBT, EPF/FIAC after delegation to it by CBT,EPF have taken place since then. Accordingly, the updated Investment Manual as placed at Annexure 'B' may be considered for approval before the same is shared with the Portfolio Managers.

5. It is highlighted that the Investment Manual as approved in 2009 does not specifically mention that changes in Rules/Pattern/Guidelines/Terms of Agreement or any other such provisions as applicable to concerned stakeholder duly approved by the competent authority will be deemed to be part of the approved Investment Manual as and when
they are communicated to them. In order of ease in operations, it is suggested that the above clause may be inserted in the Investment Manual while updating the same as proposed in Para-4 above. If approved, a new Para as follows would be inserted in chapter 9 (Updation/Modification of Investment Management Manual) of the Investment Manual:

"The changes in Rules/Pattern/Guidelines/Terms of Agreement or any other such provisions as applicable to concerned stakeholder duly approved by the competent authority shall be deemed to be part of this Investment Manual as and when they are communicated to them."

The Proposal as contained in Para 3, 4 and 5 above is placed before the FIAC for consideration and approval.
PORTFOLIO MANAGEMENT AGREEMENT

THIS AGREEMENT IS MADE AND EXECUTED AT NEW DELHI ON THIS __DAY OF ______ TWO THOUSAND AND _____ ("this Agreement")

BETWEEN

The Central Board of Trustees, Employees' Provident Fund Organization (CBT, EPF), constituted under Section 5 of the Employees' Provident Funds and Miscellaneous Provisions Act (Act 19 of 1952), represented by the Central Provident Fund Commissioner, having his Office at Bhavishya Nidhi Bhavan, 14, Bhikaiji Cama Place, New Delhi, 110066 and the Financial Advisor and Chief Accounts Officer of the CBT, EPF having his Office at Bhavishya Nidhi Bhavan, 14, Bhikaiji Cama Place, New Delhi, 110066 (hereinafter referred to as “CBT, EPF”),

AND

____________________, a body corporate constituted under __________________________ and having its Registered Office at __________________________ (hereinafter referred to as the “Portfolio Manager”, which expression shall unless excluded by or repugnant to the subject or context be deemed to include its successors and assigns), for management of the Trust Assets.
Investment Management Agreement for CBT, EPF Funds

RECITALS:

1. The Portfolio Manager is registered as a Portfolio Manager with SEBI under the SEBI (Portfolio Managers) Regulations, 1993 bearing Registration No._________________. The registration of the Portfolio Manager is valid for a minimum period of 3 (three) years commencing from 01.04.2015 or the date of signing of agreement, whichever is later. It is the responsibility of the Portfolio Manager to have a valid registration as Portfolio Manager with SEBI during the tenor as mentioned above.

2. The Portfolio Manager intends to provide Discretionary Portfolio Management Services and pursuant to the warranties and representations by the Portfolio Manager, the CBT, EPF is desirous of appointing and retaining the Portfolio Manager for Discretionary Portfolio Management Services subject to applicable laws and the Act, the Rules and the Regulations as may be amended from time to time and conditions hereinafter provided.

3. The parties hereto are entering into this Agreement to set out the terms and conditions on which the Portfolio Manager has agreed to render, and the Trust/Trustees have agreed to avail of, the aforesaid services.

NOW, THEREFORE, THE PARTIES HERETO HAVE AGREED AS UNDER:

1. DEFINITIONS:

Unless the context or meaning thereof otherwise requires, the following expressions shall have the meaning assigned to them hereunder respectively:

(i) “Agreement” shall mean this agreement and shall include all schedules and annexures attached hereto and any/or alteration made by executing an addendum.

(ii) “Assets”/ “Portfolio” shall mean the Securities and other investments and funds entrusted by the Trust to the Portfolio Manager, as have been described in the Schedule 1 forming part of the Agreement, relating to the securities/investments/funds handed over from time to time and held by the Portfolio Manager for and on behalf of the Trust.

(iii) “Custodian” shall mean custodian of securities, duly holding a Certificate of Registration under the SEBI (Custodian of Securities) Regulations, 1996. Presently, Standard Chartered Bank (name of the custodian) being the custodian appointed by the Trust.

(iv) “Custodial services” in relation to securities means safekeeping of securities of CBT, EPF and providing services incidental thereto, and includes:-
a. Maintaining accounts of securities of CBT, EPF;

b. Collecting the benefits or rights accruing to CBT, EPF in respect of securities;

c. Keeping Employees' Provident Fund Organisation (EPFO) informed of the actions taken or to be taken by the issuer of securities, having a bearing on the benefits or rights accruing to CBT, EPF; and

d. Maintaining and reconciling records of the services referred to in sub-clauses a, b and c.

(v) "Designated Bank Accounts" shall mean the accounts maintained in the branch (es) of the Bank as set out in Schedule 3 hereto

(vi) "Disclosure Document" shall mean the disclosure document issued by the Portfolio Manager and as specified in Regulations 14 (2) (b) and Schedule V of SEBI (Portfolio Managers) Regulations, 1993 and made available to the Trustees in accordance with the Regulations.

(vii) "Discretionary Portfolio Management Services" / "Services" shall mean the management, including investment or sale/purchase of the portfolio of the Assets, as the case may be, by the Portfolio Manager at its discretion subject to any specific restrictions mentioned in the Schedule 2 forming part of the Agreement or given by the Trust from time to time and in terms of the provisions of this agreement.

(viii) "Effective Date" shall mean ...............,

(ix) "EPFO" shall mean the Employees' Provident Fund Organisation

(x) "Exempted establishment" means an establishment in respect of which an exemption has been granted under section 17 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, from the operation of all or any of the provisions of any Scheme or the Insurance Scheme, as the case may be, whether such exemption has been granted to the establishment as such or to any person or class of persons employed therein.

(xi) "Investible fund" means fresh accretions, periodical income, redemption and sale proceeds and other surplus funds received therefrom and transferred to Trustee's Investment Account at a Designated Branch of the Bank with which the investment account of the Trustees is specifically earmarked for investment purposes. The Portfolio Managers will have the responsibility and discretion to invest the fund. Incremental accruals to the CBT, EPF's corpus subject to the pattern of investment issued by the Ministry of Labour & Employment (MoL&E) and investment guidelines issued by CBT, EPF. Any premature redemptions would be subject to
financial viability and if they are permissible under the investment guidelines for the CBT, EPF's funds. The existing guidelines require investments to be held till maturity (unless there are call/put options or related features in the instrument) but the same is subject to changes based on the notifications issued by the MoL&E and investment guidelines framed thereon by the CBT, EPF from time to time.

(xii) "Invested Fund" means Funds including past and present investments. The newly appointed Portfolio Managers would be allocated a specified portion of the corpus from the existing portfolio of the CBT, EPF as is managed by the current Portfolio Managers.

(xiii) "Investment Monitoring Cell" / "Cell" shall mean a section at the EPFO, which would engage in performance evaluation of the Portfolio Manager on the basis of prescribed Management Information System (MIS) reports and/or other reports, which may undergo changes from time to time, submitted by the Portfolio Manager and the Custodian. This section may also engage consultant(s) at its sole discretion to assist it, for effective monitoring of performance of the Portfolio Manager.

(xiv) "Portfolio Manager" shall mean ..........................................., which has obtained certificate of registration from SEBI to act as a Portfolio Manager under Securities and Exchange Board of India (Portfolio Manager) Regulations, 1993, vide Registration no. .......... dated .........., .... valid from .........., .... up to .........., ........

(xv) "Regulations" shall mean Securities and Exchange Board of India (Portfolio Managers) Regulations, 1993 as amended from time to time and any regulation / schemes / guidelines issued by RBI and any regulation / schemes / guidelines / notification / Circular passed or framed under the Employees' Provident Fund & Miscellaneous Provisions Act, 1952, including but not limited to: (a) Employees' Provident Fund Scheme, 1952 (EPF); (b) Employees' Deposit Linked Insurance Scheme, 1976 (EDLI); (c) Employees' Pension Scheme, 1995 and (d) "Scheme Investment Objectives" and "Investment-Pattern" prescribed by the Ministry of Labour and Employment.

(xvi) "Rules" shall mean the rules governing the Portfolio Managers as laid down by Securities and Exchange Board of India, as amended from time to time.

(xvii) "SEBI" shall mean the Securities and Exchange Board of India.

(xviii) "Trustees" or "Trust" shall mean the Central Board of Trustees, EPF, in whom the administration of Employees' Provident Fund,
2. INTERPRETATION

Unless otherwise provided or unless the subject or context otherwise requires, in this Agreement.

(i) Clause and paragraph headings are inserted for ease of reference only and shall not affect the interpretation of this Agreement. References to clauses and recitals shall be construed as references to clauses or recitals of this Agreement, unless specified otherwise.

(ii) Words denoting one gender include all genders; words denoting company include body corporate, corporation and trusts and vice versa; words denoting the singular include the plural; and words denoting the whole include a reference to any part thereof.

(iii) Reference in this Agreement to any document, security or agreement includes reference to such documents, security of agreement as amended, novated, supplemented, varied or replaced from time to time.

(iv) The words “including”, “include” and “in particular” shall be construed as being by way of illustration only and shall not be construed as limiting the generality of the preceding words.

(v) Heading, Sub-heading and bold typeface are only for convenience and shall be ignored for the purposes of interpretation.

(vi) Capitalized terms used herein but not specifically defined shall have the respective meanings assigned to them in the relevant disclosure document.

(vii) Reference to any legislation or law or to any provision thereof shall include references to any such law as it may, after the date hereof, from time to time, be amended, supplemented or re-enacted, and any reference to a statutory provision shall include any subordinate legislation made from time to time under that provision.

(viii) Any term or expression used but not defined herein shall have the same meaning attributable to it under applicable laws, Regulations, Request for Proposal (RFP), response to pre-bid queries or any other documents shared by EPFO in connection to the RFP.

3. The RFP, the documents shared by EPFO in connection to the RFP and the response to pre-bid queries shall also form as governing documents to this Agreement. In case of conflict between this Agreement, RFP, the documents shared by EPFO in connection to the RFP and the response to pre-bid queries, this Agreement will supersede all other documents.
4. APPOINTMENT OF THE PORTFOLIO MANAGER

Pursuant to valid and proper authority and in accordance with applicable law, the CBT, EPF hereby appoints, the Portfolio Manager to provide Services for and in respect of the Assets in accordance with the provisions of this Agreement and the Regulations (as any be applicable and in force from time to time). The Portfolio Manager shall have absolute discretion and authority, to manage, invest and reinvest the investible Fund, subject to the terms hereof.

5. SCOPE OF SERVICES

(i) The Portfolio Manager shall provide the Services which shall include investment management, buying and managing the Assets, renewing, reshuffling and selling the Assets, and monitoring book closures, bonus, etc. and other corporate actions so as to ensure that all benefits arising out of the management of the Assets accrue to the Trust, as also to take day-to-day decisions in respect of the Assets in accordance with this Agreement and may include consultancy services. The Portfolio Manager will take prior approval of the CBT, EPF for renewing, reshuffling and selling the Assets.

(ii) The Portfolio Manager shall individually, independently and at its sole, entire and absolute discretion manage the Assets, subject to the terms of this Agreement.

(iii) The Portfolio Manager shall, in discharging its duties as such, act as an agent of the Trustees and in a fiduciary capacity with regard to the Assets consisting of Securities, investments, accruals, benefits, returns privileges, entitlements, substitution and/or replacements or any other beneficial interest including interest, bonus as well as residual cash balance, if any, represented both by quantity and in monetary value.

(iv) Invest the Assets in accordance with the pattern of investment as prescribed by the MoL&E, the guidelines issued by the EPFO from time to time and the terms of agreement stated herein and take all reasonable steps and exercise due diligence to ensure that the investment of the Assets is not contrary to the provisions of the specified investment pattern laid down by the MoL&E, guidelines issued by the EPFO and terms of agreement stated herein.

(v) All actions undertaken by the Portfolio Manager, under this Agreement, shall be in accordance with the stated Regulations and restrictions, as stipulated hereunder and further detailed in the relevant Schedules forming part of the Agreement and any modifications to the same from time to time. All transactions in securities shall be subject to the constitutions, by - laws, rules,
regulations, customs, usages, rulings and interpretations of the relevant exchange or other markets where the transactions are executed, to the codes and to all other applicable laws, including the regulations of any governmental or quasi-governmental agency ("Provisions") so that:

(a) In the event of any conflict between the terms and conditions of this Agreement and any Provisions, the applicable Provisions shall prevail;

(b) The Portfolio Manager shall be entitled to take such action or steps or omit to take any action or steps as it shall in its absolute discretion consider necessary to ensure compliance with the Regulations/Provisions, including taking of any action to avoid or mitigate any loss arising as a result of change in the Provisions;

(vi) The Portfolio Manager must ensure that the individual(s) appointed to manage the Assets should have been managing debt portfolio on a continuous basis during the preceding five years or as approved by the Trust in writing as on the date of appointment. Portfolio Manager shall promptly inform the trust the names, qualifications and experience of the individual/s who will manage the Assets.

(vii) The Portfolio Manager must ensure, to the best possible extent, the individual(s) appointed to manage the Assets should continue in their role till the term of this Agreement. For any reason, if there is a proposed change in the individual(s) appointed to manage the Assets, the same should be intimated to EFPO immediately. The new individual(s) to be appointed to manage the Assets should have been managing debt portfolio on a continuous basis during the preceding five years or as approved by the Trust in writing as on the date of proposed change.

(viii) The Portfolio Manager must ensure that the dedicated individual(s) responsible for managing the Assets do not manage or advise on any other fund/portfolio other than the said Assets.

(ix) The Portfolio Manager must ensure and be responsible for back office support for investment management including accounting, audit and registrar. The Portfolio Manager must provide all necessary support to the Custodian for effective discharge of its functions.

(x) The Portfolio Manager shall ensure, at all times, separation between its personnel responsible for investments and those responsible for settlement and bookkeeping. The Portfolio Manager shall further ensure, at all times, appropriate fire-walling between the personnel responsible for investments of the Investible Fund of the trust and other investments that the Portfolio Manager may make.
(xi) The Portfolio Manager shall take prior written approval for any outsourcing arrangements, and provide all relevant information related thereto to the Trust. The Portfolio Manager shall continue to be liable for all or any of the actions/inaction of the outsourced agents.

(xii) The Portfolio Manager shall assume day-to-day investment management of the Investible fund allocated to it and act as the investment manager with full discretionary authority and, in that capacity, make investment decisions and manage the investible fund in accordance with the Regulations and Restrictions stated herein and as amended from time to time.

(xiii) The Portfolio Manager shall provide the services in the best professional manner and use all endeavours to maximize the return on the investments from the Investible Fund allocated to it without breaching any of the Regulations, Restrictions and the provisions stated herein. However, all direct or indirect benefits derived from managing EPFO funds shall have to be passed on to the Trust.

(xiv) The Portfolio Manager shall exercise due diligence in carrying out its duties and in protection of the interests of the Trust. The investment management process that will be followed by the Portfolio Manager while managing the Assets shall be shared by it with the Trust/Trustees within one month from the date of the Agreement. Any exceptions to the investment process shall be recorded in writing and shared with the Trust/Trustees. Investment management decisions should be taken by the Portfolio Manager with maximum emphasis on safety and optimum returns. The Portfolio Manager shall be responsible for the acts of omissions or commissions by the individual/s whose services have been undertaken by the Portfolio Manager.

(xv) The Portfolio Manager shall manage the Assets independently of its other activities and take adequate steps to ensure that the interest of the beneficiaries of the Trust is not compromised.

(xvi) The Portfolio Manager shall maintain books and records about the operations and the status of the Assets in the manner required by the Trust and also comply with the Disclosure Requirements specified by the Trust from time to time and as detailed in Schedule 4 of this Agreement and as specified under the Regulation. The valuation of the Assets shall be done by the Portfolio Manager in accordance with the directions of the Trust.

(xvii) The Portfolio Manager shall provide all records, data or any other relevant material to the Trust to enable the Trust to supervise. The records/data/reports required by the Trust pertaining to the Assets managed by the Portfolio Manager shall be sent to the Trust directly by the Portfolio Manager on demand and regularly on
Investment Management Agreement for CBT, EPF Funds

(monthly basis. The monthly reports should reach the trust before the 5th working day of the following month.

(xviii) The Portfolio Manager may provide electronic interconnectivity to the Trust (and other service providers like banks and custodians, among others) for providing timely information on its investment decisions as well as necessary information sought by the Trust from it from time to time.

(xix) The Portfolio Manager shall adapt to further changes including charges on account of technological advancements, changes in system specifications, Services and functional obligations prescribed by the Trust from time to time.

(xx) The Portfolio Manager shall provide all necessary support to the Custodian for follow up for non-performing assets and recoveries of funds managed on behalf of EPFO, including legacy assets (assets which have been transferred to the Portfolio Manager but are not being actively managed by the Portfolio Manager), allocated to it. The details and supporting documents required for follow-up will be provided by EPFO where necessary.

(xxi) The Portfolio Manager shall submit a quarterly certificate from its statutory auditor for compliance on the investment portfolio of the Assets and clause 11 (vi and vii). The certificate of the statutory auditors should reach the Trust before the 30th calendar day from the end of the quarter for which the certificate pertains.

(xxii) For investments in Statutory General Ledger (SGL) account, the Portfolio Manager is responsible to collect interest on maturity, redemption and sale proceeds relating to the investments, on due dates and credit them to the Designated Bank Accounts. For all other investments the Portfolio Manager will provide all the necessary support to the Custodian to collect interest on maturity, redemption and sale proceeds relating to the investments, on due dates and credit them to the designated Bank Accounts. The Portfolio Manager shall also be responsible for transfer and acceptance of Securities on behalf of the Trust to and from trusts of the Exempted establishments as per instructions issued by the Trust in this regard from time to time. While doing so, it shall be the duty of the Portfolio Manager to inform the relevant institutions and authorities that the interest received by the Trust is not liable for deduction of tax at source under the Income Tax Act.

(xxiii) In the event of exercise of voting rights for the investments of the Assets, the Portfolio Manager shall notify the Trust of the same. Voting rights shall not be exercised by the Portfolio Manager unless instructions in writing to that effect are given by the Trust.
(xxiv) The investible fund shall be credited to a separate investment account in the name of the Trust with the Designated Bank Accounts. All receipts, payments, income, expenses and cost of transactions of investment shall be debited/credited to this designated bank Account.

(xxv) All expenses incurred in connection with any inquiry, proceeding, audit, inspection by Reserve Bank of India, and any other external agencies, regulatory bodies, etc shall be borne by the Portfolio Manager. In case of expenses relating to the aforesaid audit or contingencies relating to proceedings, which are directed/initiated by the trust or the audit is related to the trust activities, the expenses so incurred shall be paid directly by the Trust.

(xxvi) It will be the responsibility of the Trust to keep the Portfolio Manager informed about any changes in the prescribed investment Pattern as well as the investment Guidelines.

(xxvii) The EPFO shall have the authority to appoint independent auditors to carry out the audit, which may be concurrent and/or regular, on the portfolio management services provided by the Portfolio Manager.

6. TERM AND TERMINATION

(i) The appointment as Portfolio Manager is valid for a period of 3 (three) years. This may be extended by mutual consent of the Portfolio Manager and CBT, EPF, depending on the performance of the former. The performance of the Portfolio Manager shall be reviewed on a regular basis and the CBT, EPF reserves the right to terminate the appointment of the Portfolio Manager at any point of time if its performance is not up to the satisfaction of CBT, EPF.

(ii) The Trust may terminate the Agreement if, in its opinion, the conditions specified in this Agreement are not complied with, after giving notice of sixty calendar days to the Portfolio Manager, without assigning any reason.

(iii) The Agreement shall be deemed to be forthwith terminated in the event of;

(a) Any Representations and Warranties, contained herein and any information, disclosures, reports, documents or statements relating to the Agreement or furnished by the Portfolio Manager under or pursuant to this Agreement are untrue, incomplete, inaccurate and incorrect in any respects and any material fact has not been disclosed;

(b) If the Portfolio Manager ceases to be eligible to render its Services under the Regulations; including but not limited to, suspension or termination of the registration granted
to the Portfolio Manager by SEBI and/or any other competent authority:

(c) Liquidation, dissolution, winding-up of the Portfolio Manager:

(d) If the Portfolio Manager is adjudicate insolvent;

(e) Any litigation/s initiated before any judicial/quasi-judicial body against the Portfolio Manager, which may adversely affect the interests of the Trust.

(f) The termination of the Agreement, in any manner whatsoever, shall not, affect or preclude the consummation of any transaction initiated by the Portfolio Manager at the discretion of the Trust.

7. REMUNERATION/FEES AND PERFORMANCE BANK GUARANTEE

(i) The Portfolio Manager shall be entitled to the remuneration/fees as set out in Schedule 5 herein, these Remuneration/Fees shall remain the same throughout the Term of this Agreement.

(ii) For proper and due performance of its obligations under this Agreement, the Portfolio Manager shall give to the Trust, within 15 working days of the date of notice of award of the contract or 2 workings days prior to signing of the contract, whichever is earlier, a Performance Bank Guarantee for Rs. 10 crs. (Rupees ten Crores) in a form and of the scheduled commercial bank (rated AA+ and above and acceptable to the Trust).

8. AUTHORIZATION/OBLIGATIONS

(i) The Trust shall certify to the Portfolio Manager the names and signatures and scope of authority of all persons authorised to give proper instructions or any other notice, request, direction, instruction, certificate or instrument on behalf of the Trust. Such certificate/s may be accepted and relied upon by the Portfolio Manager as conclusive evidence of the facts set forth therein and may be considered in full force and effect until receipt of similar certificate to the contrary.

(ii) The Portfolio Manager shall certify to the Trust in writing the names and signatures and scope of authority of all individual/s authorised to receive proper instructions or any other notice, request, direction, instruction, certificate or instrument from the Trust, on behalf of the Portfolio Manager. The service of any notice, request, direction, instruction, certificate or instrument on such authorised individual/s shall be deemed to be effective notice/service to the Portfolio Manager.
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(c) Liquidation, dissolution, winding-up of the Portfolio Manager:

(d) If the Portfolio Manager is adjudicate insolvent;

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(ii) For proper and due performance of its obligations under this Agreement, the Portfolio Manager shall give to the Trust, within 15 working days of the date of notice of award of the contract or 2 workings days prior to signing of the contract, whichever is earlier, a Performance Bank Guarantee for Rs. 50 crs. (Rupees Fifty Crores) in a form and of the scheduled commercial bank (rated AA+ and above and acceptable to the Trust).

8. AUTHORIZATION/OBLIGATIONS

(i) The Trust shall certify to the Portfolio Manager the names and signatures and scope of authority of all persons authorised to give proper instructions or any other notice, request, direction, instruction, certificate or instrument on behalf of the Trust. Such certificate/s may be accepted and relied upon by the Portfolio Manager as conclusive evidence of the facts set forth therein and may be considered in full force and effect until receipt of similar certificate to the contrary.

(ii) The Portfolio Manager shall certify to the Trust in writing the names and signatures and scope of authority of all individual/s authorised to receive proper instructions or any other notice, request, direction, instruction, certificate or instrument from the Trust, on behalf of the Portfolio Manager. The service of any notice, request, direction, instruction, certificate or instrument on such authorised individual/s shall be deemed to be effective notice/service to the Portfolio Manager.
(iii) The Trust and the Portfolio Manager shall obtain necessary permission, approval, sanction, authorization etc. as may be required under the applicable laws/Regulations from the concerned authorities for performing its obligations stated herein.

(iv) Upon request by the Portfolio Manager, the trust shall deliver to it suitable power/s of attorney or other instruments as may be necessary in connection with the performance of the obligation by the Portfolio Manager or its authorized representative under this Agreement or for the operation of the Designated Bank Accounts.

(v) Upon receipt of instructions from the Trust for transfer of the Assets or any part thereof, whether on termination or otherwise, the Portfolio Manager shall provide all the necessary support to ensure smooth transfer of all such assets and also ensure that the transfer of all the relevant documents/records/information is in accordance with the directions issued by the Trust. Any form of non-support or non-cooperation or obstructions from the Portfolio Manager shall amount to non-performance by the Portfolio Manager and shall entitle the Trust to invoke the Performance Bank Guarantee and/or take legal action against the Portfolio Manager in such cases.

(vi) The Trust/Trustees shall appoint custodian(s) to hold Assets on behalf of the Trust. Noting contained herein shall confer upon the Portfolio Manager any right, title, interest or share in one or more Assets/investments made pursuant to this Agreement. It is further agreed by the Portfolio Manager that there shall be no co-mingling of Assets with any other assets/securities by the Portfolio Manager at any point of time. The Custodian shall furnish the MIS reports to EPFO directly in prescribed format.

(vii) The Trust shall bear the charges for the custodial services and The Clearing Corporation of India Limited (CCIL) charges. All other charges shall have to be borne and paid by the Portfolio Manager.

9. REPRESENTATIONS & WARRANTIES

(i) The Portfolio Manager has been duly incorporated and organised and validly exists, under the applicable laws. The Portfolio Manager has the corporate power and authority to own and operate the assets, to carry on its business and has taken all necessary actions to authorise the performance of this Agreement and to carry out the transactions contemplated thereby.

(ii) The Portfolio Manager, its subsidiaries (as defined under section 2, clause (87) of the Companies Act 2013), its holding company (as defined under section 2, clause (46) of the Companies Act 2013) and its associate companies (as defined under section 2, clause (6) of the Companies Act 2013) have not been barred or suspended by any regulator or government authority or court of law in India from
carrying out capital market related activities on or after 01 April, 2010.

(iii) The Portfolio Manager, its subsidiaries (as defined under section 2, clause (87) of the Companies Act 2013), its holding company (as defined under section 2, clause (46) of the Companies Act 2013) and its associate companies (as defined under section 2, clause (6) of the Companies Act 2013) have not been issued any notice of any action of investigation or other proceedings of any nature whatsoever and are not in violation of any applicable law or judgment by any court of law or government authority in India which violations, individually or in the aggregate, would affect their performance of any obligations under this Agreement.

(iv) There are no legal or arbitration proceedings or any proceedings by or before any government or regulatory authority or agency, now pending (to the best knowledge of the Portfolio Manager) against the Portfolio Manager, its subsidiaries (as defined under section 2, clause (87) of the Companies Act 2013), its holding company (as defined under section 2, clause (46) of the Companies Act 2013) and its associate companies (as defined under section 2, clause (6) of the Companies Act 2013) which, if adversely determined, which could have a material adverse effect on the Portfolio Manager's ability to perform its obligations under this Agreement.

(v) If there is any change in the status as mentioned in (ii), (iii) and (iv) of this clause, the same should be brought to the notice of CBT, EPF immediately.

(vi) The copies of the Disclosure Documents of the Portfolio Manager filed with the Trust are true and complete, and the Portfolio Manager has complied with all the provisions of such documents and, in particular, has not entered into any ultra-vires transaction.

(vii) The execution, delivery and the performance by the Portfolio Manager of this Agreement and its obligations in relation to the Agreement, do not and will not:

(a) Breach or constitute a default under the Disclosure Documents and/or any other documents or agreement/s to which the Portfolio Manager is a party;

(b) Result in a violation or breach of or default under any applicable law.

(viii) All representations and warranties, contained herein and all information disclosures, reports, documents or statements relating to the Agreement or furnished by the Portfolio Manager under or pursuant to this Agreement are true, complete, accurate and correct in all respects and do not contain any untrue statement of any material fact or omit to state any material fact which may make the
statements therein misleading, which may result in termination of this Agreement by the Trust.

(ix) The Portfolio Manager shall not undertake any corporate action, including but not limited to, mergers, amalgamations, takeover, acquisitions, divestment, etc. without the prior written approval from the Trust if such corporate action shall have an adverse effect on the ability of the Portfolio Manager to discharge its duties as specified in the Agreement or has conflict of interest with the obligations of the Portfolio Manager or with the interest of the Trust or is likely to adversely affect the portfolio management license granted to the Portfolio Manager by the Securities and Exchange Board of India or results in change in the ownership structure of the Portfolio Manager.

10. CONFIDENTIALITY

(i) All proprietary information, correspondence and documentation etc. exchanged between the Trust and Portfolio Manager in relation to the performance of services by the Portfolio Manager shall be treated as confidential and privileged by the Parties and disclosed only to their respective authorised officers, directors, employees, agents, representatives, professional advisors on a need to know basis.

(ii) The Portfolio Manager shall treat all confidential information provided to it or obtained otherwise in connection with the execution of its Services as confidential and shall not use the same by themselves or through any authorised officers, directors, employees, agents, representatives, professional advisors whether in part or wholly for any purpose other than that of the Agreement.

(iii) Confidential information shall not include information that:

(a). is part of the public domain at the time of its disclosure or at any time thereafter;

(b). is subsequently learnt from a third party without a duty of confidentiality;

(c). at the time of disclosure of such information, it can be proved that such information was already in the possession of the receiving party; or

(d). is required to be disclosed pursuant to a court order or government authority, whereupon the receiving party shall, at its earliest opportunity, provide written notice to the disclosing party prior to such disclosure and where feasible giving the other party a reasonable opportunity to secure an appropriate protective order.
11. RESTRICTIONS & PENALTY

(i) The performance of the obligations of the Portfolio Manager shall be subject to the restrictions as stated herein and more particularly in Schedule 2.

(ii) The Assets under the management of the Portfolio Manager are restricted to the extent of allocation made to the Portfolio Manager. Further, the Trust has the prerogative of making and/or revising the asset allocation to the Portfolio Manager during the course of this Agreement.

(iii) The investment process that will be followed by the Portfolio Manager while investing the investible fund shall be shared with the Trust within one month from the date of the Agreement. Any exceptions to the investment process shall be recorded in writing and shared with the Trust.

(iv) The Portfolio Manager shall not indulge in any kind of speculative transactions.

(v) Investment decisions should be taken by the Portfolio Manager with maximum emphasis on safety and optimum returns. The Portfolio Manager shall be responsible for the acts of omissions or commissions by its personnel.

(vi) The Portfolio Manager shall not purchase or sell Securities exceeding 5 per cent or more through and one single broker, of the aggregate purchases and sales of Securities made by the Portfolio Manager, unless the Portfolio Manager has recorded in writing the justification for exceeding the aforesaid limit and reports all such investments to the EPFO on a quarterly basis.

The aforesaid limits of 5 per cent shall apply for a block of three calendar months on a monthly rolling basis.

For the calculation of broker limit, all the security transactions in primary as well as secondary market are to be included except investments in bank fixed deposits and Collateralized Borrowing and Lending Obligations (CBLO).

(vii) The Portfolio Manager shall not utilise the services of the sponsor or any of its associates or its associate brokers, employees or their relatives (or the services of the sponsor of any other Portfolio Manager appointed by the EPFO, or any of their associates or its associate brokers, employees or their relatives), for the purpose of any securities transaction, distribution, and sale of securities in secondary market. However, investments can be made in primary
market issuances in which the sponsor or any of its associates or its associate brokers is one of the Lead Managers, provided there is consensus with all other selected Portfolio Managers to invest in that issuance and the Portfolio Manager (whose sponsor or any of its associates or its associate brokers is one of the Lead Managers) does not subscribe to more than 50% of the issue size. For the purpose of this sub-section, “associate” includes a person—(i) who directly or indirectly, by himself, or in combination with relatives, exercises control over the Portfolio Manager or (ii) in respect of whom the Portfolio Manager, directly or indirectly, by itself, or in combination with other persons exercises a control, or (iii) whose director, officer or employee is a whole time director, officer or employee of the Portfolio Manager. Portfolio Manager will have to submit a detailed list of its associates and sponsor to the EPFO. The same will be shared by the EPFO with the appointed Portfolio Managers.

(viii) At no point of time shall investible fund exceeding Rs. 1 (one) lakh be kept idle beyond two (2) working days. Idle Investible Fund will mean Investible Fund that are invested in savings bank accounts.

The aforesaid period of two (2) working days shall exclude one working day for transfer of Investible Fund to the Designated Bank Accounts and bank holidays. If idle Investible Fund exceeds an amount of Rs. 1 (one) lakh for a period of more than two working days, the Portfolio Manager shall pay to the Trust penalty to the extent of savings bank deposit rate plus 4 % for such number of days the Investible Fund were idle. The penalty for idle funds will not be applicable for situations as mentioned in clause 14 (ii).

For example if the number of working days for which Investible Fund are idle is 5 and the savings bank deposit rate is 4 per cent, the penalty payable to the Trust would be at the rate of 8 per cent for a period of 3 days.

(ix) The performance evaluation of the Portfolio Manager shall be carried out on a monthly, quarterly and annual frequency by the Investment Monitoring Cell.

(x) In the event of breach of any obligation stated herein, the Trust will intimate the same to the Portfolio Manager in writing. The Portfolio Manager should rectify the same within 30 days of the EPFO communicating it to the Portfolio Manager in writing. Failure to do the same would result in a penalty of 0.0004% of the corpus being managed by the Portfolio Manager. For this purpose, the corpus as on the last day of the previous month to the month in which breach has taken place would be considered.
(xi) The Performance evaluation of the Portfolio Manager shall be carried out on a monthly, quarterly and annual basis by the Investment Monitoring Cell. The criteria of performance benchmarking would be decided by EPFO and communicated to the Portfolio Managers. In case of continuous under performance compared to benchmark on Annual Performance Review of the Portfolio Manager by the Investment Monitoring Cell or EPFO, with assistance of its consultant M/s CRISIL, EPFO may change the Allocation of the Assets being managed by the Portfolio Managers. The performance of Portfolio Manager, during the period under review will be considered as non satisfactory performance if same will be below the minimum anticipated performance.

(xii) In the event of the Portfolio Manager being unable to fulfil its obligations stated herein, which in the opinion of the Trust is due to circumstances within the Portfolio Manager’s control, the Trust may invoke the Performance Bank Guarantee. Notwithstanding and without prejudice to any rights whatsoever of the Trust under the applicable laws and the provisions hereof, the proceeds of the performance Bank Guarantee shall be payable to the Trust as compensation for the Portfolio Managers failure to perform/comply with its obligations under this Agreement.

However, before invoking the Performance Bank Guarantee, the Trust shall give 14 days’ notice to the Portfolio Manager indicating the default / deficiency in the performance of the obligation(s) under the Agreement and give an opportunity to represent before the Trust. The decision of the Trust on the representation given by the Portfolio Manager will be final and binding. If circumstances so warrant, the matter may be referred to an arbitrator in terms of clause 15 hereunder.

All incidental charges whatsoever such as premium, commission etc. with respect to the Performance Bank Guarantee shall be borne by the Portfolio Manager. The Performance Bank Guarantee shall be valid till 180 days after the completion of the tenure of the appointment.

12. INDEMNITY

The Trust shall Indemnify the Portfolio Manager and keep it indemnified from and against any charge, costs, expenses or outflows arising out of payments of stamp duty, transfer charges, legal expenses, and any taxes or duties levied or leviable on the Trust, directly attributed to this Agreement, but recovered from the Portfolio Manager. The Portfolio Manager hereby agrees to indemnify and keep the Trust indemnified from and against any loss or damages (including reasonable counsel fees) caused to the Trust arising out of misrepresentation, negligence,
misconduct and/or, misconduct or any breach of applicable laws or of the provision of this Agreement on the part of the Portfolio Manager or any of its employees/agents/sub-agents etc.

13. NOTICES

All notices and other communications made or required to be given under this Agreement shall be in writing and shall be deemed given upon receipt when sent by (1) Registered A.D Post or (2) courier Service/Hand Delivery at the address as set out in the beginning of this Agreement or at the address subsequently notified in writing by one party to the other.

14. MISCELLANEOUS

(i) This Agreement cannot be assigned by Portfolio Manager without the prior written consent of the Trust.

(ii) Neither party shall be liable to the other for failure or delay in the performance of a required obligation, excluding payment obligations, if such failure or delay is caused by strike, riot, fire, flood, natural disaster, or other similar cause beyond such party's control, provided that such party gives to the other party prompt written notice of such condition and resumes its performance as soon as possible, and provided further that the other party may terminate this Agreement if such condition continues for a period of 30 calendar days.

(iii) Any modifications to this Agreement shall be in writing and signed by both the parties. The failure of the party to claim a breach of any term of this Agreement shall not constitute a waiver of such breach or the right of such party to enforce any subsequent breach of such term. If any provision of this Agreement is held to be unenforceable or illegal, such decision shall not affect the validity or enforceability or such provision under other circumstances or the remaining provisions shall be reformed only to the extent to make them enforceable under such circumstances.

15. GOVERNING LAW & DISPUTE RESOLUTION

(i) If any dispute arises between the parties, the same shall be settled by conciliation. In case the Parties fail to resolve the dispute by conciliation, the dispute will be referred to the Sole Arbitrator to be appointed by CPFC, EPFO for adjudication under the Arbitration and Conciliation Act. 1996. The award of the arbitrator shall be final and binding on both parties. Pending resolution, the Parties shall continue to perform their obligations under the Agreement.

(ii) Subject to the foregoing, the Parties agree to submit to the exclusive jurisdiction of the courts at New Delhi.

(iii) The Agreement shall be governed and construed in accordance with the laws of India.
IN WITNESS WHEREOF, each of the parties hereto have signed this Agreement at New Delhi on the 

For and on behalf of the Board of CBT, EPF, for and behalf of the Portfolio Manager

(Signature and Seal) (Signature and Seal)
Name: - Name: -
Designation: Designation:

(Signature and Seal)
Name: -
Designation:

Witness Witness

Name: Name:
Designation: Designation:
Address: Address:
## DETAILS OF PORTFOLIO ALLOCATED TO THE PORTFOLIO MANAGER

<table>
<thead>
<tr>
<th>Sr No.</th>
<th>Account Name</th>
<th>Code</th>
<th>Category</th>
<th>Coupon (%)</th>
<th>Particular</th>
<th>Maturity Date</th>
<th>Face Value (in Rs.)</th>
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SCHEDULE 2

INVESTMENT GUIDELINES FOR INVESTMENTS BY PORTFOLIO MANAGER

(A) Pattern of investment, as per notification No. S.O. 3450 (E) issued by the Ministry of Labour and Employment, Government of India on November 21st, 2013:

1. Investment Pattern

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Investment Pattern</th>
<th>Percentage amount to be Invested</th>
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<tbody>
<tr>
<td>(i)</td>
<td>(a) Government Securities (as defined in Section 2(b) of the Securities Contracts (Regulation) Act, 1956)</td>
<td>Upto 55 per cent</td>
</tr>
<tr>
<td></td>
<td>(b) Other Securities (as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956), the principal whereof and interest thereon 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></td>
<td>(c) Rupee Bonds having an outstanding maturity of at least 3 years issued by Institutions or the International Bank for Reconstruction and Development, International Finance Corporation and the Asian Development Bank.</td>
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</tr>
<tr>
<td></td>
<td>(d) Units of mutual funds setup 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)</td>
<td>(a) Debt securities with maturity of not less than three years tenure issued by Bodies Corporate including banks and public financial institutions (as specified under Section 4A of the Companies Act, 1956); Provided that at least 75% of the investment in this category is made in instruments having an investment grade ruling from at least one credit agency,</td>
<td>Upto 55 per cent</td>
</tr>
<tr>
<td></td>
<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></td>
<td>i. Continuous profitability for immediately preceding three years;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ii. Maintaining a minimum Capital to Risk Weighted Assets Ratio of 9%;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>iii. Having net non-performing assets of not more than 2% of the net advances;</td>
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<tr>
<td></td>
<td>iv. Having a minimum net worth of not less than Rs. 200 crores,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(c) Rupee Bonds having an outstanding maturity of at least 3 years issued by Institutions or the International Bank for Reconstruction and Development, International Finance Corporation and the Asian Development Bank.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(iii) Money market instruments including units of money market mutual funds</td>
<td>Upto 5 per cent</td>
</tr>
<tr>
<td></td>
<td>(iv) Shares of companies on which derivatives are available in Bombay Stock Exchange or National Stock Exchange or equity linked scheme of mutual funds regulated by the Securities and Exchange Board of India.</td>
<td>NIL</td>
</tr>
</tbody>
</table>
2. Any moneys received on the maturity of earlier investments reduced by obligatory outgoing shall be invested in same category.

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 as envisaged above may be achieved by the end of the financial year. However any volatility re-balancing at the end of the year may be avoided.

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.

Note: The existing investment pattern as above is subject to change based on the notifications issued by the Government of India from time to time.

SCHEDULE 3

DETAILS OF DESIGNATED BANK ACCOUNTS AND BRANCHES
DISCLOSURE REQUIREMENTS

1. The Portfolio Manager shall be expected to comply with the disclosure requirements specified by the Trust from time to time. The Portfolio Manager shall furnish periodic reports as well as such information and documents as may be required by the Trust, from time to time.

2. The Portfolio Manager shall file with the Trust-
   a. Bio-data of all its Directors along with their interest in other companies within 15 days of their appointment; and
   b. Any change in the interests of Directors every six months.
   c. A quarterly report to the Trust giving details and adequate justification about the purchase and sale of the securities, from the investible fund, of the subsidiaries of the Portfolio Manager (as defined under section 2, clause (87) of the Companies Act 2013) or the holding company of the Portfolio Manager (as defined under section 2, clause (46) of the Companies Act 2013) or the associate companies of the Portfolio Manager (as defined under section 2, clause (6) of the Companies Act 2013), by the Portfolio Manager during the said period where the Securities are common with the Assets managed on behalf of the Trust. The details to be provided are ISIN No, Security Name, Book Value, Purchase Price, Purchase Yield, Rating and Maturity Date.
   d. The Portfolio Manager shall file with the trust the details or transactions in Securities by the key personnel of the Portfolio Manager in their own name where the Securities are common with the Assets managed on behalf of the Trust. The Portfolio Manager will ensure that the key personnel, systems, back office, bank and securities accounts for the Assets managed for Trust are segregated from any other funds managed by the Portfolio Manager. The Portfolio Manager shall also ensure that there exist systems to prohibit access to inside information about the Assets managed for the Trust. The Portfolio Manager will have to disclose to EPFO the details of the transactions in securities while participation in the primary market auction specifying the details of proposed investment.
   e. At the end of each financial year, during the Term of this Agreement, the Portfolio Manager shall furnish a statement of the investments, receipt and payment account, and amortization report as per the EPFO's amortization policy reflecting the position of the invested Assets with a statement showing the amount of interest accrued but not realized as on the closing date of the financial year.
f. Any other information/report as required by the Trust.

3. The Portfolio Manager shall interface and provide such reports as may be required by the Trust and other entities of the Trust architecture as may be prescribed by Trust from time to time.

4. The ownership rights and all other rights relating to ownership of all the record, data, statistical returns and information whether in electronic form, or physical form or in any other form obtained collected and/or required to be maintained by the Portfolio Manager shall vest in the Trust. No person other than the Trust shall have any ownership rights or any other rights over any data or information in the possession of the Portfolio Manager. The Portfolio Manager will not, without the prior permission of Trust, produce/share such data or information as evidence or for any other purpose except as required by the due process of law. It shall be the responsibility and duty of the Portfolio Manager to maintain absolute confidentiality of such records/data/information and to produce these as and when called for by the Trust.

5. The Portfolio Manager shall maintain books and records about the operation of various applicable schemes to ensure compliance with the Income tax act, the Companies Act and in such manner as may be required or called for by the Trust. These books and records shall be open for inspection by duly authorised officers, employees or agents of the ministry of Labour and employment, Reserve Bank of India, Trust, any statutory body, and their respective auditors.
SCHEDULE 5

REMUNERATION/FEES

SCHEDULE OF FEES

1. Investment Management Fee expressed as a % of the quarter ending AUM of the incremental investments made by the selected Portfolio Manager in the corresponding quarter and which would be settled by the CBT, EPF on a quarterly basis (No fees would be payable on reinvestments made out of redemptions/maturities of any investments made by the Portfolio Manager during the period of the current contract)
Investment Management Manual for Portfolio Managers of Central Board of Trustees, Employees' Provident Fund Organisation (CBT, EPF)

2015
Purpose of the Document

Objectives

The CBT, EPF Mandate

Management Structure & Responsibilities

Board of Directors

Investment Management Committee (IMC)

Investment Guidelines

Investment Pattern

Investment Guidelines

Other General Criteria

Restrictions with Regard to Execution of Deals

Transactions with Group and Associates

Fixed Income & Money Market Dealing Limits

Portfolio Benchmarks

Issuer Limits

Duration Limits

Risk Management - Investment Limits

Concurrent Audit

Updation/Modification of Investment Management Manual

Annexure

Annexure 1 - Investment Process Guidelines

Annexure 2 - Concurrent Audit
The "Investment Management Manual" document seeks to set out the broad operating framework within which the Portfolio Management Services (PMS) Team will operate. It outlines the investment policy and guidelines for the management of funds of the Central Board of Trustees, Employees' Provident Fund. Changes made from time to time, will be communicated.
2. Guidelines

a) The objective of this manual is to establish the investment process flow to be adopted uniformly by all the Portfolio Managers.

b) This manual will act as Investment process check for Portfolio Auditors to be appointed by EPFO.

c) This manual includes the Pattern of investment, Guidelines and clarifications if any provided by EPFO.

d) This manual will have the broad framework of Risk Management and Internal controls to be put in place by the Portfolio Managers.
The CBT, EPF has appointed Portfolio Managers to act as its agent, inter-alia with full discretionary authority for the purpose of managing, investing and reinvesting the cash, securities and other properties comprising the assets organized under the funds allocated to the Portfolio Manager in accordance with the Investment Objectives of the respective schemes, the investment pattern specified by the Ministry of Labour & Employment and the guidelines issued by the CBT, EPF from time to time. The mandate for the portfolio managers is to manage the funds independently for the EPFO under Portfolio Management Services (PMS), distinct from the Portfolio Management services offered to other clients.

The Funds shall include fresh accretions, interest receipts and maturity proceeds of securities and the initial portfolio of securities transferred by CBT, EPF to the Portfolio Managers.

Investment Monitoring Cell at the EPFO would monitor the performance of the portfolio managers on the basis of prescribed Management Information System (MIS) reports and/or other reports, submitted by the portfolio managers and the custodian. The CBT, EPF may also appoint consultant(s) to assist Investment Monitoring Cell for effective monitoring.
4.1 Board of Directors

The Board of the Portfolio Manager has management responsibilities for the functioning of the Portfolio Manager and it reviews the functioning of the Investment Management Committee (IMC).

4.2 Investment Management Committee (IMC)

The IMC is authorized by the Board of Directors to supervise/review the investment process and investment guidelines to ensure that the investment decisions are in line with the Investment Objectives, the investment pattern specified by the Ministry of Labour & Employment and the guidelines issued by the CBT, EPF from time to time and any subsequent changes regarding the same.

The responsibility of the IMC is to review all the investments made, including investments in un-rated debt instruments, if any, subject to the investment pattern specified by the Ministry of Labour & Employment and ratified by the CBT, EPF. Also, to deliberate and decide on all matters pertaining to the valuation and pricing of investments, subject to the investment guidelines issued by the CBT, EPF from time to time. The IMC will also review investment performance vis-à-vis relevant benchmark(s) as agreed to with the CBT, EPF. The IMC will meet at least once in a month.

1 Here the concept of Valuation pertains to view regarding holding the securities till maturity. It may specially be helpful in cases when valuing illiquid for investment purposes.
2 The relevance of this concept would also be evident in case trading is allowed in future requiring MTM valuation of such investments and portfolio.
5.1 Investment Pattern

<table>
<thead>
<tr>
<th>INVESTMENT PATTERN</th>
<th>Percentage amount to be invested</th>
</tr>
</thead>
</table>
| (i) (a) Government securities.\(^1\)  
(b) Other securities\(^2\), 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.  
(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. | upto 55 |
| (a) Debt securities with maturity of not less than three years tenure issued by Bodies Corporate including banks and public financial institutions\(^3\);  
Provided that at least 75% of the investment in this category is made in instruments having an investment grade rating from at least one credit rating agency.  
(b) Term Deposit Receipts of not less than one year duration issued by scheduled commercial banks.  
Provided that the scheduled commercial banks must meet conditions of;  
(i) continuous profitability for immediately preceding three years;  
(ii) maintaining a minimum Capital to Risk Weighted Assets Ratio of 9%;  
(iii) having net non-performing assets of not more than 2% of the net advances;  
(iv) having a minimum net worth of not less than Rs. 200 crores.  
(c) Rupee Bonds having an outstanding maturity of at least 3 years issued by institutions of the International Bank for Reconstruction and Development, International Finance Corporation and the Asian Development Bank. | upto 55 |
| (iii) Money market instruments including units of money market mutual funds. | upto 5 |
| (iv) Shares of companies on which derivatives are available in Bombay Stock Exchange or National Stock Exchange or equity linked schemes of mutual funds regulated by the Securities and Exchange Board of India. | NII |

2. Any moneys received on the maturity of earlier investments reduced by obligatory outgoing shall be invested in the same category.

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 as envisaged may be achieved by the end of the financial year. However any volatility rebalancing at the end of the year may be avoided.

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.

5.2 Investment Guidelines

The Funds of the Employees' Provident Fund Organisation are required to be invested as per the pattern of investment prescribed by the MOL & E, Government of India from time to time.

The investment decisions are to be taken with maximum emphasis on safety, optimum return, sound commercial judgement and avoiding funds to be idle.

5.2.1 State Development Loans / Central Government Guaranteed Securities

1. While investing in State loans and/or bonds guaranteed by Central Government, track records regarding payment of interest/maturity proceeds should be taken into consideration.
2. Proper audit trails with regards to parameters like price, yield, quantity and maturity should be maintained in order to capture competitive quotes before entering into any transaction.

3. Minimum 15% investments in CTG category should be done.

4. Minimum 10% investments in SDL category should be done.

5.2.2 Investment in State Government Guaranteed Securities

For the time being, Investments in State government guaranteed securities is discouraged however,

³Portfolio Managers are allowed to appraise the new proposals and also go for investment in very good issues on merits, to the tune of Rs 50 Crores in each such issue subject to:

- Exposure limits laid down by the CBT, EPF;
- With prior intimation to EPFO; and
- Prior concurrence from FA & CAO wherever possible.
- Sending report in this regard for placing before the Finance and Investment Committee.

5.2.3 Public Sector Undertakings / PSFs

1. Investment decisions be taken by Portfolio Managers with maximum emphasis on safety, optimum return, sound commercial judgment and avoiding funds to be idle to ensure maximising the yield.

2. The Bonds/Securities may be purchased from the primary market with the following conditions:
   i. Firm allotment to be ensured.
   ii. No broker to be involved.
   iii. Interest should accrue from the date of payment itself.

³ 174th CBT on 23.02.2006
3. If any brokerage or any such commission is payable by the Public Financial Institutions/Public Sector, it is to be secured for CBT, EPF and should be credited to the account of CBT, EPF. A certificate from the issuer be obtained to this effect.

4. For offers of private placement, institutions should be asked to get rating from the established credit rating agency as per rating norms prescribed by EPFO.

5. The bonds of the PSFIs though not rated can also be purchased if they are fully and unconditionally guaranteed by the Central/State Govt. as the case may be. Such investments shall be categorised as ‘STG’ investments.

6. Investments can be made by the Portfolio Managers in such subsidiary companies under the control of PSU. Whose 51% of the share owned by the PSUs and the Government companies together and audited by the Statutory Auditors appointed by CAG under section 619 (B) of Companies Act. This sub category among the body corporate with the following riders apart from the existing guidelines for the investment in PSU bonds;
   a) Maximum tenure of 10 yrs of AAA rated company.
   b) Maximum tenure of 05 yrs of AA rated company.

7. Investments can be made by the Portfolio Manager in the subsidiary companies under the control of PSUs/PSFs. If such companies do not fall under the definition of PSU as defined under section 617 of the Companies Act, 1956 then, investments during the financial year should be restricted as per limits laid down in the Investment Pattern or Investment Guidelines of EPFO issued from time to time. Limits as per the extant investment guidelines are: 10% of the fresh accretions during the relevant financial year. Such investments shall be categorised as ‘PVT’ investments.

8. No investment is to be made in the Share Market or in Private Companies except those approved by CBT, EPF.
### 5.2.4 Bonds/Securities of PSUs / PSBs / PSFIs and/or Short duration TDRs (< 1 yr) issued by PSBs

<table>
<thead>
<tr>
<th>Category</th>
<th>Ratings</th>
<th>No. of Agencies</th>
<th>Tenure</th>
<th>Limits as % of Net Worth</th>
</tr>
</thead>
<tbody>
<tr>
<td>PSU</td>
<td>AAA</td>
<td>2</td>
<td>25 yrs</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>AAA</td>
<td>1</td>
<td>25 yrs</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>AA+</td>
<td>1</td>
<td>15 yrs</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>AA</td>
<td>2</td>
<td>15 yrs</td>
<td>40%</td>
</tr>
<tr>
<td>Financial Institution</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PSFI</td>
<td>AAA</td>
<td>2</td>
<td>25 yrs</td>
<td>60% of NW or 10% of Capital Employed whichever is lower</td>
</tr>
<tr>
<td></td>
<td>AAA</td>
<td>1</td>
<td>25 yrs</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>AA+</td>
<td>1</td>
<td>15 yrs</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>AA</td>
<td>2</td>
<td>15 yrs</td>
<td>40%</td>
</tr>
<tr>
<td>PSB</td>
<td>AAA</td>
<td>2</td>
<td>25 yrs</td>
<td>1. 50% of NW;</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Or</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>II. 60% of NW or 10% of Capital Employed whichever is lower</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>in excess of limits beyond 50% of NW</td>
</tr>
<tr>
<td></td>
<td>AA</td>
<td>2 (Vide Investment Guidelines passed by 188th CBT held on 5.12.2009)</td>
<td>15 yrs</td>
<td>50%</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>AAA</td>
<td>1</td>
<td>10</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>Unrated</td>
<td></td>
<td></td>
<td>Profit Earned in last 3 consecutive years preceding relevant FY</td>
</tr>
<tr>
<td>Pvt Banks</td>
<td>AAA</td>
<td>2</td>
<td>15</td>
<td>30%</td>
</tr>
<tr>
<td>Pvt. Comp.</td>
<td>AAA</td>
<td>2</td>
<td>10</td>
<td>25%</td>
</tr>
</tbody>
</table>
Moreover, Investments in dual AAA rated PSU/PSFI is permitted up to the maximum tenure of 25 years subject to the ceiling of maximum 50% of 30% permissible in PSU category. A

All bond issuances of Public Sector Banks (i.e., both Lower and Upper Tier II bonds, excluding Perpetual Bonds, that do not have a defined redemption date) of all tenures would be counted outside the purview of restriction of 50% of 30% limit as mentioned above.

Criteria for Credit Rating Agencies

It is also proposed that the Rating Agency, whose ratings would be utilised for making investment decisions, must have registered with SEBI and their top line managers reporting to their CEO are in their permanent regular employees.

5.2.5 Investment in Pvt Sector Companies Bonds

1. Maximum 10% of total investment made in a financial year.
2. All investments in the Private Sector category can only be made in dual AAA rated instruments.
3. Exposure in the private sector bank bonds is limited to 30% of the net worth, while for others, it is 25% of the net worth.
4. Investments in the private sector category are permitted for a maximum tenure of 10 years.
5. Investment can be made only in bonds/deposits of listed company.
6. The Companies should have continuously made net profits in last 5 years.
7. The Companies must have positive net worth of minimum Rs. 3000 cr.
8. The Companies must have continuously paid minimum dividend of 15% during last 5 years.

These guidelines will be applicable with prospective effect.

5.3 Other General Criteria

4 The limit available in the residual category and utilized for investments in PSU/PSFI category should also be included to reach at the overall limit.
5 82nd FIC on 03.12.2005 & 174th CBT on 23.02.2006

Page 12 of 30
1. Any money received on the maturity of earlier investments reduced by obligatory outgoing shall be invested in the same category.

2. 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. However, prior written approval from CBT, EPF will be sought before initiating a sale transaction.

3. TDR exposure will not be counted while computing exposure limits based on net worth of any bank.

4. The Portfolio Manager shall avoid any kind of speculative transactions. Investment decisions should be taken by the Portfolio Manager with maximum emphasis on safety and optimum returns.

5. Collection of Interest and Maturity Proceeds by the PMs on Past, Present and Future Investments

PMs shall collect interest and maturity proceeds on investments transferred to them by the Central Board of Trustees, Employees' Provident Fund and the subsequent transfer of securities and also the investments made by them on or after 01.04.2015, on the due dates and credit them to the appropriate accounts of the Trustees. While doing so, it shall be the duty of PMs to inform the institutions etc., where the money is invested, that in terms of Section 10 of the Income Tax Act, 1961, the interest received by the Trustees falls under exempted income and hence not liable for deduction of tax at source.

5.4 Restrictions with Regard to Execution of Deals
1. It will be endeavoured by the portfolio manager to make investment through exchanges, or directly with other counterparties in respect of government securities and other debt instruments at the best possible rate available on the day of transactions. The portfolio manager shall not purchase or sell securities through any broker (other than an associate broker) by more than 5% of the aggregate purchases and sale of securities, unless the portfolio manager has recorded in writing the justification for exceeding the limit of 5% and reports of all such investments are sent to the CBT, EPF on a quarterly basis. Provided that the aforesaid limit of 5% shall apply as per the SEBI guidelines as stipulated for mutual funds which specifies monitoring these limits on a combined scheme basis and on a rolling quarter basis.

2. The portfolio manager shall not utilise the services of the immediate parent companies (and subsidiaries thereof) of the other Portfolio Managers of CBT EPF (SBI PMS in case of SBI), and their employees or relatives for the purpose of any securities transaction and distribution and sale of securities.

3. The portfolio manager shall buy and sell securities on the basis of deliveries and shall in all cases of purchase, take delivery of securities and in all cases of sale, deliver the securities and shall in no case put itself in a position whereby it has to make short sales or carry forward transactions.

4. The portfolio manager shall enter into transactions relating to securities only in dematerialised form. The portfolio manager shall, for securities purchased in the non-depository mode get the securities transferred in the name of the CBT, EPF on account of the scheme.

5. Pending deployment as per investment objective, the moneys under the respective schemes may be invested in short-term deposits of public sector banks acceptable to the CBT, EPF, CBLOs and T-bills.

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6 Immediate parent for Reliance PMS (the portfolio manager) would be Reliance CAML (for example)
5.5 Transactions with Group and Associates

The portfolio manager shall not utilise the services of its sponsor or any of its associates, employees or their relatives for the purpose of any securities transaction and distribution and sale of securities.

1. Dealings in Government Securities, however, are permitted with the Groups to which the Portfolio Manager of CBT EPF belongs and its subsidiaries except with its immediate parent company and its subsidiaries (SBI PMS in case of SBI), subject to special report by portfolio manager justifying the Price, YTM, Market Low, Market High etc in respect of security purchased and other options considered by the IMC on that day. Such investments should not exceed 10% of total investments made during each month.

2. Term deposits with Groups and independent subsidiaries can be made provided the rate of interest is comparable with the rate of interest provided by the AAA rated scheduled banks (Term deposits of only the Public Sector Banks are permitted as of now as per the Investment Pattern).

3. The portfolio manager will not give any undue or unfair advantage to any of its associates or deal with any of its associates (or the associates of any other Portfolio Manager of CBT, EPF) in any manner detrimental to the interest of the fund.

5.6 Fixed Income & Money Market Dealing Limits

All decisions to invest in corporate debt should be supported by relevant research reports / financial data and it should be recorded. Subsequent decisions on the same security should indicate the reasons for the same. For investment in all securities, the investment reasons need to be recorded. For investment in TDRs, at least two comparable quotes are to be recorded.

7 Meaning thereby, a portfolio manager would not be able to deal with the main principal and all its subsidiaries, e.g., ICICI Sec FD Ltd would not be able to deal with ICICI Bank or its subsidiaries for services mentioned herewith, similarly HSBC AMC cannot utilize the services of HSBC Bank and its subsidiaries.
5.7 Portfolio Benchmarks

The portfolio benchmarks shall be as prescribed by CBT, EPF, from time to time.

5.8 Issuer Limits

The existing limits as per the CBT, EPF guidelines are linked to the net worth of the issuer. With 4 portfolio managers now managing the CBT, EPF funds, EPFO would arrange to provide a matrix for the limits available for each portfolio manager per issuer under the laid down criteria.

5.9 Duration Limits

The bias of the portfolio manager would be to invest in long duration assets given the long term nature of the liabilities of CBT, EPF. The portfolio managers will arrive at the duration limits in consultation with CBT, EPF.
The Risk Management team at the Portfolio Manager end will ensure that Investment Pattern and Guidelines as mentioned in Chapter 5 are complied with and review the processes and other measures in order to have an independent assessment of risks and its mitigation.
1. The Back office function at the Portfolio Managers shall inform the front office about the cash position incorporating all the transactions at the start of the day through the cash and cash equivalent report. During the day, if any additional cash inflows are present, they should also be reported to the front office. This ensures timely communication of scheme cash flows to facilitate purchase of securities and act as a control to avoid idling of fund.

2. The information regarding the cash position on each day or the deployment appetite on each day should be kept confidential and prevented from being leaked in the market.

3. The risk management department of the Portfolio Manager shall monitor independently the actual investment position relevant to Investment limits and guidelines. The risk management team should provide the reports on all investments limits to the front office so as to facilitate checks on adherence to investment pattern/guideline/limits.

4. The Portfolio Manager should, among others, take cognizance of the cash flow levels, limit report and margin requirement before taking investment decisions.

5. The Portfolio Manager would ensure that:
   - Justification for deals are prepared and the rationale for the investment decisions are maintained/documentated
   - The deal is in line with the investment objective of the scheme
   - All Investment limits and guidelines are being adhered to

6. More than one person should constitute the team that would make the investment decisions.

7. Once a deal is concluded, it will immediately be entered in the system by the front office for trade record.
8. Subsequent to the creation of deal ticket and authorization in the system by the front office, deal details would be forwarded to the back office for confirmation purpose.

9. The Back office executive would then confirm the deal details with the counterparty.

A strictly controlled Investment decision making and confirmation process will make it possible to identify any errors in recording and execution of the transaction.
The Concurrent audit shall be carried out on a day-to-day basis to:

- Ensure accuracy of MIS from Fund Managers
- Ensure adherence to investment pattern
- Monitoring adherence to the laid down investment process
- Monitoring adherence to the appropriate exposure limits
- Reporting exceptions to the Risk department

For further details of the scope of the Concurrent Audit and role of the External Concurrent Auditor who would be appointed, please refer to the Annexure attached to this document.
This will be done by the EPFO from time to time as and when it deems appropriate.
10.1 Annexure 1 - Investment Process Guidelines

10.1.1 Details of Investment Management Committee

The Investment Management Committee (IMC) is authorized by the Board of Directors to supervise/ review the investment process and investment guidelines to ensure that the investments decisions are in line with the Scheme Investment Objectives, the investment pattern specified by the Ministry of Labour & Employment and the guidelines issued by the CBT, EPF from time to time and any subsequent changes regarding the same. The IMC shall have such number of Directors and members or equivalent senior officials as may be decided by the Board of the portfolio manager. It will have at least 3 members. The quorum for the IMC meetings shall be 2 members. Also, the IMC may appoint such number of external experts as it may deem fit. In case there is a change in the constitution of the IMC, the same needs to be ratified by the Board of the portfolio manager.

The responsibility of the IMC is to review all the investments made, including investments in un-rated debt instruments, if any, subject to the investment pattern specified by the Ministry of Labour & Employment and ratified by the CBT, EPF (inclusive of modifications made there-under from time to time). Also, to deliberate and decide on all matters pertaining to the valuation and pricing of investments, subject to the investment guidelines issued by the CBT, EPF from time to time. The IMC will also review investment performance vis-à-vis relevant benchmark(s) as agreed to with the CBT, EPF. The IMC will meet at least on a monthly basis and will be responsible for the following:

- Formulating the Investment Policy and procedure
- Monitoring the investments to be in accordance with the investment pattern specified in the portfolio management agreement with EPFO
- Reviewing the performance of the EPFO funds as per the Investment and valuation guidelines of the Board on a monthly basis, documentation of the same and provision of the same to the EPFO.
- Monitoring the adherence to the terms & conditions of the agreement with EPFO
- Monitoring the Investment decisions & strategy and ensure that the same are taken with maximum emphasis on safety and optimum returns
- Review the reports submitted by the auditors and compliance reports
- Carry out any other function as may be required by the Board of the portfolio manager, in connection with the Portfolio management of CBT, EPF funds.

10.1.2 Investment Process to be adopted by Portfolio Managers

On the basis of investment norms, an Investment Universe has to be created containing the companies and limits up to which investments can be made both in long term as well as short term instruments.

Any new companies to be added to the Investment Universe would go through the process of internal deliberation followed by an approval of the IMC.

1. The concerned analyst / fund manager may initiate the investment proposal. He may choose to reject certain proposals after an initial analysis itself. He shall prepare an initiation note for all proposals he is positive on.

2. The analyst / fund manager shall present his view to the entire IMC and shall incorporate any suggestions arising there from.

3. The Analyst recommends the investment proposal.

4. The Investment Committee approves the investment proposals.

At the time of initiation of a company into the investment universe an Investment Note is prepared. However the analyst has the flexibility to change the view based on company performance and credit outlook. In case there is any change in the view, then a note is written on the same and approval for which must then be obtained from the Chief Investment Officer or Equivalent Officer (appointed by the Portfolio Manager). The review of the note is done periodically.
Separate norms should be recommended for investment in

- Manufacturing Companies
- Non-Banking Finance Companies
- Banks or Financial Institutions

Norms can be based on size of net worth, total turnover, gearing, interest cover, EBITDA margin, capital adequacy, gross and net non-performing assets within the overall ambit of the guidelines laid down by CBT, EPF.

Credit Strategy

A detailed credit evaluation of each investment opportunity will be undertaken. The portfolio manager will utilise ratings of rating agencies registered with SEBI as an input in the decision making process. Investments in bonds and debentures will usually be in instruments that have been assigned high investment grade. The views of the portfolio manager on the ratings movement in the near term should be recorded at least on a monthly basis. The IMC would:

- Analyse the current market spreads and determine the optimality of the available yields on the instruments considered
- Implication on ratings based on corporate earnings
- Credit decisions should be subject to credit guidelines and issuer concentration
- Monetary Policy impact on Yields

Interest Rate Strategy

An interest rate scenario analysis would be performed on an on-going basis, considering the impact of the developments on the macro-economic front and the demand and supply of funds. Based on the above analysis, the portfolio manager would manage the investments of the Scheme to exploit emerging opportunities in the investment universe and manage risks at all points in time. The views on the interest rates of the portfolio manager in the near term should be recorded at least on a monthly basis.

Duration Strategy
The Focus of the AMC will be on investing in long term debt securities. Short term investments will be made in the CBLO/FD/TBills till better yielding investment opportunities are found. Investment in debt instruments would only be in securities that are allowed as per the EPFO Investment Guidelines. The portfolio manager would:

- Consider the portfolio manager’s view on Global Economic Cycles, Economic forecasts of GDP growth, Exchange rates, Interest rates, Capital flows, Oil prices, Interest rate policy, and exchange rate.
- Consider the impact of RBI’s policy on the Debt markets in the short/medium term, USD/INR rate, Forex reserves, BoP, Inflation, GDP/IIP growth, Bank Credit/Deposit ratio, Fiscal policy, interest rates, Money supply, Liquidity.
- Determine the direction of market and investment opportunities
- Examine political/event risks to the views

10.1.3 Authorisation Process

The portfolio manager must ensure proper Authorisation Limits, Counter party limits and Maker Checker processes to ensure that all transactions are properly authorised and transacted.

10.1.4 Monthly View Book

The Portfolio Managers would compile an analytical note, incorporating their view or outlook on various market dynamics/factors which are likely to arise in the next month. And accordingly, their investment strategy proposed to be adopted in the said period. This would be called as their view book and they would submit it to the EPFO IMC, by 20th of the previous month (e.g. by 20th Jan for the month of Feb). It would also incorporate the Cash Flows position of the respective Portfolio Managers.

10.1.5 Investment Execution Process

Front Office

- It should be ensured that the following are taken cognizance of:
For any deal involving Rs.100 Cr or more, the Fund manager shall keep the EPFO IMC informed at each stage viz., bid at initial stage or the first bid and any further changes in the bids or quotes and of course the final rate at which the deal is clinched.

Deals would be concluded by the front office and from the recorded lines only

Portfolio Manager would ensure that:
- Justification for the purchase deal is prepared
- In case of sale transaction, amount of security to be sold is in custody books. Also, justification/approval for the sale is properly recorded.
- Deal is in line with the investment objective/pattern of the scheme
- Deals are entered only with approved brokers
- All limits are being adhered to

Once a deal is concluded, it will immediately be entered in the system.

Subsequent to the creation of deal ticket, the concerned fund manager should review and confirm the deal particulars

Deal Ticket duly signed by the fund manager would be forwarded to the back office for confirmation purposes.

Mid office/Back Office Processes

A record of the terms and conditions of the deals should be maintained. A strictly controlled confirmation process makes it possible to identify any errors in recording the transaction, such as name of the counterparty, the rate,
maturity period etc. The following describes the aspects of the confirmation procedure that should be adopted:

- All deals would be done in pre-numbered deal slips and the record would be chronologically maintained.
- Each deal entered into the system by the front office would receive an independent second check by the back office based on the deal ticket that contains the respective fund manager's signature.
- Once a deal has been authorised in the system by the front office, BackOffice executive would confirm the deal details with the counterparty via the Custodian. Settlement should not take place unless the deal has been confirmed by the Custodian.
- Where the deal details are matched, it would be authorised by the person carrying out the confirmations. It would then be forwarded to the head operations/another authorised person for approval.
- Where the deal details on the confirmation do not match the deal data on the system, the difference is followed up with the dealer and/or the counterparty. Any additional problems (e.g., systems) that are identified, for example, the incorrect calculation of bond interest by system, are annotated on the confirmation.
- If input to the system were incorrect, the fund manager would amend the deal details, which would then be authorised by Head Fixed Income or an equivalent authority. If the counterparty's confirmation is incorrect, a new confirmation would be obtained checked for authorised signatories.
- A written confirmation of each deal must be sent out at the earliest and a confirmation should be received from the counterparty. The confirmation provides a necessary final safeguard against dealing errors. Confirmations should be dispatched and checked promptly, even when oral deal confirmations have been undertaken. All confirmations should include the trade date, value date, the name of the counterparty and all other details of the deal, including, wherever appropriate, the commission charged by the broker.
10.2 Annexure 2 - Concurrent Audit

10.2.1 Role of the External Concurrent Auditor (ECA)

- The role of the ECA will be, among others, to:
  - Ensure accuracy of MIS from Portfolio Managers
  - Monitoring the Portfolio Managers' MIS reports for adherence to limits, as prescribed by EPFO from time to time.
  - Reporting exceptions to the EPFO Investment monitoring Cell (EIMC).
- The ECA will report to the EPFO, IMC. The ECA shall provide a brief report on a weekly basis and a more comprehensive monthly report to the EPFO Investment monitoring Cell. However, any exceptions shall be brought to the notice of the EPFO immediately.
- The auditors should be different from the auditors of the Fund Managers. The audit shall be carried under the direct supervision of the Partner of the Chartered Accountant Firm. The leader of the team should be a qualified Chartered Accountant.
- The reports of the ECA shall be placed before the Finance and Investment Committee of EPFO.
- The ECA shall be based in Mumbai can call for information from the Fund Managers or visit them as and when required.
- The ECA will have access to all the information and records of the Fund Managers and EIMC in connection with the Management of the Funds of EPFO.
- The EIMC should also build the limits monitoring system within the EIMC software for concurrent checks.

10.2.2 Scope of the ECA

The Scope of the ECA will be to:

- Check the MIS reports including the yield, investment category, value date, scheme name, incremental portfolio classification for accuracy of the MIS reports from the Fund Managers and ensure rectifications.
Check the daily transactions for adherence to EPFO Investment Limits including issuer wise Investment limits for each transaction of the Portfolio Manager on a daily basis.

- Reconcile the Fund flows and Bank accounts of EPFO with the Portfolio Manager on a monthly basis.
- Check the MIS from custodians and report any exception on an immediate basis.
- Check the idling of funds and the penalty calculation.
- Check the receipt of data and MIS from Portfolio Managers and report any exceptions to EIMC.
- Check the daily transactions with the market data and report deviations.
- Check the Credit ratings of the Investments on a daily basis and report any downgrades or negative watch/outlook immediately.
- Check the holdings data for accuracy and calculate the Investment pattern of the Fund managers and the EPFO.
- Verify the systems and records of the Portfolio Managers, as and when required by EIMC.
- Check the investments with the Portfolio Manager and its associate are examined carefully so as to ensure maximum returns.
- Check if the interest and maturity proceeds are collected promptly and also to point out delays, if any, and the causes for such delay.
- Check if the charges are levied as per the terms and conditions, including the verification of the bills raised by CCIL and Clear Corp. and to report excess charges.
- Check if all securities, debentures and other investments have been held in the name of Central Board of Trustees, Employees' Provident Fund.

10.2.3 ECA Reports

- The ECA shall report all major deviations, calculation errors and non-receipt of data on an immediate basis to EIMC.
- The ECA shall submit a monthly report summarising the findings, on a monthly basis, into:
  - Regulatory Violations, Investment Default
- Major deviations and
- MIS data related matters that have not been resolved for more than a month.

- This report shall be placed before the Finance and Investment Committee of the EPFO.
ITEM NO. STATUS ON AUDIT PARAS.

Realizing that audit paras were an important source of identification of bottlenecks and could help design timely interventions to prevent financial losses, frauds and deviations an Audit Committee System was set up with the approval of Finance Investment & Audit Committee in its 113\textsuperscript{th} meeting held on 23.06.2014. At that time 7179 Internal Audit Party Paras were pending for scrutiny. Out of these 5919 audit paras pertained to the period before 31\textsuperscript{st} March 2013 and 1260 audit paras pertained to the period from 1.4.2013 to 31.03.2014. At the beginning of the Financial year 2014-2015 the status of replies received in case of 7179 pending Internal Audit Paras was as under:

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</tr>
<tr>
<td>2</td>
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<td>20</td>
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<td>PN &amp; HP</td>
<td>219</td>
<td>69</td>
</tr>
<tr>
<td>4</td>
<td>UP &amp; BR</td>
<td>944</td>
<td>63</td>
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<tr>
<td>5</td>
<td>AP &amp; OR</td>
<td>601</td>
<td>39</td>
</tr>
<tr>
<td>6</td>
<td>KN &amp; GOA</td>
<td>677</td>
<td>97</td>
</tr>
<tr>
<td>7</td>
<td>TN &amp; KR</td>
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<td>355</td>
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<td>1209</td>
<td>129</td>
</tr>
<tr>
<td>9</td>
<td>MH &amp; CHH</td>
<td>1359</td>
<td>139</td>
</tr>
<tr>
<td>10</td>
<td>GJ &amp; MP</td>
<td>630</td>
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<td>11</td>
<td>NATRRSS, HEAD OFFICE &amp; EPFAT</td>
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<td>74</td>
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<td>TOTAL</td>
<td></td>
<td>7179</td>
<td>1327</td>
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Replies to 6927 Internal Audit Parties paras was obtained by 1st week of March 2015 due to close monitoring at the level of Central Provident Fund Commissioner who wrote several D.O. letters, sent e-mails and conducted one to one review of all Officer In Charges. Rigorous follow up was also done by FA & CAO. As a result of this the Zone wise status of replies received improved as under
### STATUS OF AUDIT PARAS AS ON 24.03.2015.

| No. | Paras | Remarks | Action Taken | Realised
<table>
<thead>
<tr>
<th></th>
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<td>208</td>
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<tr>
<td>11.</td>
<td>NATRSS, HO, EPFAT</td>
<td>176</td>
<td>88</td>
<td>136</td>
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</table>

After operationalisation of the Audit Committee System, 2888 audit paras have been dropped subject to verification by IAP. The paras have been dropped in cases where corrective action has been initiated, was likely to be completed shortly or completed. In cases, where systemic issues had been addressed by initiating corrective action but was to take a prolonged time were also dropped subject to verification by IAP. This exercise was done by audit wing with the approval of Committee 'C'.

620 audit paras were referred to committee 'B'. These were referred due to the fact that they impacted the system in place and had large scale
implications in terms of money or where system required change in rules and regulations. The audit paras where outside agencies were not cooperating were also marked to Committee 'B'. Some of the reasons for such references were as under:

1. Issues pertaining to old period and where record was not available.
2. Non-recovery of complete arrear demand.
3. Pending 7A cases.
4. Registers prescribed under MAP were being maintained on computer.
5. Interest on belated credit had been claimed from SBI but SBI was not responding.
6. Service charges on pension disbursement had not claimed.
7. Service charges were being debited suomoto by the pension disbursing banks.
8. Idle money had been lying in pension accounts.
9. Cash book reconciliation had not been done as per MAP.
10. Pension reconciliation had not been done as per prescribed procedure (PPO wise).
11. Cash book had not been rectified for prolonged period.
12. Action on court cases was pending.
13. EO reports were pending.
14. Clarifications were pending from Head Office.
15. Disposal of matter was dependent on another office.
16. Pension reconciliation had not been initiated in respect of certain banks.
17. Form 24 had been finalized crediting contribution not received.
18. Effective action had not taken to remove negative balances and residual balances.
19. Rebate had been claimed from postal authorities but was not being given by them.
21. Purchase procedure had not been followed.
22. Mismatch between names in Form 9 and Form 24.
23. Stale cheques had not cancelled and not re-credited to members account.
The audit paras where action was incomplete, ineffective or not even initiated were not recommended by audit wing for dropping. Some of the reasons for not dropping audit paras are as under:

1. Recovery in overpayment cases not initiated.
2. Overpayment Committee not constituted.
3. Registers not maintained.
4. Interest on belated credit not claimed.
5. Return rejection ratio still much beyond acceptable limit of 10%.
6. Duplicate PPOs not cancelled.
7. Wrong pay fixation not rectified.
8. Advances not recovered.
9. No proposal sent for notification u/s 1(4) even after lapse of several years.
10. No action taken to forward proposals of exemption.
11. Non rectification of Pension Fixed incorrectly.
12. Rebate not claimed from postal authorities.
13. No action taken to recover arrear demand.
14. No action taken to recover current demand.
15. Reconciliation not done.
16. Service books not maintained as per procedure.
17. Short remittances not recovered from establishments.
18. Post coverage inspection, not done even after lapse of years.
19. Returns not received from employer.
20. TA bills not liquidated in time.

At the end of the exercise, the status is as under:

<table>
<thead>
<tr>
<th>Sl No</th>
<th>Unit</th>
<th>Audit Paras for action</th>
<th>Pending</th>
<th>Reconciliation for initiating</th>
<th>Pending under notification</th>
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<td>PN &amp; HP</td>
<td>219</td>
<td>138</td>
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<td>16</td>
</tr>
</tbody>
</table>
In EPFO, no system was in place to use audit paras to bring in systemic improvement. The dropping of audit paras was earlier completely in the hands of Director (Audit) who had full discretion to drop or not to drop audit paras. Now under the guidance of Finance Investment and Accounts Committee, Central Provident Fund Commissioner and Financial Advisor & Chief Accounts Officer a system has been put in place which is helping in constant review of various systemic processes and bringing to fore the bottlenecks and weaknesses. This is helping review instructions and with time would help revise Manuals to put in place effective and efficient processes. These processes would also improve further over time through this system. The constant guidance of FIAC shall help strengthen this system.
Sub:- Operationalisation of Fund Management by the Selectee Portfolio Managers - Regarding


The requisite information/approval is still awaited. You are requested to kindly send the reply to this office. May be treated most urgent.

Endl:- As above

(ABHAY RANJAN
REGIONAL PROVIDENT FUND COMMISSIONER-I (IMC)

Shri Subhash Kumar, Under Secretary, Ministry of Labour & Employment
THE EMPLOYER'S PROVISION FUNDS SCHEME. 1952

ADMINISTRATION OF THE FUNDS ACCOUNTS AND AUDIT

CHAPTER VII

151.

The administration of the funds accounts shall be conducted in accordance with the administration of the scheme as prescribed by the provisions of the scheme.
No. 3-65025/2/2007-SS.II
Government of India/Bharat Sarkar
Ministry of Labour & Employment
Shram Aur Rozgar Mantri

Shram Shakti Bhawan, New Delhi.
Dated: 27th September, 2011.

To

The Central Provident Fund Commissioner,
Employee Provident Fund Organisation,
Bhavishya Nidhi Bhawan,
14-Bhikaji Cama Place,
New Delhi-110066.

Sub: Operationalisation of Fund Management by the selected Portfolio Managers – reg.

Sir,

I am directed to refer to EPFO's U.O.No. Invest.I/(1)/Custodian/2011/877 dated 30th August, 2011 on the above mentioned subject and to convey the approval of Hon'ble LE/Chairman, CBT (EPF) to open settlement accounts of four Fund Managers (SBI, ICICI, Sec. FD, RCAML, HSBC AMC) with M/s Standard Chartered Bank in the name of CBT, EPF as per the provision of Para 52 of the EPF Scheme, 1952.

Yours' faithfully,

(Subhash Kumar)
Under Secretary to the Government of India

27 SEP 2011
Item no. 5: Investment in Exchange Traded Fund (ETF).

1. The Ministry of Labour, Govt. of India vide notification no. 1071 (E) dated 23rd April, 2015 has issued a new notification for investments by EPFO. This new Pattern of Investment prescribes 05 to 15% investments in equity and related investment. The Board while recommending the said Pattern decided to investment in Exchange Traded Fund (ETF) only in this category. The Board also specified that initially investment will start with 1% and subsequently it will invest upto 5% at the end of financial year.

2. Considering that a new asset class in ETF has been permitted to be included in the EPF portfolio, there are a number of issues work on which has started for smooth execution of the decision of the Board. Some of the issues are being placed before the committee for information. There are certain issues that require approval of the competent authority. These are placed as items along with proposal for consideration by the Committee.

3. Issues for information

A. Amendments in EPF Scheme Provisions

   (i) Para 52 for allowing investment in equity related investment: This is an enabling clause of the EPF Scheme 1952 for investment in ETF. A Letter has also been sent to Ministry of Labour for amendment in Para 52 so that equity/ETF can became eligible as part EPF portfolio. Notification by Govt. Of India in this regard is awaited. Investment in ETF can only start after this Para is suitably amended.

   (ii) Para 51 for accounting notional capital gains out of investment in ETF as part of Interest suspense account.
(iii) Para 55 for determining form and manner of maintenance of accounts along with relevant schedules for investment in ETF.

(iv) Para 60 for accounting notional capital gains as interest earning for distribution to subscribers.

Suitable amendments in Para's 51, 55, 60 are also required. However suggesting amendments with regard to accounting for notional capital gains and its accounting for interest rate declaration require lot of deliberation, the time frame for suggesting changes has internally been decided as on July 2015.

In any case, issues relating to accounting income and policies relating to valuation of stock can be addressed before the end of year. These issues may not obstruct investment in ETF to begin with.

B. **Manual of Accounting Procedure.** Policy with regard to investment in EPF and its income is also been taken up separately and would be completed once amendment in the required provisions of EPF scheme is made by the government.

C. **Reporting of ETF transactions and data repository.** The existing investment software is not capable of handling ETF transaction. A Committee has already been constituted by CPFC for purchase of Investment Software from vendors who specializes in investment management across asset class.

D. **Regulatory changes taken up with SEBI** - There are some regulatory changes within the domain of SEBI which can incentivise organisations like EPFO to participate in instruments like ETF. These changes have been discussed with SEBI and they have been requested to take it in a positive spirit for the entire market. These suggested changes are as under:-
Separate class for regular & aggregate investors/authorized participant

Waiver of Expenses towards investor education & awareness

Allow T+1 for acceptance of funds for investment in ETF

Allow Swap based ETF

4. Agenda for consideration and approval

A. Management of investment in ETF

Option 1: Existing Portfolio Managers have been selected on the criteria for management of fixed income portfolio. Therefore, they cannot be assigned the work of managing equity/ETF.

Option 2: New Portfolio Managers for management of ETF can be appointed but the process of selection of new Portfolio Manager for equity/ETF investment is a long drawn and would take not less than 1 year. This would delay the investments in ETF and would be impossible to achieve the pattern of investment by the end of the financial year.

Option 3: Appointment of external Portfolio Managers by the process of nomination.

Option 4: Considering the fact that in India all large financial entities with the mandate of managing treasury are doing fund management utilising internal resources, it would be prudent to start in house management of funds at EPFO also.

A Committee constituted by Department of Financial Service (DFS), Ministry of Finance under Chairmanship of Sh. J.N. Bajpai, Ex-Chairman LIC of
India has in its recommendations suggested that “The Boards of the respective pension or insurance companies may be left free to decide the portion that they would like to allocate to the external fund manager, but the amount should not exceed 15% of the total funds under management. The management can benchmark its performance on fund management to the external manager and take corrective measures”.

Given the policy directions of the Government and also the standard practice adopted by other such large financial institutions in terms of management of funds, EPFO can also start internal management of funds by investing in ETF. This investment would be completely rule driven for which a detailed Standard Operating Procedure (SOP) can be framed as guidance for carrying out ETF investment.

B. **Standard Operating Procedure (SOP)**

All investments in EPFO are done with a long term perspective. The track record of performance of investment in equity also proves that the investor can maximise their return only if the investment is for a longer duration. Accordingly, with presumption that EPFO will not be require to sell ETF units, the SOP for entry has been prepared as of now. SOP for entering sell transaction of ETF units would be prepared in due course after gaining experience in managing ETFs. The SOP for buying ETF units are as under:

(i) The investment in ETF would only be made from Fresh Accretion received during the month.

(ii) The quantum of investment to be made during the month would be daily equated and invested on a daily basis over 15 days from the start of fresh accretion inflow.
(iii) Investment on trigger of special event. The special event is defined as fall in market indices by (i) 2% or more (ii) 4% or more.

(a) In case the index falls by over 2% on a day of scheduled investment the entire cash available for the week for investment in equity would be invested on the day of trigger of special event.

(b) In case the index falls by over 4% on a day of scheduled investment the entire cash available for investment for month in equity would be invested on the day of trigger of special event.

(c) These SOP would be reviewed after the end of financial year.

C. Selection of ETF

The Central Board of Trustee (CBT), EPF while recommending the said Pattern of Investment decided to allow investment in Exchange Traded Fund (ETF) only in the category of equity and equity related investments. As per the clause (c) of category (iv) of said Pattern, Indices permitted are Nifty, Sensex and Central Public Sector Enterprises (CPSE). The trade volume of Nifty and Sensex is in ratio of 80:20. The market share in terms of AUM of Nifty 50 and Sensex ETF as on 31/03/2015 was 90:10 respectively.

Accordingly, in order to have distributed exposure across stock exchanges EPFO can have ETF investment in both the indices in the ratio of 75:25. With regard to CPSE ETF, its issuance is an occasional activity based on the disinvestment decision taken by the Department of Disinvestment, Govt. of India. Accordingly, the decision of investment in CPSE can be taken once there is offer from the Govt.
D. Section of ETF Manufacturer

The entire ETF market in Indices is very nascent. The total size of such equity ETFs is less than 6,500/- Cr. The size of the largest ETF on indices is less than 2,500/- Cr. Therefore there is very little data on their tracking error which is the measure of performance of ETFs. Accordingly to begin with investment can start in ETFs managed by a Public Sector Undertaking (PSU). Among PSUs there are only two mutual funds namely SBI Mutual Fund and UTI.

Currently SBI MF manages 4 equity ETFs which are namely SBI SENSEX ETF, SBI - ETF Nifty Junior, SBI - ETF Banking and SBI - ETF BSE 100. It has also got the approval from SEBI to launch an ETF based on Nifty. UTI as of now does not have any equity ETF offering, it only offers Index fund based on Nifty. Comparing performance of both the mutual funds for their Nifty fund, the tracking error was lower for SBI Nifty fund @.31% in comparison to UTI Nifty fund @.35%.

Going by current track record of SBI MF and the fact that its ownership is with the Government EPFO can start investing in ETFs manufactured by SBI MF for the current year.

For the purpose of negotiating the operating cost being charged by the fund house in this case, SBI Mutual Fund, a price negotiation Committee can be constituted as was done while nominating SBI as a Portfolio Manager of EPFO. The price negotiation Committee can be constituted with following members;

1. Shri. J.P. Chowdhary - Employers Representative
2. Shri. Prabhakar J. Banasure - Employees Representative
3. Shri. Abhay Ranjan, RPFC-I (IMC) - EPFO Representative (Convenor)
E. Deployment of Manpower and Infrastructure

A decision to manage ETF investment internally by EPFO would require augmenting the existing team of Investment Monitoring Cell (IMC). It is proposed to additionally sanction four Assistant P.F. Commissioner and One Regional P.F. Commissioner-II for the purpose. There would be additionally requirement of IT system and secured data connectivity for the purpose. Detailed requirement would be obtained in due course. In principle approval may be given for deployment of necessary infrastructure for enabling in-house investment in ETF.

F. Training of Staff–

The officials at IMC would require specialised training for handling Portfolio Management. Training on ETFs can be conducted by specialised bodies like National Stock Exchange (NSE).

The proposal as contained in the document at Sl. 4 (A,B,C,D,E& F) is placed for consideration.
To

All Members,
Finance Investment & Audit Committee,
Central Board of Trustees, Employees’ Provident Fund.

Sub: Forwarding the Minutes of 121st meeting of the Finance Investment & Audit Committee (FIAC), CBT, EPF held on 16.10.2015 at EPFO, Head Office, New Delhi – Reg.

Sir,

Minutes of 121st meeting of the Finance Investment & Audit Committee held on 16.10.2015 approved by the Chairperson is enclosed herewith for your kind perusal and necessary action please.

Yours faithfully,

Ends:- As above

(KUMAR PUNIT)
ASSISTANT P.F. COMMISSIONER (INVESTMENT)
Minutes of the 121st Meeting of Finance Investment & Audit Committee (FIAC)

held on 16-10-2015

1. The 121st Meeting of Finance Investment & Audit Committee was held on 16-10-2015 from 3.00 P.M. onwards in the Conference Hall, 3rd Floor, EPFO, Head Office, New Delhi.

2. The following members were present in the meeting.

<table>
<thead>
<tr>
<th>(i)</th>
<th>Shri K.K. Jalan</th>
<th>Chairman, FIAC, CBT, EPF and Central Provident Fund Commissioner</th>
</tr>
</thead>
<tbody>
<tr>
<td>(ii)</td>
<td>Shri Heera Lal Samariya</td>
<td>Additional Secretary (L&amp;E), Ministry of Labour &amp; Employment</td>
</tr>
<tr>
<td>(iii)</td>
<td>Ms. Meenakshi Gupta</td>
<td>Joint Secretary &amp; Financial Advisor, Ministry of Labour &amp; Employment</td>
</tr>
<tr>
<td>(iv)</td>
<td>Shri J.P. Chowdhary</td>
<td>Member, CBT EPF (Employers' Representative)</td>
</tr>
<tr>
<td>(v)</td>
<td>Dr. Sanjeeva Reddy</td>
<td>Member, CBT, EPF (Employees' Representative)</td>
</tr>
<tr>
<td>(vi)</td>
<td>Shri Prabhakar J. Banasure</td>
<td>Member, CBT, EPF (Employees' Representative)</td>
</tr>
<tr>
<td>(vii)</td>
<td>Shri Sanjay Kumar</td>
<td>FA &amp; CAO (Convener)</td>
</tr>
</tbody>
</table>

The names of the officer in attendance are annexed as Annexure I

3. The Chairman welcomed all the members and officers present in the meeting. Thereupon the agenda were taken up.
Item No. 1: Confirmation of the Minutes of 120th Meeting of the Finance Investment & Audit Committee held on 23-06-2015.

The minutes of 120th Meeting of the Finance Investment & Audit Committee held on 23-06-2015 were confirmed.

Item No. 2: Action taken report on the recommendation of the 120th Meeting of Finance Investment & Audit Committee (FIAC) held on 23-06-2015.

The action taken report as placed was taken note of by the Committee. With respect to serial no. 3 of this item, Shri Prabhakar J. Banasure observed that necessary manpower may be posted in Investment Monitoring Cell and sufficient training may be provided to them.

Item No. 3: CBLO borrowing transactions by the Portfolio Managers till 18.09.2015

The proposal as contained in the agenda was taken note of by the Committee. The same item shall be placed in the next meeting of Central Board of Trustees.

Item No. 4: Performance Evaluation of Portfolio Managers for the period 01.04.2015 to 30.06.2015.

FIAC noted the performance of Portfolio Managers for the period 01.04.2015 to 30.06.2015. FA & CAO clarified that said period pertained to earlier agreement, term of which ended on 30.06.2015 and accordingly, it would not be possible to take any action.

FIAC further observed that the underperformance of all Portfolio Managers may be tracked regularly and it was decided that notice may be served to those portfolio managers who underperform for two quarters continuously.
Item No. 5:  Relaxation in investment guidelines for Private Scheduled Commercial
Banks (SCBs)

FA & CAO introduced the item to the Committee. JS & FA observed that such
important agenda should be self sufficient & shall contain all the details. CPFC
intervened to say that it is true that agenda item should have been more
detailed but it is important to take it up. The Committee, then, deliberated upon
the issue and decided that it will be proper to go for consideration of CBT.

The Proposal as contained in Para 6 which is as below:

Para 6: With respect to (a):

a) For this particular financial year, the investment in SDLs may be permitted
beyond the maximum percentage prescribed in the Pattern of Investment.

It is informed that an elaborate item to this effect was brought before the
CBT in its 204th meeting held on 26th August, 2014. The issue was also properly
examined by FIAC in its 114th meeting held on 25th August, 2014. In the said
meeting it was decided that a proposal should be made to DFS, MoF GoI to allow
investment in G.Sec/SDL upto 100%. A request to this effect has already been
made to DFS. It is likely that it will agree to higher percentage of investments in
G.Sec./SDL for this financial year. However, final communication to this effect is
yet to be received. In this situation, it is brought to the notice of the Board that
higher allocation to G.Sec/SDL is likely to made by EPFO in this financial year
particularly if the rate of AAA corporate credit of PSUs remain below SDL.

was taken note by the Committee.
The Proposal as contained in Para 7 which is as below:

Para 7: With respect to (b):

(b) The guidelines for investment in the corporate credits of private sector should be relaxed in order to include more corporate credits in the basket of investments eligible for EPFO.

It is informed that an elaborate item to this effect was brought before the CBT in its 205th Meeting held on 19th December, 2014 after obtaining recommendation of FIAC in its 112th Meeting held on 28th April, 2014 to allow investment in Private Corporate Credits having minimum dual AA+ rating. This particular item has been referred to the Expert Committee headed by Sh. Arun Kaul which is yet to submit its final report. However, the issue has been elaborately deliberated in the said Committee regarding investment in AA+ Private Scheduled Commercial Banks that has suggested that the same may be allowed as the Banks in India are meticulously regulated by RBI and therefore the risk associated with Banks in India is much lower as compared to any other industry vertical. Accordingly, pending final report of the said Expert Committee after which an agenda relating to eligibility for investment in Private Corporate Credits shall be brought before the FIAC and CBT, it is proposed that investment in bonds and term deposit of dual AA+ Private Scheduled Commercial Banks with the following conditions (w.r.t. bonds only) may be allowed:

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Guidelines</th>
<th>Private Scheduled Commercial Banks rated AA+ by at least two rating agencies</th>
</tr>
</thead>
<tbody>
<tr>
<td>i.</td>
<td>Tenure</td>
<td>10</td>
</tr>
<tr>
<td>ii.</td>
<td>Limits as % of net worth</td>
<td>20</td>
</tr>
</tbody>
</table>

was decided to recommend for placing the same before the Central Board.
Item No. 6: Extension of tenure of Custodian of EPFO Securities M/s. Standard Chartered Bank (SCB) up to 31/03/2016 after their performance evaluation for the period 01.04.2014 to 30.06.2015.

FIAC noted the performance of SCB (Custodian) for period 01-04-2014 to 30-06-2015, and extended its term up to 31.03.2016 as per the term of existing agreements.

FIAC enquired about the terms of all external agencies including ECA (M/s. Chandoybhoy & Jassobhoy) and thereafter observed that process of appointment of External Concurrent Auditor may be initiated at the earliest so that new ECA is appointed well in time.

*The meeting ended with a vote of thanks to the chair.*
### Annexure - 1

<table>
<thead>
<tr>
<th></th>
<th>Name</th>
<th>Title/Designation</th>
</tr>
</thead>
<tbody>
<tr>
<td>i</td>
<td>Shri Sudhir Shyam</td>
<td>Representative, Director, Department of Financial Services, Ministry of Finance, Govt. of India, representative Joint Secretary, MOF&amp; GOI.</td>
</tr>
<tr>
<td>ii</td>
<td>Shri Abhay Ranjan</td>
<td>RPFC-I (IMC)</td>
</tr>
<tr>
<td>iii</td>
<td>Shri Vishal Agarwal</td>
<td>RPFC-I (IMC)</td>
</tr>
<tr>
<td>iv</td>
<td>Shri Ajay Kumar</td>
<td>RPFC-I (IMC)</td>
</tr>
<tr>
<td>v</td>
<td>Shri Kumar Punit</td>
<td>APFC (Investment)</td>
</tr>
</tbody>
</table>
EMPLOYEES' PROVIDENT FUND ORGANISATION
NEW DELHI

121st Meeting of the
FINANCE INVESTMENT AND AUDIT COMMITTEE

[A SUB-COMMITTEE OF THE CENTRAL BOARD,
EMPLOYEES' PROVIDENT FUND]

On
16.10.2015 at 3:00 P.M.

VENUE:
Conference Hall,
3rd Floor, EPFO (Head Office),
Bhavishya Nidhi Bhawan,
14, Bhikaiji Cama Place,
NEW DELHI - 110066.
## EMPLOYEES’ PROVIDENT FUND ORGANISATION

**AGENDA BOOK**  
121<sup>st</sup> Meeting of the Finance Investment and Audit Committee,  
Central Board, EPF.

**Date:** 16.10.2015  
**Time:** 3:00 P.M.

<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 120&lt;sup&gt;th&lt;/sup&gt; Meeting of the Finance Investment &amp; Audit Committee (FIAC) held on 23.06.2015</td>
<td>1-5</td>
</tr>
<tr>
<td>2.</td>
<td>Action taken report on the recommendation of the 120&lt;sup&gt;th&lt;/sup&gt; Meeting of the Finance Investment &amp; Audit Committee (FIAC) held on 23.06.2015</td>
<td>6-7</td>
</tr>
<tr>
<td>3.</td>
<td>CBLO borrowing transactions by the Portfolio Managers till 18.09.2015</td>
<td>8-11</td>
</tr>
<tr>
<td>4.</td>
<td>Performance Evaluation of Portfolio Managers for the period 01.04.2015 to 30.06.2015</td>
<td>12-14</td>
</tr>
<tr>
<td>5.</td>
<td>Relaxation in investment guidelines for Private Scheduled Commercial Banks (SCBs)</td>
<td>15-16</td>
</tr>
<tr>
<td>6.</td>
<td>Extension of tenure of Custodian of EPFO Securities M/s. Standard Chartered Bank (SCB) upto 31/03/2016 after their performance evaluation for the period 01.04.2014 to 30.06.2015</td>
<td>Item will be placed to be on the table after approval of the Chairperson</td>
</tr>
</tbody>
</table>

Any other item (s) with the permission of the Chair
121st Meeting of FIAC 16.10.2015

Item No. 1: Confirmation of the Minutes of 120th Meeting of the Finance Investment and Audit Committee held on 23.06.2015 at EPFO, Headquarter, New Delhi.

Minutes of 120th Finance Investment and Audit Committee (FIAC) meeting held on 23.06.2015 was circulated vide letter No. Invest.1/(120th Mtg.)FIAC/2015/14800 dated 01.07.2015. Copy of the minutes is enclosed as Annexure – 'A' of this item.

Minutes may be taken as confirmed.
Minutes of the 120th Meeting of the Finance Investment & Audit Committee (FIAC) held on 23-06-2015

1. The 120th Meeting of the Finance Investment & Audit Committee was held on 23-06-2015 from 11.30 AM onwards at the Conference Hall, 3rd Floor, EPFO, Head Office, New Delhi.

2. The following members were present in the meeting:

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Designation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Shri K.K. Jalan</td>
<td>Chairman, FIAC, CBT, EPF and Central Provident Fund Commission</td>
</tr>
<tr>
<td>3.</td>
<td>Shri Sudhir Shyam</td>
<td>Director, Dept. of Financial Services, Ministry of Finance, Govt. of India, representative Joint Secretary, MoF,</td>
</tr>
<tr>
<td>4.</td>
<td>Dr. G. Sanjeeta Reddy</td>
<td>Member, CBT, EPF (Employees’ Representative)</td>
</tr>
<tr>
<td>5.</td>
<td>Shri Prabhakar</td>
<td>Member, CBT, EPF (Employees’ Representative)</td>
</tr>
<tr>
<td>6.</td>
<td>Shri J. P. Chowdhary</td>
<td>Member, CBT, EPF (Employees’ Representative)</td>
</tr>
</tbody>
</table>

The following members could not attend the meeting:

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Designation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Shri Deepak Kumar</td>
<td>Additional Secretary, Dept. of Ministry of Labour &amp; Employment, Govt. of India,</td>
</tr>
<tr>
<td>2.</td>
<td>Dr. Ram S. Tarneja</td>
<td>Member, CBT, EPF (Employees’ Representative)</td>
</tr>
</tbody>
</table>

In addition to the above, Shri Sanjay Kumar, FA & CAO, EPFO and Convener was also present during the meeting.
Further, the following representatives of M/s CRISIL (EPFO's Consultant) also attended the meeting for the purpose of presentation in respect of item No. 6 of the agenda for the meeting:

1. Shir Jiju Vidhyadharan
2. Shri Vikram Shastry
3. Shri Ankit Kala

The Chairman welcomed all the members and officers present in the meeting. With the permission of chair, the following items were discussed:

Item No. 1: Confirmation of the minutes of the Meeting of the Finance Investment & Audit Committee held on 26-03-2015.

The minutes of 119th Meeting of the Finance Investment & Audit Committee held on 26-03-2015 were confirmed.

Item No. 2: Action taken report on the recommendation of the 119th Meeting of Finance Investment & Audit Committee (FIAC) held on 26-03-2015.

The action taken report as placed was taken note of by the Committee.

Item No. 3: Performance Evaluation of Portfolio Managers for the period 01.01.2015 to 31.03.2015

The proposal as contained in the agenda was approved by the Committee.
Item No. 4: Implementation of New Pattern of Investment notified by Ministry of Labour & Employment on 23rd April, 2015.

The proposal as contained in the agenda was taken note of by the Committee.

Item No. 5: Investment in Exchange Traded Fund (ETF) (This item was placed on table before the meeting).

The item was deliberated in detail by the Committee wherein the proposals as contained in the agenda were considered. The Committee desired that the process suggested in the agenda should be reviewed after the end of the financial year, in order to improve upon the same. The Committee also suggested that some of the changes in Scheme provision, Manual of Accounts, etc should be finalised as early as possible. It also directed that an agenda item on working of investments in ETF should be brought in each future FiAC meeting after we commence investments in ETF. Dr. G. Sanjeeva Reddy and JS & FA emphasised on the need to develop trained resources from among the cadre of officers of EPFO.

Subject to the above observations, the agenda item was approved.

Item No. 6: New Performance Benchmarking & Evaluation criteria for the new mandate of Portfolio Managers.

The representative of M/s CRISIL, the consultant of EPFO made a detailed presentation on this issue. The proposal as contained in the agenda was approved by the Committee.
Item No. 7: Allocation of securities amongst the Portfolio Managers.

The proposal as contained in the agenda was taken note of by the Committee.

Item No. 8: Status of operationalisation of UTI AMC Ltd. as fifth Portfolio Manager.

The proposal as contained in the agenda was taken note of by the Committee.

The meeting ended with a vote of thanks to the chair.
**Item No 2: Action Taken Statement on the minutes of 120th meeting of the Finance Investment and Committee (FIAC) held on 23.06.2015.**

<table>
<thead>
<tr>
<th>Sr No.</th>
<th>Decisions/Directions of FIC</th>
<th>Action Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Performance Evaluation of Portfolio Managers for the period 01.01.2015 to 31.03.2015</td>
<td>The item was for information of the Committee. Accordingly, no further action was required.</td>
</tr>
<tr>
<td></td>
<td>The proposal as contained in the agenda was approved by the Committee. <em>(Item no. 3 of 120th FIAC)</em></td>
<td><em>(Item no. 3 of 120th FIAC)</em></td>
</tr>
<tr>
<td>2.</td>
<td>Implementation of New Pattern of Investment notified by Ministry of Labour &amp; Employment on 23rd April, 2015.</td>
<td>As decided, the Pattern of Investment 2015 has been implemented w.e.f. 01st July, 2015. <em>(Action Complete)</em></td>
</tr>
<tr>
<td></td>
<td>The proposals as contained in the agenda was taken note of by the Committee. <em>(Item no. 4 of 120th FIAC)</em></td>
<td><em>(Item no. 4 of 120th FIAC)</em></td>
</tr>
<tr>
<td>3.</td>
<td>Investment in Exchange Traded Fund (ETF) <em>(This item was placed on table before the meeting).</em></td>
<td>As decided, Sub-Committee constituted by FIAC, negotiated with SBI MF on management fees on 20.07.2015. Approval of Hon’ble Chairman, CBT EPF on management fees negotiated by sub-Committee has been sought vide this office note dt. 05.08.2015. EPFO made first investment in ETF on 05.08.2015 of Rs. 11.85 crores in Nifty and Sensex ETFs. Update on the agenda is again being placed in this FIAC.</td>
</tr>
<tr>
<td></td>
<td>The Committee approved the proposal with certain observation. <em>(Item no. 5 of 120th FIAC)</em></td>
<td><em>(Item no. 5 of 120th FIAC)</em></td>
</tr>
<tr>
<td>4.</td>
<td>New Performance Benchmarking &amp; Evaluation Criteria for the new mandate of Portfolio Managers.</td>
<td>As approved, new performance Benchmarking &amp; Evaluation Criteria has been adopted from the new mandate of Portfolio Managers that started w.e.f. 1st July, 2015. <em>(Action Complete)</em></td>
</tr>
<tr>
<td></td>
<td>The proposal as contained in the agenda was approved by the Committee. <em>(Item no. 6 of 120th FIAC)</em></td>
<td><em>(Item no. 6 of 120th FIAC)</em></td>
</tr>
<tr>
<td></td>
<td>Allocation of securities amongst the Portfolio Managers.</td>
<td>As approved, the securities have been allocated amongst the Portfolio Managers.</td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>5.</td>
<td>The proposal as contained in the agenda was taken note of by the Committee. <em>(Item no. 7 of 120th FIAC)</em></td>
<td><em>(Action Complete)</em></td>
</tr>
<tr>
<td>6.</td>
<td>Status of operationalisation of UTI AMC Ltd. As fifth Portfolio Manager.</td>
<td>The item was for information of the Committee. Accordingly, no further action was required.</td>
</tr>
<tr>
<td></td>
<td>The proposal as contained in the agenda was taken note of by the committee. <em>(Item no. 8 of 120th FIAC)</em></td>
<td><em>(Action Complete)</em></td>
</tr>
</tbody>
</table>
Item: 3- CBLO borrowing transactions by the Portfolio Managers till 18.09.2015.

Pursuant to the recommendation of CBT in its 204th Meeting held on 26.08.2014, the Ministry of Labour & Employment vide its letter no. G-20025/1/2014-SS-II dated 12th May, 2015 approved borrowing of funds from CBLO for participation in Primary Auctions of Government Securities and Corporate Bonds. Accordingly, the direction of Govt. on borrowing of funds from CBLO was communicated to all Portfolio Managers, that inter-alia mentioned following conditions:

a) No borrowing will be done for more than 15 days.

b) Prior to entering into such transaction, the Portfolio Managers shall intimate through email to Investment Monitoring Cell (IMC), at EPFO Head Office the details of proposed borrowing to be made and the matching purchase of security. The proposal should also contain the expected profit/gains from the transaction.

c) The Portfolio Managers shall report full outcome of the transaction to the IMC after the borrowing is closed.

d) The IMC shall compile all such transactions and place the same before FIAC in its next immediately following meeting.

e) The outcome shall also be placed before the Board for information in next following meeting.

2. In view of the conditions stipulated, this agenda contains Outcome Report of the following transactions:

I. Nuclear Power Corporation of India Ltd. (NPCIL)
II. Indiabulls Housing Finance Company Ltd.
III. State Development Loans (SDLs)

3. The borrowing from CBLO was done for the first time for participation in the issuance of Nuclear Power Corporation of India Ltd. (NPCIL) bonds on 29th July, 2015. All five Portfolio Managers successfully participated in said primary issuance of Rs. 3500 Crores.
4. The following are the details of profit made in the period of investment on borrowed fund:

<table>
<thead>
<tr>
<th>Proposed Mode of Borrowing</th>
<th>One time Terms Money Basis (Term segment of CBLO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield on Investment of NPCIL Debentures</td>
<td>8.40%</td>
</tr>
<tr>
<td>Cost of Borrowings in CBLO</td>
<td>7.39%</td>
</tr>
<tr>
<td>Period of borrowing</td>
<td>6 to 13 days</td>
</tr>
<tr>
<td>Total Amount of Borrowing through CBLO</td>
<td>Rs. 1901 Crs</td>
</tr>
<tr>
<td>Positive spread (in bps)</td>
<td>101 bps (8.40% - 7.39%)</td>
</tr>
<tr>
<td>Net Gains</td>
<td>Rs. 70,10,416/-</td>
</tr>
</tbody>
</table>

5. Apart from the making profit of Rs. 70,10,416/-, EPFO through this mechanism of borrowing now approved could also participate in the issuance of NPCIL, which is desirable for EPFO in the long term.

6. The borrowing made from CBLO for participation in NPCIL primary issuance and total gains thereon has already been informed to Hon'ble Chairman CBT, EPF for kind perusal vide note dated 11th September, 2015.

7. Subsequently, two more transactions in r/o Indiabulls Housing Finance Company Ltd and State Development Loans (SDLs) have been done by the Portfolio Managers through CBLO borrowing, the details of which are as follows:

(A) **Indiabulls Housing Finance Company Ltd**

(X-Sec PD & Reliance Capital AML)

<table>
<thead>
<tr>
<th>Proposed Mode of Borrowing</th>
<th>One time Terms Money Basis (Term segment of CBLO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield on Investment in Indiabulls Housing Finance bonds</td>
<td>9.40%</td>
</tr>
<tr>
<td>Cost of Borrowings in CBLO</td>
<td>7.30%</td>
</tr>
<tr>
<td>Period of borrowing</td>
<td>10-11 days</td>
</tr>
<tr>
<td>Total Amount of Borrowing through CBLO</td>
<td>283.65 Crs</td>
</tr>
<tr>
<td>Positive spread (in bps)</td>
<td>210 bps (9.40% - 7.30%)</td>
</tr>
<tr>
<td>Net Gains</td>
<td>Rs. 17,26,774.52</td>
</tr>
</tbody>
</table>
### (B) State Development Loans (SDLs)

#### SBI

<table>
<thead>
<tr>
<th>Proposed Mode of Borrowing</th>
<th>One Time Term Money Basis (Term segment of CBLO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yield on Long Term Investment of SDLs</td>
<td>8.41% (Semi Annual Coupon of 8.24%)</td>
</tr>
<tr>
<td>Cost of Borrowing in CBLO</td>
<td>7.39%</td>
</tr>
<tr>
<td>Total Amount of Borrowing through CBLO</td>
<td>Rs 67.25 Crore</td>
</tr>
<tr>
<td>Number of Days of Borrowing</td>
<td>1</td>
</tr>
<tr>
<td>Positive spread (in bps) between return of Long term investment v/s the cost of CBLO funding</td>
<td>102 bp (8.41% - 7.39%)</td>
</tr>
<tr>
<td>Net Gains</td>
<td>Rs 18,784.63</td>
</tr>
</tbody>
</table>

#### UTI AMC

<table>
<thead>
<tr>
<th>Proposed Mode of Borrowing</th>
<th>One Time overnight CBLO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted average yield on Long Term Investment of State Development Loans (SDLs)</td>
<td>8.40% (Semi Annual Coupon of 8.23%)</td>
</tr>
<tr>
<td>Cost of Borrowing in CBLO</td>
<td>7.33%</td>
</tr>
<tr>
<td>Total Amount of Borrowing through CBLO</td>
<td>Rs 146.10 Crore</td>
</tr>
<tr>
<td>Number of Days of Borrowing</td>
<td>1 Day</td>
</tr>
<tr>
<td>Positive spread (in bps) between return of Long term investment v/s the cost of CBLO funding</td>
<td>107 bp (8.40% - 7.33%)</td>
</tr>
<tr>
<td>Net Gains</td>
<td>Rs 43,089.90</td>
</tr>
</tbody>
</table>

#### HSBC AMC

<table>
<thead>
<tr>
<th>Proposed Mode of Borrowing</th>
<th>One Time Term Money Basis (Term segment of CBLO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted average yield on Long Term Investment of State Development Loans (SDLs)</td>
<td>8.40% (Semi Annual Coupon of 8.23%)</td>
</tr>
<tr>
<td>Cost of Borrowing in CBLO</td>
<td>7.30%</td>
</tr>
<tr>
<td>Description</td>
<td>Value</td>
</tr>
<tr>
<td>------------------------------------------------------</td>
<td>--------------------------------------------</td>
</tr>
<tr>
<td>Total Amount of Borrowing through CBLO</td>
<td>Rs 145.40 Crore</td>
</tr>
<tr>
<td>Number of Days of Borrowing</td>
<td>6 Days</td>
</tr>
<tr>
<td>Positive spread (in bps) between return of</td>
<td>110 bp (8.40% - 7.30%)</td>
</tr>
<tr>
<td>Long term investment v/s the cost of CBLO funding</td>
<td></td>
</tr>
<tr>
<td>Net Gains</td>
<td>Rs 2,64,000</td>
</tr>
<tr>
<td>Net Gains for EPFO in r/o above SDLs transaction</td>
<td>Rs. 3,25,873.63</td>
</tr>
<tr>
<td>(Total of SBI, UTI &amp; HSBC)</td>
<td></td>
</tr>
</tbody>
</table>

The item is placed before the FIAC for information. The same shall also be placed in the next CBT meeting for information.
121st Meeting of FIAI 16.10.2015

Item: 4- Performance Evaluation of Portfolio Managers for the period 01.04.2015 to 30.06.2015.

1. 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 years:
   i. State Bank of India.
   ii. ICICI Securities Primary Dealership Ltd.
   iii. Reliance Capital Asset Management Ltd.
   iv. HSBC Asset Management (India) Private Ltd.

   The New Portfolio Managers started managing EPFO corpus from 01.11.2011.

2. Further, 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.

3. CRISIL evaluates the performance of the four portfolio managers of EPFO on the basis of following criteria:-
   • 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.

(I) Final Performance Evaluation (Ranking) on the basis of cumulative score on the above three criteria for the period 01.11.2011 to 30.06.2015:

<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>99.99</td>
<td>1</td>
</tr>
<tr>
<td>Reliance Capital AML</td>
<td>99.69</td>
<td>2</td>
</tr>
<tr>
<td>HSBC AML</td>
<td>99.68</td>
<td>3</td>
</tr>
<tr>
<td>ICICI Sec. PD Ltd</td>
<td>99.65</td>
<td>4</td>
</tr>
</tbody>
</table>
(II) Quarterly Performance on Portfolio Yield Parameter:

(April to June 2015)

<table>
<thead>
<tr>
<th>Portfolio Manager</th>
<th>Yield%</th>
<th>Benchmark Yield%</th>
<th>Yield Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>SBI</td>
<td>8.22%</td>
<td>8.22%</td>
<td>1</td>
</tr>
<tr>
<td>ICICI Sec. PD Ltd</td>
<td>8.18%</td>
<td>8.22%</td>
<td>2</td>
</tr>
<tr>
<td>Reliance AMC</td>
<td>8.17%</td>
<td>8.22%</td>
<td>3</td>
</tr>
<tr>
<td>HSBC AMC</td>
<td>8.15%</td>
<td>8.22%</td>
<td>4</td>
</tr>
<tr>
<td>Overall EPFO</td>
<td>8.19%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- For April - June 2015, the benchmark yield was 8.22%.
  - For the April- June 2015 quarter, except SBI, which generated yield at par with the benchmark yield, all portfolio managers underperformed the financial year benchmark yield of 8.22%.
  - SBI generated the highest yield of 8.22% followed by I-Sec PD (8.18%), Reliance AMC (8.17%) and HSBC AMC (8.15%).
  - The yield differential between the top performer and the lowest performer was unchanged at 7 bps in the April-June 2015 quarter compared with January- March 2015.

(III) Cumulative yield comparison (November 2011 to June 2015)

<table>
<thead>
<tr>
<th>Portfolio Yield (85% weight)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Manager</td>
</tr>
<tr>
<td>-------------------------</td>
</tr>
<tr>
<td>SBI</td>
</tr>
<tr>
<td>HSBC AMC</td>
</tr>
<tr>
<td>Reliance Capital AML</td>
</tr>
<tr>
<td>ICICI Sec. PD Ltd</td>
</tr>
<tr>
<td>Overall EPFO</td>
</tr>
</tbody>
</table>

- For the cumulative period November 1, 2011 to June 30, 2015 the benchmark yield was 9.12%
  - All portfolio managers outperformed the cumulative benchmark yield.
  - SBI generated the highest yield of 9.21% for the period mainly on account of higher allocation to SDLs, among portfolio managers, with relatively higher weighted average yield.
- The yield differential between the top performer and the lowest performer was unchanged at 4 bps for the period ended June 2015 compared to the period ended May 2015.

4. It is highlighted that this is the last quarterly report of the Portfolio Managers under the old mandate that ended on 30th June, 2015. The new mandate of 5 Portfolio Managers has already commenced w.e.f. 1st July, 2015.

**The item is placed before the FIAC for perusal and information.**
Item: 5- Relaxation in investment guidelines for Private Scheduled Commercial Banks (SCBs).

1. During the financial year, there has been serious mismatch in the demand and supply of corporate credits. As a result, EPFO in the first 5 months of the present financial year had been able to invest only Rs.7,600 crore in the corporate credits (PSU as well as Private) including the term deposits of the banks. As per the new Pattern of Investment notified by Ministry of Labour on 23rd April, 2015, minimum 35% and upto 45% of the fresh accretion is to be invested in the corporate credits. This year, it is estimated that Rs.1,15,000 crore will be fresh accretion. Accordingly, Rs.32,500 crore on minimum side and Rs.44,500 crore on maximum side needs to be invested in the corporate credit in order to attain the pattern of investment notified by the Ministry of Labour in the remaining seven months of this financial year.

2. The attainment of above percentage of investment appears to be very difficult, rather the same may not be possible without compromising with the rate of return on the investments made by EPFO.

3. In the present situation of short supply of corporate credits, the rate of interest on the corporate credits has also gone down considerably. In fact, for the last one month, the State Development Loans (SDLs) issued by the various State Governments which is secured through the mechanism of automatic debit by RBI has been fetching higher rate of return as compared to corporate credits. It is brought to the kind notice of the Board that RBI for the purpose of calculation of CRR for the banks has assigned 100% security to SDL as well as G. Sec.

4. It is against common sense of investment to make investment in corporate credits having lower security and lower rate of interest as against SDLs having both higher interest and higher security in the prevailing market conditions.

5. In order to address the situation arising, the following 2 strategies are being suggested on the basis of extensive discussion with the Portfolio Managers in the Quarterly Meeting held in Mumbai on 21st August, 2015:
<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Guidelines</th>
<th>Private Scheduled Commercial Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>rated AA+ by at least two rating</td>
</tr>
<tr>
<td></td>
<td></td>
<td>agencies</td>
</tr>
<tr>
<td>i.</td>
<td>Tenure</td>
<td>10</td>
</tr>
<tr>
<td>ii.</td>
<td>Limits as % of net worth</td>
<td>20</td>
</tr>
</tbody>
</table>

8. The said agenda item was placed before the Central Board of Trustees (CBT), EPF in its 208th Meeting held on 16th September, 2015, wherein it has been learnt that the Board has requested to route the agenda through FIAC with its recommendations.

*Accordingly, the proposal contained in Para 6 is placed for information and at Para 7 above for consideration and recommending it to the Board.*