कर्मचारी भविष्य निधि संगठन
EMPLOYEES' PROVIDENT FUND ORGANISATION
NEW DELHI

98th Meeting of the
FINANCE AND INVESTMENT COMMITTEE
[CENTRAL BOARD OF TRUSTEES, EMPLOYEES' PROVIDENT FUND]

ON
26 / 02 / 2010 at 11:00 AM

VENUE:
Conference Hall,
3rd Floor, EPFO Headquarters,
Bhavishya Nidhi Bhawan,
14, Bhikaiji Cama Place,
New Delhi – 110 066.
Final Minutes of the 98th Meeting of the Finance & Investment Committee held on 26.02.2010

The 98th meeting of the Finance and Investment Committee, Central Board of Trustees, Employees' Provident Fund was held at 11.00 A.M on February 26, 2010, in the Conference Room, 3rd floor, EPFO Head Office, New Delhi.

(a) The following were present in the meeting:

<table>
<thead>
<tr>
<th></th>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Shri Chaman Kumar</td>
<td>Chairman, Finance and Investment Committee, CBT, EPF, and AS &amp; FA, Ministry of Labour and Employment, Government of India.</td>
</tr>
<tr>
<td>2</td>
<td>Shri S K Verma</td>
<td>Director (Social Security), Ministry of Labour and Employment, Government of India.</td>
</tr>
<tr>
<td>3</td>
<td>Shri A D Nagpal</td>
<td>Member, (Employees' Representative)</td>
</tr>
<tr>
<td>4</td>
<td>Shri B N Rai</td>
<td>Member, (Employees' Representative)</td>
</tr>
<tr>
<td>5</td>
<td>Shri Ram Tameja</td>
<td>Member, (Employers' Representative)</td>
</tr>
<tr>
<td>6</td>
<td>Shri Sharad Patil</td>
<td>Member, (Employers' Representative)</td>
</tr>
<tr>
<td>7</td>
<td>Shri Abhay Kr. Singh</td>
<td>FA &amp; CAO, EPFO and Convener</td>
</tr>
</tbody>
</table>

(b) The following were also present in the meeting:

1. Shri K L Goyal, RPFC-I (IMC)
2. Shri R.K. Singh, RPFC-I (F&A)
3. Shri V.Ranganath, RPFC-II (Investment)
4. Shri Rajiv Bisht, RPFC-II (IMC)
5. Ms Nidhi Singh, RPFC-II (IMC)
6. Shri B K Mishra, RPFC-II (IMC)

Finance & Investment Committee members namely, Shri Santosh Saraf and Shri G Sanjeeva Reddy could not attend the meeting.

At the outset FA & CAO, EPFO, introduced the new Chairman to the Committee and welcomed him. The distinguished services rendered by Sh. Rakesh Jain, JS & FA (Labour) and the outgoing Chairman of FIC, was appreciated and taken on record. He then expressed grief over the unfortunate demise of the CBT member and Ex- FIC
member Shri W.R. Varadarajan and two minutes silence was observed as a mark of respect to the departed soul.

The Chairman welcomed all the members and officers present in the meeting and invited FA&CAO to introduce the agenda for the meeting.

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

The minutes were unanimously approved by all the members.

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

The Committee took note of the Action Taken Report.

Item 3: Recommendation of rate of interest to be credited to the EPF members' accounts for the year 2010-11.

FA & CAO introduced the agenda item stating that as per the estimates drawn for the next Financial Year, we can offer the maximum rate of 8.5% on the EPF during the year 2010-11. Chairman enquired about the basis and method of calculating the rate of interest. Other members also desired to know the workings in greater detail.

The efforts of the Investment Monitoring Cell (IMC) of EPFO for effective and vigilant monitoring and their proactive approach in pre-empting the issues and ensuring optimum returns on the Investments of EPF, despite the general depressed economic environment, were lauded by Sh. Sharad Patil, Sh. A.D. Nagpal and Sh. B.N. Rai.

FA&CAO explained that as per the provisions contained in the EPF Scheme 1952, CBT decides, based on the recommendations of FIC, the EPF rate of interest for a particular Financial Year well before the commencement of the relevant Financial Year. For the purpose, estimates of the interest payment liability and income in a particular year are prepared based on the Holdings (Corpus) as on a particular date in the previous Financial Year and estimated contributions to and withdrawals from the Fund in the next Financial Year. Further, assumptions are made regarding the reinvestment rates in different investment classes in the relevant Financial Year and the projections are drawn for the liability and income of the Fund in the next year.

The Chairman and Shri Sharad Patil observed that the present system involved many assumptions and estimates which could be avoided if we declare the rate of interest at the end of a Financial Year, when the actual figures of income are available,
rather than before a Financial Year as per practice at present. Chairman enquired if it
was a feasible option.

FA & CAO explained that the present system takes care of the members who leave
the Fund during the currency of a Financial Year. In case, rate of interest is declared at
the end of Financial Year, it would lead to difficulties in settling the claims of such
outgoing members.

Members enquired if in the previous years the actual income and expenditure from
EPF matched with the estimates and in case of deviations how the difference was
adjusted. It was desired that the actuals for the past two – three years may be compared
with the estimates drawn for those periods and factual position placed before the FIC
with details of adjustments, as carried out in those years. FA & CAO replied that though
we can know the actual income, it is the actual liability that too, on account of arrears
contributions, which is not workable. And for any valid comparison, both the income as
well as the liability is needed.

While the employers’ representatives agreed to the proposal for the EPF rate of
8.5% employees’ representatives had a reservation that it may be further raised to
maintain the level of 9.5%.

Shri Ram Narmeja said that FIC cannot recommend more than what it earns on the
investments. While on the one hand Government is not willing to provide any subsidy, on
the other hand CBT has not been adopting the revised pattern of investment which is
prescribed by the Ministry of Finance. To seek any further increase in the EPF rate, there is
no recourse, he observed, but to decide, about the new pattern which would provide
some additional avenues for deployment of Funds in instruments of higher yield.

Dr. Narmeja further stated that the Item 10 adopt revised pattern of Investment
Guidelines by the Ministry of Finance be reconsidered in the next meeting. He urged the
Trustees to agree to follow the guidelines of Govt. of India.

It was decided to recommend the proposed rate of 8.5% for the year 2010-11, to
the CBT while taking note of the concern of the employees’ representatives to raise it to
9.5%.

Item 4: Non-receipt of periodical interest and redemption proceeds of Richardson &
Cruddas Ltd 12.50% unsecured non-convertible redeemable bonds issued by M/s.
Richardson & Cruddas Ltd (RCL)-Regarding.

The Committee observed that in the COD meeting held on 24th November 2009, it
was represented by M/s Richardson & Cruddas that they are in the process of
negotiating with M/s SBI for working out a solution to the EPFO claims. The COD had decided that M/s Richardson & Cruddas and EPFO can come back after considering any fresh submissions by RCL/EPFO with SBI.

Accordingly, the Committee felt that since the COD has left open the matter for its re-consideration in case M/s. Richardson & Cruddas Ltd did not settle the issue as per EPFO's original demand, it would be premature to dispose of the matter at FIC level. The matter may be placed before the COD for an appropriate decision/guidance.

Item 5: CBT, EPF- Deletion of delayed period interest entries below Rs.1000/- generated by SBI system up to 30.09.2009.

The item was approved.

Item 6: Relaxation in investment guidelines for investments in Private Sector Bonds.

FA and CAO informed the members that the current guidelines restrict exposure in private sector to banks only and the Corporates in the private sector are out of its purview. Presently, only two companies are eligible where specific approval of CBT was obtained, whereas there are many private companies whose creditworthiness is very high and we can safely invest our Funds in them and obtain better returns. It would be advisable to widen our investment basket, with -in the given pattern so as to earn better returns on our Funds.

Shri 'AD Nagpal, while appreciating the concern for higher return on investment, said that increasing the exposure in private sector and particularly the corporates may entail considerable risk of default also. Chairman explained that return and risk are inter-related; every investment has some risk associated with it. However, we may devise our own strategy in a manner which protects our interest while ensuring a reasonable return also on the investment.

Director (SS) sought clarification as to whether the companies listed in the agenda only were proposed to become eligible. It was clarified that the list was only illustrative. A company which satisfies the stated conditions would become eligible for investment. It was further clarified that it would not be practical to draw any comprehensive list of eligible companies since they would keep changing depending on performance of the companies themselves and the ratings assigned to them by the agencies.
The item was approved with the modification that only such Private companies would be eligible for making investment under this category where a minimum of 26% of the shares are held, individually or jointly, by any PSU(s)/ Central Government or State Government and the company has AAA rating for its Bonds by two credit rating agencies.


The Committee took note of the performance of different Fund Managers and expressed concern over the performance of those who could not meet the Benchmark level. The Committee desired that such concerns be conveyed to the Fund Managers in clear terms.

Item 8: Dropping past cases of penalty on belated credits.

Shri A.D. Nagpal pointed out that the item had already been taken up in the previous meetings of the FIC and there were certain directions of the Committee which were to be acted upon by the Office. The item was placed in the Agenda of today's meeting, he observed, without making any reference to such previous deliberations and directions.

His concern was noted for future compliance. FIC was further informed that as per its directions, the matter was taken up with various RPFCs in the field offices to try and recover the money from the defaulting companies falling in their jurisdictions. However, despite repeated reminders no response was forthcoming from the RPFCs possibly because recovery through this means was not legally enforceable and was being attempted as a matter of convention.

The committee desired that before taking any decision on the matter, response may be sought from the concerned RPFCs. The item was thus deferred.

Item 9: Two years tenure of engagement of the Portfolio Managers to end on 31.03.2011.

The Committee felt that it was absolutely logical and prudent to consider the tenure of the Portfolio Managers on the Financial Year basis. The item was approved. Sh. A.D. Nagpal cautioned that it may be formalised through CBT meeting well in advance before completion of tenure.
Item 10: Changes in the Existing Guidelines for Increasing the exposure limits for PSU/PSFI/PSB Investments.

The item was approved.

Item 11: Multibanking arrangement for collection of EPF dues.

The item was approved.

The meeting ended with vote of thanks to the Chair.
EMPLOYEES' PROVIDENT FUND ORGANISATION

AGENDA BOOK
98th Meeting of the Finance & Investment Committee, CBT, EPF

Date: 26.02.2010

INDEX OF ITEMS

<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 97th Meeting of the Finance and Investment Committee held on 01.12.2009 at EPFO Headquarter, New Delhi</td>
<td>3-6</td>
</tr>
<tr>
<td>2.</td>
<td>Action Taken Report on the recommendations of the 97th Finance and Investment Committee</td>
<td>7-18</td>
</tr>
<tr>
<td>3.</td>
<td>Recommendation of Rate of Interest to be credited to EPF members' accounts for the year 2010-11</td>
<td>19-23</td>
</tr>
<tr>
<td>4.</td>
<td>Non-receipt of periodical interest and redemption proceeds of Richardson &amp; Cruddas Ltd. 12.50% unsecured non-convertible redeemable bonds issued by M/s. Richardson &amp; Cruddas Ltd (RCL)</td>
<td>24-28</td>
</tr>
<tr>
<td>5.</td>
<td>CBT,EPF – Deletion of delayed period interest entries below Rs. 1000/- generated by SBI system up to 30.09.2009</td>
<td>29</td>
</tr>
<tr>
<td>6.</td>
<td>Relaxation in Investment Guidelines for investments in Private Sector Bonds</td>
<td>30-37</td>
</tr>
<tr>
<td>7.</td>
<td>Quarterly Review of the performance of the Portfolio Managers for the quarter ending as on 31.12.2009 (place on table)</td>
<td>38</td>
</tr>
<tr>
<td>8.</td>
<td>Dropping past cases of penalty on belated credits</td>
<td>39-43</td>
</tr>
<tr>
<td>9.</td>
<td>Two years tenure of engagement of the Portfolio Managers to end as on 31.03.2011</td>
<td>44-46</td>
</tr>
<tr>
<td>10.</td>
<td>Changes in the Existing Guidelines for increasing the exposure limits for PSU/PSFI/PSB investments</td>
<td>47-49</td>
</tr>
<tr>
<td>11.</td>
<td>Any other item with the permission of the chair</td>
<td></td>
</tr>
</tbody>
</table>

---

-2-
Item No. 1: Confirmation of the Minutes of 97th Meeting of the Finance and Investment Committee held on 01.12.2009 at EPFO Headquarter New Delhi.

Minutes of 97th Finance and Investment Committee meeting held on 01.12.2009 was circulated vide letter No. Invest.1/1(97th)/FICI/2009/9644-9704/ dated 07.12.2009. No comments have been received on the minutes of the above said meeting. Copy of the minutes is enclosed as Annexure –A (Page No. 3 to 6).

Minutes may be taken as confirmed.
Draft Minutes of the 97th Meeting of the Finance & Investment Committee, CBT, EPF held on 01-12-2009 in EPFO, Headquarters, Conference Hall, Bhikaiji Cama Place, New Delhi -110066

The 97th meeting of the Finance & Investment Committee, CBT, EPF was held at 2.30 P.M on 1st November, 2009, in EPFO, Conference Hall, 3rd Floor, EPFO Head Office, New Delhi.

The following members attended the meeting:-
1. Shri Rakesh Jain, JS & FA, Ministry of Labour & Employment and Chairman, Finance & Investment Committee, CBT, EPF.
2. Shri S.K. Verma, Director, Ministry of Labour & Employment, Govt. Of India could not attend and Mr. V.K. Balayan Section Officer attended the meeting on the behalf of Shri S.K. Verma.
3. Shri A.D. Nagpal, Member (Employees' Representative)
4. Shri B.N. Rai, Member (Employees' Representative)
5. Dr. Ram Tameja, Member (Employers' Representative)
6. Shri Sharad Patil, Member (Employers' Representative)
7. Shri Santosh Saraf, Member (Employers' Representative)
8. Shri Abhay Kr. Singh, FA & CAO, EPFO.

The following were also present in the meeting:
1. Shri K.L. Goyal, RPFC-I (IMC), EPFO.
2. Shri R.K. Singh, RPFC(F&A), EPFO.
3. Shri V. Ranganath, RPFC-II (Investment), EPFO.
4. Shri Shri Rajiv Bisht, RPFC-II (IMC), EPFO.
5. Shri J.P. Chauhan, RPFC-II (Banking), EPFO.
6. Shri B.K. Mishra, RPFC-II (IMC), EPFO.
7. Smt. Nidhi Singh, RPFC-II (IMC), EPFO.

FA & CAO welcomed all the members and others present in the meeting and placed the agenda item for discussion.
Item No.1. Confirmation of the Minutes of 96th Meeting of the Finance and Investment Committee held on 08.10.2009 at EPFO Headquarter, New Delhi.

While the committee noted and approved the action taken, it was decided that the action taken on item No.8 and 9 of the 96th Finance & Investment Committee held on 8th October, 2009 would be placed before the next Finance & Investment Committee, Central Board of Trustees. Discussing item No.3 of the 96th FIC meeting minutes it was suggested by Shri Ram Tameja, that all the Fund Managers should be communicated by e-mail to promptly respond to EPFO's letters.

While agreeing to the suggestion, it was clarified by FA & CAO, EPFO that the letters written to all the fund managers carried EPFO's concerns in clear terms and it is expected that the letters would serve their purpose.

Item No. 2. Statement in the Action taken report.

Action taken was noted.

Item No. 3. Pattern of Investment notified by the Ministry of Finance on 14.08.2008 (Listed in the 96th Finance & Investment Committee meeting agenda item at Sl. No. 4).

As it was decided in the 96th Finance & Investment Committee meeting held on 08.10.2009; the Employees' Representatives and the Employers' Representatives had mutual discussions amongst them before commencement of the meeting. After thorough discussion it was concluded that the agenda be taken up in the ensuing CBT meeting with the comments that while the Employees representatives are not in agreement with the proposed 2008 pattern of investment notified by the Ministry of Finance, Govt. Of India, the Employers representative differed on the proposed quantum of percentage of investment in the said 2008 pattern.
Item No. 4. Revised Investment Management Manual for Portfolio Managers of Central Board of Trustees, Employees' Provident Fund Organization (CBT, EPF).

While appreciating the draft investment Management Manual for Portfolio Managers, the Chairman suggested that since the Manual is a dynamic document and since it would need to be periodically updated, this document should not be treated as a final document. The document should be reviewed every quarterly and result of the review would be up to the committee for suitable incorporation in the manual.

Item No. 5. Revised Estimates for the year 2009-2010 and Budget Estimates for the year 2010-2011 for the Employees' Provident Fund Scheme 1952, Employees' Pension Scheme 1995 and Employees' Deposit Linked Insurance Scheme 1976.

Shri A.D. Nagpal raised that the Booklet containing RE 2009-10 & BE 2010-11 has been received by him on table and he is yet to make an analysis. FA & CAO reiterated that the Books were despatched on 25th of Nov' 09 itself. However, it was decided to place this item before the CBT for a wider possible discussion.

Item No. 6: Any other item with the permission of the Chair.

*The meeting ended with vote of thanks to the Chair.*
**Item No 2:** Statement on the actions taken on the recommendations of the 97th Finance & Investment Committee.

<table>
<thead>
<tr>
<th>Ref: Item No.3 of 97th FIC held on 01.12.2009</th>
<th>Subject</th>
<th>Decision</th>
<th>Action Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pattern of Investment notified by the Ministry of Finance on 14.08.2008 (Listed in the 96th Finance &amp; Investment Committee meeting agenda item at Sl. No. 4).</td>
<td>It was decided that the agenda be taken up in the ensuing CBT meeting with the comments, that while the Employees representatives are not in agreement with the proposed 2008 pattern of investment notified by the Ministry of Finance, Govt. Of India, the Employers representative differed on the proposed quantum of percentage of investment in the said 2008 pattern.</td>
<td>The item was placed in 188th meeting of CBT held on 05.12.2009, but could not be taken up for discussion due to paucity of time and hence deferred.</td>
<td></td>
</tr>
</tbody>
</table>

<p>| Item No.4 of 97th FIC held on 01.12.2009 | Revised Investment Management Manual for Portfolio Managers of Central Board of Trustees, Employees' Provident Fund Organization (CBT, EPF). | The chairman suggested that since the Manual is a dynamic document and since it would need to be periodically updated, this document should not be treated as a final document. The document should be reviewed every quarter for suitable incorporation in the manual, if required. | The item was placed in 188th meeting of CBT held on 05.12.2009 and was taken note of by the Board. The final Investment Management Manual of EPFO was circulated vide letter no. IMC/22/Investment Manual/2008-09/32290-93 dated 20.01.2010. |</p>
<table>
<thead>
<tr>
<th>Item No. 5 of 97th FIC held on 01.12.2009</th>
<th>Revised Estimates for the year 2009-2010 and Budget Estimates for the year 2010-2011 for the EPF Scheme 1952, EPS'95 &amp; EDLI'76</th>
<th>Committee decided the item be placed before the CBT for a wider discussion.</th>
<th>The item was placed in the 188th meeting of CBT held on 05.12.2009 for approval. After deliberations, the Revised Estimates for the year 2009-2010 and Budget Estimates for the year 2010-2011 was approved by the Board.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item No. 2 of 97th FIC held on 01.12.2009</td>
<td>Item No. 8 of (ATR) regarding dropping past cases of penalty on belated credits.</td>
<td>Committee decided that the matter would be placed before the next Finance &amp; Investment Committee, Central Board of Trustees.</td>
<td>The matter is placed for consideration at agenda item No. 8.</td>
</tr>
</tbody>
</table>
| Item No. 2 of 97th FIC held on 01.12.2009 | Item No. 9 of (ATR) Regarding Gist of Audit Report on the Investment Portfolio of EPFO for the period 01.04.2006 to 31.03.2007 | Committee decided that the matter would be placed before the next Finance & Investment Committee, Central Board of Trustees. | As directed by the Finance & Investment Committee, Central Board of Trustees, a tripartite meeting with SBI, the Auditors, M/s. Chhajed and Doshi and EPFO was held in the SBI, Headquarters Mumbai on 06.10.2009. A copy of the minutes is placed at Annexure B...Page No.0...All audit observations were...
discussed and the Auditors agreed to the clarifications furnished by M/s. SBI. As regards the clarification on the specific para 6.4 (iv) the auditor's reply is placed at Annexure 'C'...page 16-17 no......for information.

It is further submitted for information that the Concurrent Auditor for EPFO's multi fund management has been appointed with effect from 01.02.2010, for a period of one year, and the Concurrent Auditor has since commenced with their audit.
Minutes of the meeting held by SBI on 05-10-2009

In connection with discussion on the Audit Report for the period 2006-07, as directed by the Finance & Investment Committee in the 95th meeting held on 18.08.2009, a tripartite meeting with SBI, the Auditor, M/s Chhajed & Doshi was held in the SBI Headquarters Mumbai on 5.10.2009. The following persons were present:

1. Shri Anjan Barua, CGM (Investment) SBI
2. Shri Rajeshwari Prasad, DGM (PMS) SBI
3. Sh. M. Umar, Fund Manager and Shri Paresh, Fund Managers, SBI
4. Sh. Mahender Chhajed, Chartered Accountant from M/s Chhajed & Doshi, Accountants.
5. Shri K.L. Goyal, RPFC-I (IMC)
6. Shri Rajiv Bisht, RPFC.II (IMC)
7. Shri V. Ranganath, RPFC.II (Investment)

The meeting commenced with a discussion on the Auditor’s observations made in the report for the year 2006-07. Shri Barua, CGM specifically stressed upon discussion on para-6.4 (iii and iv) and other paras pertaining to investments made in the TDRS.

Investment made in the TDRS

On the remarks of Auditor on 6.4 (ii) regarding deployment of Funds in the TDRS at Card rate which was lower than the bulk rate quotes from other banks, it was clarified by SBI that the bulk rates were called for in the morning but the amount was deployed in RBI auction of 7.94% GS 2021 but due to the nil allotment in the RBI auction, the amount became available for deployment in the evening at which time only card rates were available for deployment as bulk rates were applicable for morning deployment only and in case this amount was not deployed at the card rates than it would have remained idle. The auditor agreed with explanation of SBI and assured to issue a confirmation to the EPFO.
On 6.4 (iii) SBI explained that the amount shown as TDRS for Rs. 200/- crores were actually TDR's of different tenure of Rs. 50/- crores each so as to time the maturities differentially for future investment opportunities and hence the bulk rate for 200/- crores could not have been applicable in this case. SBI while stressing that there was no financial loss emphasized that it was a part of their conscious investment view as the Portfolio Manager. The clarification was noted and accepted by the Auditors who agreed to issue a clarification to EPFO on the matter.
EMPLOYEES' PROVIDENT FUND ORGANISATION

FINAL MINUTES OF THE
188th MEETING OF CENTRAL BOARD OF TRUSTEES (EPF)

Meeting: Central Board of Trustees, Employees' Provident Fund
Date: 05.12.2009
Venue: Employees' Provident Fund Organisation,
Conference Hall, 3rd Floor,
Bhavishya Nidhi Bhawan,
Bhikaiji Cama Place, New Delhi-110 066.

The 188th meeting of the Central Board of Trustees, Employees' Provident Fund
was held under the Chairmanship of Shri Mallikarjun Kharge, Hon'ble Minister for
Labour and Employment and Chairman, Central Board of Trustees (Employees' Provident
Fund). Shri Harish Rawat, Hon'ble Minister of State for Labour & Employment was also
present as Vice-chairman of the CBT, EPF.

The following members of the Board were present at the Meeting:

- Shri Prabhat Chandra Chaturvedi,
  Secretary to Government of India,
  Ministry of Labour & Employment
  Government of India, New Delhi.

- Shri S.K. Srivastava,
  Addl. Secretary to the Government of India,
  Ministry of Labour & Employment
  Government of India, New Delhi.

- Shri Rakesh Jain,
  JS & FA (L&E),
  Ministry of Labour & Employment
  Government of India, New Delhi.

Central Government
Representatives.
its consolidation and correspondence. The consolidation of accounts needs reconciliation of several accounts maintained by EPFO with statements received from the Banks etc.

The Chairman intervened and accepted the suggestion for placing the Annual Accounts before the Finance and Investment Committee from the next year.

The CPFC observed that the comments of Members would be taken on board and considered. He informed that the observations of the members would be replied to subsequently including the action taken on the comments of the CAG. He then requested the Board to adopt the Annual Audited Accounts for the year 2008-2009.

Secretary (L&E) summed that efforts would be made to compile the Annual Accounts and obtain audit certificate from the CAG office early after sending the annual accounts. The Annual audited Accounts would be placed before the EC and the CBT on time.

With the above deliberations the Annual Audited Accounts for the year 2008-2009 were adopted by the Board.

Item No.4: Revised Estimates for the year 2009-2010 and Budget Estimates for the year 2010-2011 for the Employees Provident Funds Scheme 1952, Employees Pension Scheme, 1995 and Employees Deposit Linked Insurance Scheme, 1976.

The FA & CAO introduced the Item No.4 to the members of the Board. He invited attention of the house to the Revised Estimates for the year 2009-10 and the Budget Estimates for the year 2010-11 in the budget book. The agenda item was also placed before the 97th meeting of the FIC held on 01.12.2009 and it was recommended that it may be placed in the CBT for wider discussion. He then presented the highlights of the income and the expenditure before the Board. He drew attention to the budget
summary and the time series of income and expenditure during the last four years to the Members. He also explained the reasons for variation under the income and expenditure heads.

Some of the Members observed that they had not received the Budget Book in time. The CPFC assured that all care would be taken in future to forward the copy of Budget Book well in advance.

Shri B.N. Rai, observed that there were variations in items other than heads of expenditure relating to salary and day to day administration. He desired that there was a need to fix a limit of variation in estimates on other items and that this may recorded. He also desired that there must be appropriate foot note under each head where vide variation are made.

The CPFC clarified that during the current financial year, arrears payment of 60% has been made to all the Officers and Staff of EPFO. In addition to it, provision has also been made for implementation of Computerisation Project. Budget Estimates was only an estimate and Revised Estimates was being prepared based on the actuals incurred in the first half of the financial year. Hence, defined percentage of variation could not be maintained in estimation. Further, only those heads under which budget variation exists has been explained being an exception.

Shri Dipankar Mukherjee, drew attention to the errata given with the Budget Book. He pointed out that there were corrections indicated as typographical error whereas there was change in the figure. For instance under the head ‘Overtime Allowance’ the amount of Rs.207.23 Lakh had been corrected as Rs.4.66 Lakh in the errata. He desired to know whether it was typographical error or due to wrong estimation.

The FA & CAO clarified that it was not due to wrong estimation but incorrect entries made in the tabulation leading to erroneous amount. Regarding the foot note
for variation the same has been indicated under each table and a separate explanatory
note has been given at page 6 & 7 of the budget book.

After the deliberations, the Revised Estimates for the year 2009-10 and Budget
Estimates for the year 2010-11 as contained in the memorandum was approved by the
Board.

Item No.5:  Relaxation in Investment Guidelines for Investments in Lower
and Upper Tier Bonds issued by the Public sector Banks.

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

Item No. 6:  Extension of Tenure of Engagement of CRISIL as Consultant for
professionally assisting in Performance Evaluation of Portfolio
Managers of EPFO by another year from 17.09.2009 to
30.09.2010.

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

Item No. 7:  Relaxation in Investment Guidelines for Investments in
Government Guaranteed Instruments.

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

Sub: Query on Audit for Investment Portfolio of CBT, EPF-

Managed by SBI for F.Y 2006-07.

With reference to our joint meeting with the State Bank of India people on 5th October 2009 and asking for the clarification of para number 6.4 (iv) (page 20 of our report, on the observation made by the SBI regarding the investments made in the SBI FD for Rs 200 crores at the card rate of 5%.

Based on the discussion in the tripartite meeting on 5th October 2009 and also explanation given by the SBI management in the said meeting along with the letter submitted by them stating as under:

"The auction results were announced after RTGS hour and we are forced to park the surplus funds available in SBI FD for 19 days @ 5%. In case better opportunities arise we may prematurely withdraw this". Likewise other three Term deposits having maturities of 20 days, 21 days and 22 days carried interest of 5.00 per annum.

In view of the above facts stated by the SBI if the investments have been done after the RTGS was closed and the bank was not ready to accept the FD at the rates offer by them in the morning then we think based on the facts and submissions given by the SBI Corporate office then the making of FD at the card rate was the only option available.

We hope you will find the above in order.

Thanking you,

Yours truly,

[Signature]

CHHAJED & DOSHI
Chartered Accountants

Phone: 022-24373464/24370026/24307963 Fax: 022-24374897 E-mail: info@cndindia.com

Branch: 4 Prarthana Flats, Off. C.G. Road, Near Sardar Patel Seva Sadan, Behind Shilp Building, Navrangpura, Ahmedabad - 380 009. Phone: 079-26464413
Sub: Audit Report Investment Portfolio of CBT, EPF) for the Year 2007-2008
and upto 16.09.2008 in the financial year 2008-09-Regarding

Sir,

Please refer to your letter No. Nil dated 17.11.2009 on the subject cited above. We are extremely sorry to see that the report for the Year 2007-2008 and upto 16.09.2008 in the financial year 2008-09 is yet to be submitted by you inspite of your commitment to do so by 31.12.2009.

2. Since the report is to be placed before the next Finance & Investment Committee, Central Board of Trustees, and Employees' Provident Fund. You are requested once again to expedite the matter and furnish the report immediately.

Yours faithfully,

(K.L.GOYAL)

REGIONAL P. F. COMMISSIONER-I (INVEST.)
Mr. V. Ranganath,  
Regional P.F. Commissioner-II (Invest.),  
Employees' Provident Fund Organisation  
(Ministry of Labour & Employment, Govt. of India)  
Bhavisha Nidhi Bhawan,  
14, Bhikaji Cama Place,  
New Delhi-110066.  

Dear Sir,  

Sub: Audit Report Investment Portfolio of CBT, EPF  
for the Year 2007-2008 and upto 16-9-2008 in the  
financial year 2008-09.  

We are in receipt of your letter No. Invest.I/1(02)C & D/2009/22715 dated 12th Nov.  
2009, we would like to state that we will be able to submit the final Report for the F.Y.  

We hope you will find the above in order.  

Thanking you,  

Yours truly,  

CHARTERED ACCOUNTANTS
Item No. 3: Recommendation of rate of Interest to be credited to EPF members' accounts for the year 2010-11.

As per the provisions contained in Paragraph 60(1) of Employees' Provident Funds Scheme 1952, EPF organization is required to credit interest on the balance available in the accounts of the EPF members at such rate as may be determined by the Central Government in consultation with the Central Board of Trustees. Para 60(1) of the EPF Scheme needs to be read with Para 60(4) according to which "in determining the rate of interest, the Central Government shall satisfy itself that there is no overdrawal on the Interest Suspense Account as a result of debit thereto of the interest credited to the accounts of members".

2. Prior to 01.04.1993, interest was credited on the opening balance of the year. From 01.04.1993, the Scheme provides that interest is to be credited on monthly running balance.

3. The amount belonging to the Fund is invested according to the pattern of investment prescribed by the Central Government (Ministry of Labour and Employment) from time to time under Para 52 of EPF Scheme, 1952.

4. To recommend the rate of interest for the year 2010-11 to the Government, the position of estimated amount to the credit of the members as on 01.04.2010 and the estimated yields from the Investment holdings are taken into consideration. The investment holdings as on 31-12-2009 have been taken as the basis for making projections. To project the interest during the financial year 2010-11, the holdings as at the beginning of the year are required. To arrive at this figure, the estimated increase in the corpus during the period from 1.1.2010 to 31.3.2010 has been added to the actual holdings as on 31-12-2009.

5. For recommending the rate of interest to be credited to the members' PF accounts, the total of liabilities on account of balances available in the members' accounts and total of assets on account of investment holdings of the CBT, EPF are taken into consideration. Payment of interest to the members is expenditure for the trust, which is to be met out of its earnings. Thus, the rate of interest should be commensurate with the total estimated earnings of the Trust. The major factor influencing the earnings is the interest on the investment holdings of the Trust.
6. The investment holding (Face Value) of CBT, EPF as on 31.12.2009 in the provident fund account was as under:

(All figures in crores of Rupees)

<table>
<thead>
<tr>
<th>Holding as on 31.12.2009</th>
<th>% Holding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Central Govt. Securities (CTG)</td>
<td>39,131.94</td>
</tr>
<tr>
<td>2(a) State Guaranteed Securities (STG)</td>
<td>3,060.21</td>
</tr>
<tr>
<td>2(b) State Development Loans (SDL)</td>
<td>22,136.65</td>
</tr>
<tr>
<td>3 Public Sector Undertakings / Financial Institutions (PSU/PSFIs)</td>
<td>40,214.47</td>
</tr>
<tr>
<td>4 Special Deposit Schemes (SDS)</td>
<td>52,572.45</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,57,115.72</td>
</tr>
</tbody>
</table>

7. The yield of the EPF Corpus depends on the market yield of the debt instruments like Government Securities and bonds of Public Sector Financial Institutions/Public Sector Undertakings.

8. Projected interest Income from Provident Fund investments for the year 2010-2011 on the basis of interest actually due in the year on the securities available as per the certificate of holding of the CBT, EPF as on 31.03.2010 and the estimated interest accruals on the expected future investments of fresh accretions and reinvestments of the interest and maturity proceeds, will be as under.
## Calculation of Estimated Interest on Securities (2010-2011)

<table>
<thead>
<tr>
<th>A</th>
<th>INTEREST ON SECURITIES MATURING AFTER 31-03-2011 AT COUPON RATE</th>
<th>CTG</th>
<th>STG</th>
<th>SDL</th>
<th>PSU</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>3885.21</td>
<td>223.72</td>
<td>1684.65</td>
<td>3570.71</td>
<td>8,564.28</td>
</tr>
<tr>
<td>B</td>
<td>ADD: INTEREST ON SECURITIES MATURING ON OR BEFORE 31-03-2011 AT COUPON RATE UPTO THE DATE OF MATURITY</td>
<td>109.21</td>
<td>9.71</td>
<td>28.05</td>
<td>16.48</td>
<td>163.45</td>
</tr>
<tr>
<td>C</td>
<td>ADD: INTEREST ON SECURITIES MATURING ON OR BEFORE 31-03-2011 AT RE-INVESTMENT RATE AFTER THE DATE OF MATURITY</td>
<td>152.13</td>
<td>11.56</td>
<td>35.99</td>
<td>48.93</td>
<td>248.61</td>
</tr>
<tr>
<td>D</td>
<td>INTEREST ON REMAINING BALANCE FOR FULL YEAR AT RE-INVESTMENT RATE</td>
<td>310.96</td>
<td>35.26</td>
<td>128.82</td>
<td>524.14</td>
<td>997.18</td>
</tr>
<tr>
<td>F</td>
<td>ADD: INTEREST ON RE-INVESTMENT OF INTEREST (A+B+C+D) AT RE-INVESTMENT RATE</td>
<td>147.62</td>
<td>11.31</td>
<td>75.70</td>
<td>167.92</td>
<td>402.55</td>
</tr>
<tr>
<td>G</td>
<td>ADD: INTEREST ON RE-INVESTMENT OF INTEREST ON FRESH ACCRETIONS (E) AT RE-INVESTMENT RATE</td>
<td>1.84</td>
<td>0.22</td>
<td>0.73</td>
<td>3.16</td>
<td>5.95</td>
</tr>
<tr>
<td>H</td>
<td>INTEREST RECEIVABLE ON SECURITIES</td>
<td>3982.14</td>
<td>312.52</td>
<td>2021.08</td>
<td>4631.10</td>
<td>10946.84</td>
</tr>
<tr>
<td>I</td>
<td>LESS: Portfolio Management Charges payable to fund managers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.75</td>
</tr>
<tr>
<td></td>
<td>NET INTEREST RECEIVABLE ON SECURITIES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10944.09</td>
</tr>
<tr>
<td></td>
<td>INTEREST RECEIVABLE ON DEPOSITS IN 5DS @ 8.00% p.a.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4205.80</td>
</tr>
<tr>
<td>J</td>
<td>ADD: DAMAGES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>250</td>
</tr>
<tr>
<td></td>
<td>LESS INTEREST ON SRF @ 8.5%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>13.83</td>
</tr>
<tr>
<td></td>
<td>LESS: COST OF AMORTIZATION</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>350</td>
</tr>
<tr>
<td></td>
<td>NET INTEREST RECEIVABLE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15036.06</td>
</tr>
</tbody>
</table>

Reinvestment rates: CTG = 8.10%; STG = 8.25%; SDL = 8.25%; PSU = 8.55%; PVT = 9.15%
9. Keeping in view the above factors, the interest payment liability vis-à-vis the expected interest income during 2010-2011 has been shown in the following table by taking different payout rates of interest.

(Rupees in Crores)

<table>
<thead>
<tr>
<th>RATE</th>
<th>LIABILITY</th>
<th>INCOME</th>
<th>SURPLUS / DEFICIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>@ 8.00%</td>
<td>14137.22</td>
<td>15036.06</td>
<td>898.84</td>
</tr>
<tr>
<td>@ 8.25%</td>
<td>14579.01</td>
<td>15036.06</td>
<td>457.05</td>
</tr>
<tr>
<td>@ 8.50%</td>
<td>15020.80</td>
<td>15036.06</td>
<td>15.26</td>
</tr>
<tr>
<td>@ 8.75%</td>
<td>15462.59</td>
<td>15036.06</td>
<td>(-) 426.53</td>
</tr>
<tr>
<td>@ 9.00%</td>
<td>15904.38</td>
<td>15036.06</td>
<td>(-) 868.32</td>
</tr>
</tbody>
</table>

CALCULATION OF INTEREST PAYABLE ON MONTHLY BALANCE FOR THE YEAR 2010-2011

(Rs in Crores)

<table>
<thead>
<tr>
<th>Month</th>
<th>P. Opening Balance</th>
<th>Contribution (+)</th>
<th>Withdrawal (-)</th>
<th>Closing Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr-10</td>
<td>1,69,135.07</td>
<td>2,324.52</td>
<td>1,158.33</td>
<td>1,70,301.26</td>
</tr>
<tr>
<td>May-10</td>
<td>1,70,301.26</td>
<td>2,324.52</td>
<td>1,158.33</td>
<td>1,71,467.44</td>
</tr>
<tr>
<td>Jun-10</td>
<td>1,71,467.44</td>
<td>2,324.52</td>
<td>1,158.33</td>
<td>1,72,633.63</td>
</tr>
<tr>
<td>Jul-10</td>
<td>1,72,633.63</td>
<td>2,324.52</td>
<td>1,158.33</td>
<td>1,73,799.82</td>
</tr>
<tr>
<td>Aug-10</td>
<td>1,73,799.82</td>
<td>2,324.52</td>
<td>1,158.33</td>
<td>1,74,966.00</td>
</tr>
<tr>
<td>Sep-10</td>
<td>1,74,966.00</td>
<td>2,324.52</td>
<td>1,158.33</td>
<td>1,76,132.19</td>
</tr>
<tr>
<td>Oct-10</td>
<td>1,76,132.19</td>
<td>2,324.52</td>
<td>1,158.33</td>
<td>1,77,298.38</td>
</tr>
<tr>
<td>Nov-10</td>
<td>1,77,298.38</td>
<td>2,324.52</td>
<td>1,158.33</td>
<td>1,78,464.56</td>
</tr>
<tr>
<td>Dec-10</td>
<td>1,78,464.56</td>
<td>2,324.52</td>
<td>1,158.33</td>
<td>1,79,630.75</td>
</tr>
<tr>
<td>Jan-11</td>
<td>1,79,630.75</td>
<td>2,324.52</td>
<td>1,158.33</td>
<td>1,80,796.94</td>
</tr>
<tr>
<td>Feb-11</td>
<td>1,80,796.94</td>
<td>2,324.52</td>
<td>1,158.33</td>
<td>1,81,963.12</td>
</tr>
<tr>
<td>Mar-11</td>
<td>1,81,963.12</td>
<td>2,324.52</td>
<td>1,158.33</td>
<td>1,83,129.31</td>
</tr>
<tr>
<td>TOTAL</td>
<td>27,894.24</td>
<td>13,900.00</td>
<td>21,20,583.40</td>
<td></td>
</tr>
</tbody>
</table>
### CONTRIBUTION AS PER BUDGET ESTIMATES

27,894.24

### WITHDRAWAL AS PER BUDGET ESTIMATES

13,900.00

The rate of interest for the financial year 2010-11 which is based on the estimated income and liabilities has been worked out to 8.50%.

The item is placed before the Finance & Investment Committee, CBT, EPF for consideration and recommendation to the Central Board of Trustees for their approval.
Item 4: Non-receipt of periodical interest and redemption proceeds of Richardson & Cruddas Ltd 12.50% unsecured non-convertible redeemable bonds issued by M/s. Richardson & Cruddas Ltd (RCL)-Regarding.

Central Board of Trustees, Employees' Provident Fund invested Rs.6 Crores in 12.50% Richardson & Cruddas Bonds 2004. The interest was receivable in 2 half yearly installments in March and September, every year at 12.5% coupon rate.

However, M/s. Richardson & Cruddas Ltd., (RCL) started committing default in remitting the interest since March, 2002.

They made a part payment of Rs.97,00,000/- on 30.11.2004. As further payments i.e. maturity proceeds of bonds, outstanding interest and delayed period interest were not forthcoming, the matter was referred to Dy. Secretary, Govt. Of India, Ministry of Heavy Industries and Public Enterprises, Deptt. Of Heavy Industries, New Delhi on 17.06.2005 followed by issuance of legal notice on RCL and Guarantors on 24.08.2005. In response to the legal notice, RCL made a payment of Rs.8,23,39,616/- as against dues of Rs.9,49,38,366.24. The balance amount of Rs.1,25,98,750.24 as on 26.09.2006 represents overdue interest payable by them.

The establishment is a Central Public Sector undertaking and the bonds are guaranteed by the Ministry of Heavy Industries and Public Enterprises, Govt. of India. In this regard, our portfolio Managers, M/s. SBI advised for referring the matter to the Committee on Disputes (COD) for an early resolution. Accordingly, the matter was placed before the 89th Meeting of Finance & Investment Committee held on 19.11.2007 for granting the approval to place the matter before COD. The FIC agreed to refer the matter to the Committee on Disputes (COD) for recovery of dues.

The Committee on Disputes (COD) meeting was held on 24.11.2009 and was attended by RC-II (Investment). However, M/s Richardson & Cruddas represented that they are in the process of negotiating with M/s. SBI for working out a solution to our claims. During the course of discussion on the matter, it was clearly re-iterated by RC-II (Invest.) that it would not be possible for EPFO to write off or waive off any claims.
However, the COD, in their wisdom decided that M/s. Richardson & Cruddas and EPFO can come back after considering any fresh submissions by M/s. RCL/EPFO with SBI. A copy of the COD meeting proceeding in placed at Annexure-CD, page no. 26-28.

SBI has intimated that their Security Services Branch has requested M/s. Bhave & Company to obtain BIFR permission for filing Civil Suit against RCL for recovery of EPFO’s dues. The matter is in process.

Meanwhile, following continued pressure on RCL by SBI for payment of overdue interest, RCL has now indicated that they are willing to pay Rs.45,57,994.74 in full and final settlement of the EPFO dues in respect of overdue interest till date of payment. Rs.45,57,994.74 proposed to be paid by them is inclusive of overdue interest, legal fees and other charges. (The basis of calculation is enclosed).

M/s. SBI after their due examination of the proposal, have observed that a legal course of action is a long drawn process which is expensive and time consuming. Further, given that the company has been referred to BIFR, they have recommended that their request for payment of Rs.45,57,994.74 in full and final payment of EPFO dues (Our claim was Rs.1,81,09,237.00 + interest till date of payment @ 14.50% which was the coupon rate; while M/s. RCL have preferred to pay up at the rate of 8.5% ) may please be examined.

The Item is placed before the Finance and Investment Committee for consideration please.
The Financial Advisor and Chief Accounting Officer
Employees' Provident Fund Organisation
Bhavishya Nidhi Bhavan
14, Bhikaiji Cama Place
New Delhi – 110066.

Dear Sir,

CENTRAL BOARD OF TRUSTEES EMPLOYEES' PROVIDENT FUND (CBT EPF)

FILING OF LEGAL SUIT AGAINST RECHARDSON & CRUDDAS (RCL)

Please refer to our Letter No-GM/PMS/2027 dated 04/11/2009, wherein we had advised you to examine possibilities of settlement with RCL in respect of overdue interest. Your advices are awaited.

02. Our Security Services has requested M/s Bhave & Company to obtain BFIR permission for filing Civil Suit against RCL for recovery of EPFO's dues. The matter is in process.

03. Meanwhile, we continued to mount pressure on RCL for payment of overdue interest. This has yielded result and RCL has now indicated that they are willing to pay Rs 45,57,994.74 in full and final settlement of the EPFO dues in respect of overdue interest till date of payment. Rs 45,57,994.74 proposed to be paid by them is inclusive of overdue interest, legal fees and other charges. The basis of calculation is enclosed.

04. We have examined the proposal and observe that legal course is a long drawn process which is expensive and time consuming. Further, given that the company has been referred to BIFR, we recommend that their request for payment of Rs45,57,994.74 in full and final payment of EPFO dues (Our claim was Rs 1,81,09,237.00 + Interest till date of payment) may please be examined at your end and if acceptable, please convey your approval in the matter.

05. Please accord priority to the matter.

Yours faithfully,
STATEMENT OF OVERDUE INTEREST AS ON 26.09.2006

<table>
<thead>
<tr>
<th>FACE VALUE</th>
<th>INTEREST AMOUNT RECEIVABLE</th>
<th>INT. DUE ON</th>
<th>INT. RECEIVED</th>
<th>INT. RECD ON</th>
<th>NO. OF DAYS DELAY</th>
<th>OVERDUE INT.@ 14.50%</th>
<th>PROPOSED BY RCL INT.@ 8.50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>20000000.00</td>
<td>1250000.00</td>
<td>30-Sep-00</td>
<td>1250000.00</td>
<td>1-Nov-00</td>
<td>32</td>
<td>15890.41</td>
<td>9315.07</td>
</tr>
<tr>
<td>20000000.00</td>
<td>1250000.00</td>
<td>31-Mar-01</td>
<td>1250000.00</td>
<td>28-Mar-01</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20000000.00</td>
<td>1250000.00</td>
<td>30-Sep-01</td>
<td>1250000.00</td>
<td>20-Sep-01</td>
<td>107</td>
<td>53133.56</td>
<td>31147.26</td>
</tr>
<tr>
<td>20000000.00</td>
<td>1250000.00</td>
<td>31-Mar-02</td>
<td>1250000.00</td>
<td>16-Jul-02</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20000000.00</td>
<td>1250000.00</td>
<td>30-Sep-02</td>
<td>1250000.00</td>
<td>22-Nov-04</td>
<td>764</td>
<td>388315.07</td>
<td>228219.18</td>
</tr>
<tr>
<td>20000000.00</td>
<td>1250000.00</td>
<td>31-Mar-03</td>
<td>950000.00</td>
<td>22-Nov-04</td>
<td>602</td>
<td>227193.15</td>
<td>133182.19</td>
</tr>
<tr>
<td>20000000.00</td>
<td>1250000.00</td>
<td>31-Mar-03</td>
<td>300000.00</td>
<td>20-Sep-08</td>
<td>1269</td>
<td>151236.99</td>
<td>89656.16</td>
</tr>
<tr>
<td>20000000.00</td>
<td>1250000.00</td>
<td>30-Sep-04</td>
<td>1173399.00</td>
<td>20-Sep-06</td>
<td>720</td>
<td>335615.68</td>
<td>196740.23</td>
</tr>
<tr>
<td>20000000.00</td>
<td>1250000.00</td>
<td>31-Mar-01</td>
<td>78631.00</td>
<td>26-Sep-06</td>
<td>726</td>
<td>22101.22</td>
<td>1295.89</td>
</tr>
<tr>
<td>20000000.00</td>
<td>520547.95</td>
<td>15-Dec-04</td>
<td>520547.95</td>
<td>26-Sep-06</td>
<td>650</td>
<td>134413.48</td>
<td>78795.28</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2316589.91</td>
<td>1358000.99</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FACE VALUE</th>
<th>INTEREST AMOUNT RECEIVABLE</th>
<th>INT. DUE ON</th>
<th>INT. RECEIVED</th>
<th>INT. RECD ON</th>
<th>NO. OF DAYS DELAY</th>
<th>OVERDUE INT.@ 14.50%</th>
<th>INT.@ 8.50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>40000000.00</td>
<td>2500000.00</td>
<td>30-Sep-00</td>
<td>2500000.00</td>
<td>1-Nov-00</td>
<td>32</td>
<td>15890.41</td>
<td>18630.14</td>
</tr>
<tr>
<td>40000000.00</td>
<td>2500000.00</td>
<td>31-Mar-01</td>
<td>2500000.00</td>
<td>28-Mar-01</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40000000.00</td>
<td>2500000.00</td>
<td>30-Sep-01</td>
<td>2500000.00</td>
<td>20-Sep-01</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>40000000.00</td>
<td>2500000.00</td>
<td>31-Mar-02</td>
<td>2500000.00</td>
<td>22-Nov-04</td>
<td>967</td>
<td>960376.71</td>
<td>562979.45</td>
</tr>
<tr>
<td>40000000.00</td>
<td>2500000.00</td>
<td>30-Sep-02</td>
<td>2500000.00</td>
<td>22-Nov-04</td>
<td>784</td>
<td>778630.14</td>
<td>456438.36</td>
</tr>
<tr>
<td>40000000.00</td>
<td>2500000.00</td>
<td>31-Mar-03</td>
<td>2500000.00</td>
<td>22-Nov-04</td>
<td>602</td>
<td>597876.71</td>
<td>350479.45</td>
</tr>
<tr>
<td>40000000.00</td>
<td>2500000.00</td>
<td>30-Sep-03</td>
<td>2500000.00</td>
<td>20-Sep-06</td>
<td>1096</td>
<td>1078561.64</td>
<td>632290.27</td>
</tr>
<tr>
<td>40000000.00</td>
<td>2500000.00</td>
<td>31-Mar-04</td>
<td>2500000.00</td>
<td>20-Sep-06</td>
<td>903</td>
<td>896815.07</td>
<td>525719.18</td>
</tr>
<tr>
<td>40000000.00</td>
<td>2500000.00</td>
<td>30-Sep-04</td>
<td>2500000.00</td>
<td>20-Sep-06</td>
<td>720</td>
<td>715068.49</td>
<td>419178.08</td>
</tr>
<tr>
<td>40000000.00</td>
<td>1041095.89</td>
<td>15-Dec-04</td>
<td>1041095.89</td>
<td>26-Sep-06</td>
<td>650</td>
<td>266830.95</td>
<td>157590.56</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5744</td>
<td>3123755.49</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FACE VALUE</th>
<th>MATURITY DUE ON</th>
<th>MATURITY AMOUNT RECEIVED</th>
<th>DAYS UPTO 01.06.06*</th>
<th>OVERDUE INT.@ 14.50%</th>
<th>INT.@ 8.50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>20000000.00</td>
<td>15-Dec-2004</td>
<td>2-Aug-06</td>
<td>595</td>
<td>4727397.26</td>
<td>2771232.87</td>
</tr>
<tr>
<td>40000000.00</td>
<td>15-Dec-2004</td>
<td>2-Aug-06</td>
<td>595</td>
<td>9454794.52</td>
<td>5542465.75</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
<td>14182191.78</td>
<td>8313986.62</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SUMMARY OF OVERDUE INTEREST</th>
</tr>
</thead>
<tbody>
<tr>
<td>OVERDUE INTEREST PAYABLE</td>
</tr>
<tr>
<td>OVERDUE INTEREST PAID</td>
</tr>
<tr>
<td>AS PER (A) 7644530.45</td>
</tr>
<tr>
<td>AS PER (B) 14182191.78</td>
</tr>
<tr>
<td>OVERDUE INTEREST PAID</td>
</tr>
<tr>
<td>OVERDUE INTEREST PAID</td>
</tr>
<tr>
<td>BALANCE OVERDUE INTEREST PAID UPTO 26.09.2006</td>
</tr>
<tr>
<td>PLUS OVERDUE INTEREST ON RS. 12598750.24 @ 14.50%</td>
</tr>
<tr>
<td>21826722.24</td>
</tr>
<tr>
<td>9227572.00</td>
</tr>
<tr>
<td>12598760.24</td>
</tr>
<tr>
<td>5510485.76</td>
</tr>
<tr>
<td>18109237.00</td>
</tr>
</tbody>
</table>

A meeting of the Committee on Disputes was held at 11 a.m. on 24/11/2009 in the Conference Room (No. 218), Cabinet Secretariat, Sardar Patel Bhawan, New Delhi. The items considered and the minutes thereon are as under:

<table>
<thead>
<tr>
<th>Item</th>
<th>Appellant</th>
<th>Issue(s) Involved</th>
<th>Appellant Ref. No.</th>
<th>Appellant against</th>
<th>Date</th>
<th>Appeal in</th>
<th>Period</th>
<th>No. Case status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gas Authority of India Limited</td>
<td>Refund of advance rent and guarantee money paid for providing 30 channels PCM link to GAIL Pata through OFB, exclusively for GAIL</td>
<td>GAILCLUB/BSNL/576</td>
<td>Nigam Limited</td>
<td>11/08/2009</td>
<td>Consumer Court</td>
<td>Rs. lacs</td>
<td>Amt - 30.52</td>
</tr>
<tr>
<td>2</td>
<td>Richardson &amp; Cruddas (1972) Limited</td>
<td>Default in paying the periodic interest due on the investment made by EPF in the bonds issued by RCL and also in repaying the principal amount</td>
<td>V.23025/3/2009-SSNL</td>
<td>Crufaid</td>
<td>10/08/2009</td>
<td>993.78</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Committee heard both the parties to the dispute. The representative of Gas Authority of India (GAIL) stated that they had entered into an agreement with BSNL for providing 30 channel PCM link to GAIL Pata through OFB, exclusively for GAIL. Since BSNL failed to ensure installation/providing of the requisite link as per the requirement and agreement, the Authority demanded refund of the advance rent along with the guarantee money paid to BSNL for this purpose. However, BSNL despite repeated reminders have not refunded the advance along with the guarantee money. He, therefore, requested for permission to pursue the matter before Consumer Forum or such other forum as deemed appropriate.

The representative of the BSNL stated that the Nigam had provided circuits in July 2001 and the new service has also started at GAIL Pata in 2002. However, he conceded that the completion of the work was considerably delayed and the same could not be completed by 31.1.2000 as per the agreement. He further stated that as per the departmental rules, the refund amount of deposit against rent and guarantee money is adjustable in coming bills or against the future requirements, which was conveyed to GAIL.

The Committee after hearing both the parties observed that there is no provision in the existing agreement/contract concluded between the parties for referring any dispute arising out of the agreement for arbitration to PMA. As the dispute relates to a commercial matter, it directed both parties to refer the dispute for arbitration to PMA after signing an arbitration clause in favour of PMA in the prescribed proforma. The Committee, therefore, declined permission to GAIL to pursue the appeal before Consumer Forum.

The representative of Richardson & Cruddas Limited stated that the Central Board of Trustees invested Rs.6 crores in bonds issued by Mrs Richardson and Cruddas Limited (RCL) which were guaranteed by the Ministry of Heavy Industries. However, the company default in payment of the interest due on the bonds as well as in repayment of the principal amount. The matter was also taken up with Ministry of Heavy Industries. While the company paid the principal amount and interest due thereon, it failed to make payment of interest on delayed payment amounting to Rs. 1.70 crore as on 1st December, 2009. RCL had in the meantime released two payments of Rs. 1.14 crore and Rs. 1.08 crore bringing down their outstanding to Rs. 1.26 crore. State Bank of India were funds manager to the issue. Since the limitation would take effect on 2.8.2009, the bank was advised to file a civil suit against the company.

The representative of Mo Heavy Industries stated that the entire amount due is paid by the Govt. However, there was a time gap of one year in making the payment. EPFO is now demanding penal interest.

The Chartered Accountant for the Ministry of Heavy Industries stated that total delay involved in the case is of 595 days. The EPFO, however, had an opportunity lost in the past in a similar dispute between EPFO and HMT, the Committee had directed HMT to make payment of their outstanding dues and the company had paid all the amount due except a sum of Rs. 105 lakhs which it went to BIFR.

The representative of Richardson & Cruddas Ltd stated that they are already before BIFR. The State Bank of India is in touch with them and is likely to make a fresh proposal for resolving the issue. The fund managers are aware of all facts and circumstances of the case.

The Committee was of the view that consideration of the matter by the Committee at this stage was premature as the bank was likely to submit a fresh proposal to settle the issue. The Committee, however, gave a liberty to EPFO to refer the matter again to Secretariat if a settlement could be reached even after submission of the revised proposal to RCL by the SBI.
Item No.5: CBT, EPF - Deletion of delayed period interest entries below Rs. 1000/- generated by the system upto 30.09.2009.

M/s. SBI the Portfolio Manager for CBT, EPF have been continuously following up the matter with the issuers for recovery of overdue interest. The overdue interest on account of postal delay, acceptance cases and the instruments presented in clearing are automatically calculated by their system. M/s. SBI have contented that the investor is not generally entitled to overdue interest in case of the following reasons in terms of the Information Memorandum pertaining to a particular issue:-

a) Postal courier agency delay.

b) Wrong delivery of the consignment.

c) Instruments received on due date and presented in ordinary/high value/national clearing for which credit advices received late etc.

d) Amount parked in OTI account for want of full particulars in respect of Acceptance cases.

e) Unforeseen circumstances etc.

M/s. SBI, have forwarded a list of (1326 entries) of delayed period interest upto Rs.1000/- in each case aggregating to Rs.1,87,736/- generated by their system for the various reasons stated above.

According to M/s. SBI since the issuers have honored their obligation by paying the interest due and the redemption amount, the prospects of recovery of paltry delayed period interest amounts by filing of the suits is bleak considering the small amounts involved. Cost of filing the suit, following up the cases, non-availability of any security and possibilities of the claims getting time barred etc. are other hindrances. SBI has opined that lodging of claims and following up such cases is a futile exercise and while considering no response from the issuers and costs involved therein, it is a difficult to manage small amount of numerous entries for a long time in the system. Therefore, such type of claims may be dropped.

Before issuing approval to this effect to SBI, the item is placed before the Finance and Investment Committee for consideration please.
Item No.6: Relaxation in Investment Guidelines for investments in Private Sector Bonds

As per the present investment pattern (copy of the pattern enclosed), investments in the private sector bonds are governed by the following norms prescribed for the residual category investments:

<table>
<thead>
<tr>
<th></th>
<th>To be invested in any of the above three categories as decided by their Trustees.</th>
<th>30%</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i)</td>
<td>The Trusts, subject to their assessment of the risk – return prospects, may invest up to 1/3rd of (iv) above, in private sector bonds/ securities, which have an investment grade rating from at least two credit rating agencies.</td>
<td></td>
</tr>
</tbody>
</table>

Existing Guidelines with regards to Private Sector Bonds

As per the present investment guidelines, EPFO invests only in dual AAA rated, which is the highest possible rating prescribed, Private Sector Bank bonds and two more Financial Institutions, viz., HDFC and IDFC. As we can take exposure only in bank bonds and the two other financial institutions mentioned above, we have limited our basket to 5 issuers in the category, viz., ICICI Bank, HDFC Bank, AXIS Bank, HDFC and IDFC.

The Effect

EPFO can invest a maximum of 1/3rd of the residual category in eligible private sector instruments; it means it can have a maximum exposure of 10% of the incremental investments in such instruments. This category offers the best returns as the spread available on private sector instruments over the government security of corresponding tenure is higher than that available on similarly rated or even lower rated PSU/PSFI papers. For instance, EPFO recently purchased dual AAA rated Upper Tier-II ICICI Bank bond @ 8.90% from the primary market even as dual AAA Upper Tier-II Public Sector Bank bonds were available at 8.55% and dual AA Upper Tier-II Public Sector Bank bonds were available at 8.65%.
There is, however, a case for relaxation of our guidelines as mentioned above due to the following:

- We have restricted our basket to only five issuers. In this basket too, HDFC and IDFC do not come to the market very often. Less number of issuer’s means we are left with less number of issuances to subscribe to and the issuers may time their issues when the market is more favourable for them than for the investor like EPFO. Having more issuers would result in more opportunities available and the same may be spread out more conveniently in a financial year.

- As these issuers are aware of the fact that EPFO would necessarily invest in their instruments, they do not offer the best rates. Having more options at our hand would increase our bargaining power with these issuers.

- As we are investing about 10% of our incremental investments in private sector bonds, it is tantamount to putting over Rs 4000 Crores annually in such instruments. It is pertinent to derive the best possible rate on such a large quantum without making any sacrifice on the quality of instruments.

The Recommendation

The matter was considered by the Investment Monitoring Cell internally and inputs from M/s Crisil were also sought. It is recommended that those issuers may be included in the present list of eligible entities/issuers so as to expand the present basket of eligible private sector entities where EPFO could take an exposure such as:

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Whether Profitable for the Past 5 Years</th>
<th>Net Worth (Rs. Cr) as of 31st March 2009</th>
<th>Credit Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance Industries Ltd.</td>
<td>Yes</td>
<td>1,14,588</td>
<td>AAA by CRISIL &amp; FITCH</td>
</tr>
<tr>
<td>Larsen &amp; Toubro Ltd.</td>
<td>Yes</td>
<td>12,435</td>
<td>AAA by CRISIL &amp; ICRA</td>
</tr>
<tr>
<td>Grasim Industries Ltd.</td>
<td>Yes</td>
<td>9,474</td>
<td>AAA by CRISIL &amp; CARE</td>
</tr>
<tr>
<td>Ambuja Cements Ltd.</td>
<td>Yes</td>
<td>5,673</td>
<td>AAA by CRISIL &amp; FITCH</td>
</tr>
<tr>
<td>A C C Ltd.</td>
<td>Yes</td>
<td>4,928</td>
<td>AAA by CRISIL &amp; FITCH</td>
</tr>
<tr>
<td>LIC Housing Finance Ltd.</td>
<td>Yes</td>
<td>2,234</td>
<td>AAA by CRISIL &amp; CARE</td>
</tr>
<tr>
<td>ICICI Home Finance Co. Ltd.</td>
<td>Yes</td>
<td>1,245</td>
<td>AAA by ICRA &amp; CARE</td>
</tr>
</tbody>
</table>
These entities have been chosen on the basis of adequate net worth, proven profitability record and all of them satisfy the stringent rating requirement sought by EPFO.

The existing guideline which restricts the investments in Private Sector Bank Bonds only needs to be revisited in order to enhance the opportunities of returns by broad basing the asset class. The pattern also prescribes for the risk-return prospects for which reliance may be placed on AAA rating of the Bonds by two rating agencies.

In view of this, limitations placed on investments in Private Sector Bonds only to the Private Sector Bank Bonds needs to be removed in favour of Private Sector Bonds with AAA ratings by two rating agencies.

The Item is placed before the Finance and Investment Committee for consideration and recommendation to the Central Board of Trustees.
No. G-27031/3/99-SS-II
Govt of India/Ministry of Labour/Shram Mantralaya

To
The Manager
Govt of India Press
Mayapuri, Ring Road, New Delhi

Subject: Publication of Notification containing the pattern of investment for Provident Fund Investment and Investment of Provident Fund money in Exempted Trust.

I am directed to forward herewith a copy of the Notification No.(i) G-27031/3/99-SS-II dated 9.3.2003 for PF Investment and also Notification no.(ii) G-27031/3/99-SS-II dated 9.7.2003 for PF Investment in Exempted Trust for publication in part II (ii) of the Gazette of India. It is requested that 2 copies of the Gazette Notification bilingual having S.O. number and date of publication may kindly be furnished to the undersigned immediately.

Yours faithfully,

(Sanjukta Ray)
Under Secretary to the Govt of India

[Signature]
To be published in the Gazette of India, Part II, Section 3, Sub-Section(ii)

Government of India/Bharat Sarkar
Ministry of Labour/Shram Mantralaya

New Delhi, Dated 9.7.03

NOTIFICATION

S.O. — In exercise of the powers conferred by Sub-paragraph (1) of Paragraph 52 of the Employees' Provident Funds Scheme, 1952 and in supersession of the Notification of the Government of India in the Ministry of Labour No. S.O. 1398 dated the 11th July 1998 (dated 19.6.1998 published in the Gazette of India) the Central Government hereby directs that all incremental accretions belonging to the Fund shall be invested in accordance with the following pattern namely:-

INVESTMENT PATTERN

<table>
<thead>
<tr>
<th>Percentage amount to be invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Central Government Securities as defined in Section 2 of the Public Debt Act, 1944 (18 of 1944); and/or units of such Mutual Funds which have been set up as dedicated Funds for investment in Government securities and which have been approved by the Securities and Exchange Board of India.</td>
</tr>
<tr>
<td>(ii) (a) Government Securities as defined in Sec. 2 of the Public Debt Act, 1944 (18 of 1944); created and issued by any State Government; and/or units of such Mutual Funds which have been set up as dedicated Funds for investment in Govt. securities and which have been approved by the Securities and Exchange Board of India; and/or</td>
</tr>
<tr>
<td>(b) Any other negotiable securities the principal whereof and interest whereon is fully and unconditionally guaranteed by the Central Govt. or any State Government except those covered under (iii) (a) below</td>
</tr>
</tbody>
</table>
(iii) (a) Bonds/Securities of 'Public Financial Institutions' as specified under Section 4(1) of the Companies Act, "public sector companies" as defined in Section 2(36-A) of the Income Tax Act, 1961 including public sector banks; and/or

(b) Short duration (less than a year) Term Deposit Receipt (TDR) issued by public sector banks. 30%

(iv) to be invested in any of the above three categories as decided by their Trustees. 30%

(v) The Trusts, subject to their assessment of risk-return prospects, may invest upto 1/3rd of (iv) above, in private sector bonds/securities, which have an investment grade rating from at least two credit rating agencies 30%

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

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

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

F. No.G-27031/3/99-SS-II

(D.S. Pooria)
Joint Secretary to the Govt. of India

The Manager,
Government of India Press,
Mayapuri. New Delhi.
S.O. - In exercise of the powers conferred by clause (a) of sub-section (3) of section 17 of the Employees Provident Fund & Miscellaneous Provisions Act, 1952 (19 of 1952) and in supersession of the Notification of the Government of India, Ministry of Labour No. S.O. 1487 dated the 25th July, 1998 (7th July 1998 published in the Gazette of India) the Central Government hereby directs that every employer in relation to an establishment exempted under Clause (a) or Clause (b) of Sub-section (i) of Section 17 of the said Act or in relation to any employee or class of employees exempted under paragraph 27 or as the case may be, paragraph 27A of the Employees Provident Funds Scheme, 1952 shall transfer the monthly provident fund contribution in respect of the establishment or, as the case may be, of the employee or class of employees within fifteen days of the close of the month to the Board of Trustees duly constituted in respect of that establishment and that the said Board of Trustees shall invest every month within a period of two weeks from the date of receipt of the said contributions from the employee, the provident fund accumulations in respect of the establishment or as the case may be, of the employee, or class of employees that is to say, the contributions, interest and other receipt as reduced by any obligatory outgoings in accordance with the following pattern, namely:

INVESTMENT PATTERN

<table>
<thead>
<tr>
<th>Percentage amount to be invested</th>
</tr>
</thead>
</table>

(i) Central Government Securities as defined in Section 2 of the Public Debt Act, 1944 (18 of 1944); and/or units of such Mutual Funds which have been set up as dedicated Funds for investment in Government securities and which have been approved by the Securities and Exchange Board of India. 25%

(ii) (a) Government Securities as defined in Sec. 2 of the Public Debt Act, 1944 (18 of 1944); created and issued by any State Government; and/or units of such Mutual Funds which have been set up as dedicated Funds for investment in Govt. securities and which have been approved by the Securities and Exchange Board of India; and/or 15%

(b) Any other negotiable securities the principal whereof and interest whereon is fully and unconditionally guaranteed by the Central Govt. or any State Government except those covered under (iii) (a) below
(iii) (a) Bonds/Securities of 'Public Financial Institutions' as specified under Section 4(1) of the Companies Act, "public sector companies" as defined in Section 2(36-A) of the Income Tax Act, 1961 including public sector banks; and/or

(b) Short duration (less than a year) Term Deposit Receipt (TDR) issued by public sector banks.

30%

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

30%

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

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

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

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

F. No.G-27031/3/99-SS-II

(D.S. Pooni:
Joint Secretary to the Govt. of Ind)

The Manager,
Government of India Press,
Mayapuri,
New Delhi.
Item No. 7: Quarterly Review of the performance of the Portfolio Managers for the quarter ending as on 31.12.2009
On table (98th FIG, 26.02.2010)

Item No. 7: Quarterly Review of the performance of the Portfolio Managers for the quarter ending as on 31.12.2009


Yield Performance Based on Incremental Investment (from 01/04/2009 till 31.12.2009)

<table>
<thead>
<tr>
<th>Portfolio Manager</th>
<th>Yield %</th>
<th>Benchmark Yield %</th>
</tr>
</thead>
<tbody>
<tr>
<td>HSBC AMC</td>
<td>8.43%</td>
<td>8.13%</td>
</tr>
<tr>
<td>RCAML</td>
<td>8.41%</td>
<td>8.13%</td>
</tr>
<tr>
<td>ICICI PRU AMC</td>
<td>8.11%</td>
<td>8.13%</td>
</tr>
<tr>
<td>SBI PMS</td>
<td>7.69%</td>
<td>8.13%</td>
</tr>
</tbody>
</table>

Performance Summary Based on Incremental Investment (from 01/04/2009 till 31.12.2009)

<table>
<thead>
<tr>
<th>Portfolio Manager</th>
<th>Scaled Score on Yield</th>
<th>Yield Rank</th>
<th>Scaled Score on Avg Maturity</th>
<th>Avg Maturity Rank</th>
<th>Scaled Debt Asset Quality Rank</th>
<th>Final Score</th>
<th>Final Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance</td>
<td>0.9977</td>
<td>2</td>
<td>1.0000</td>
<td>1</td>
<td>0.94</td>
<td>2</td>
<td>99.25</td>
</tr>
<tr>
<td>HSBC</td>
<td>1.0000</td>
<td>1</td>
<td>0.9936</td>
<td>3</td>
<td>0.89</td>
<td>3</td>
<td>98.86</td>
</tr>
<tr>
<td>ICICI Pru</td>
<td>0.9929</td>
<td>3</td>
<td>0.9899</td>
<td>2</td>
<td>1.00</td>
<td>1</td>
<td>98.97</td>
</tr>
<tr>
<td>SBI PMS</td>
<td>0.9143</td>
<td>4</td>
<td>0.9870</td>
<td>4</td>
<td>0.86</td>
<td>4</td>
<td>91.01</td>
</tr>
</tbody>
</table>

Considering the analysis based on the Incremental portfolio of the fund managers, the following are the observations based on the main parameters for performance evaluation.

1. On the basis of the composite evaluation framework:
   Reliance capital AMC is top ranked, followed by HSBC AMC, ICICI Pru AMC and SBI in that order.
2. On the basis of the Yield parameter:
   HSBC AMC and Reliance Capital AMC have given the best performance in the period under consideration (HSBC AMC being marginally ahead) with ICICI Pru AMC and SBI following behind.
3. On the basis of Maturity profile parameter:
   Reliance Capital AMC continues to perform the best on the said parameter followed by ICICI Pru AMC, HSBC AMC and SBI following in that order.
4. On Asset Quality profile:
   ICICI Pru AMC is ahead, with Reliance Capital AMC, HSBC AMC and SBI following in that order.

Asset quality criteria has been a key to the ranking order, as the maximum dispersion in scores was experienced under this criteria while compared with other parameters.
<table>
<thead>
<tr>
<th>Portfolio Manager</th>
<th>Yield %</th>
<th>Benchmark Yield %</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICICI Pru</td>
<td>8.656%</td>
<td>8.64%</td>
</tr>
<tr>
<td>HSBC AMC</td>
<td>8.650%</td>
<td>8.64%</td>
</tr>
<tr>
<td>RCAML</td>
<td>8.511%</td>
<td>8.64%</td>
</tr>
<tr>
<td>SBI PMS</td>
<td>8.484%</td>
<td>8.64%</td>
</tr>
</tbody>
</table>

Yield Performance Based on Cumulative Investment (from 17/09/2008 till 31/12/2009)

Performance Summary Based on Cumulative Investment (from 17/09/2008 till 31/12/2009)

<table>
<thead>
<tr>
<th>Portfolio Manager</th>
<th>Scaled Score on Yield</th>
<th>Yield Rank</th>
<th>Scaled Score on Avg Maturity</th>
<th>Avg Maturity Rank</th>
<th>Scaled Debt Asset Quality</th>
<th>Debt - Asset Quality Rank</th>
<th>Final Score</th>
<th>Final Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICICI Pru</td>
<td>1.0000</td>
<td>1</td>
<td>0.9999</td>
<td>2</td>
<td>1.00</td>
<td>1</td>
<td>99.94</td>
<td>1</td>
</tr>
<tr>
<td>HSBC</td>
<td>0.9994</td>
<td>2</td>
<td>0.9936</td>
<td>3</td>
<td>0.99</td>
<td>3</td>
<td>98.83</td>
<td>2</td>
</tr>
<tr>
<td>Reliance</td>
<td>0.9835</td>
<td>3</td>
<td>1.0000</td>
<td>1</td>
<td>0.94</td>
<td>2</td>
<td>98.12</td>
<td>3</td>
</tr>
<tr>
<td>SBI</td>
<td>0.9808</td>
<td>4</td>
<td>0.9879</td>
<td>4</td>
<td>0.80</td>
<td>4</td>
<td>96.32</td>
<td>4</td>
</tr>
</tbody>
</table>

On cumulative basis, following observations are made:

1. On the Yield parameter:
   - ICICI Pru AMC is ranked the highest.
2. On the Average Maturity parameter:
   - Reliance AMC continues to be ranked the highest due to having a maturity profile having the maximum concentration in the 5 – 20 year bucket. All portfolio managers have shown a portfolio average maturity to be more than 5 years. Maximum portfolio exposure of more than 20 years is with ICICI Pru AMC. None of the fund managers has attracted any penalty for excess exposure in less than 1 year’s investments.
   - On the average maturity criteria each of the portfolio managers were in close proximity to one another for the period ended 31/12/2009 and the difference between the first and the fourth ranked managers on this criterion was very marginal. The close proximity in performance on the average maturity criterion to an extent was experienced during the assessment for the cumulative period ended Sept 09, June 09 and March 09 as well.
3. On the Asset Quality parameter:
   - ICICI Pru AMC is ranked the highest due to higher proportion of portfolio being in Gilts and higher quality securities. SBI has underperformed the most in terms of Asset Quality parameter due to having relatively higher proportion of exposure towards sub AAA rated investments.
**Evaluation Methodology**

The overall performance is evaluated on the basis of composite score of three parameters i.e.

1. Return (80% weight)
2. Average Maturity (10% weight)
3. Asset Quality - (10% weight)

**Parameters and weights**

- **HTM Returns analysis – 80%**
  - 70% weightage has been given to absolute HTM returns and
  - 30% weightage to returns relative to the benchmark.

- **Average Maturity – 10%**

- **Asset Quality – 10%**

- The relative returns vis-à-vis the benchmark have been considered assuming a declared rate of return of 8.5% to EPFO's subscribers and adjusting with the out-performance or under-performance of the portfolio managers vis-à-vis their respective benchmarks.

- While calculating the yields, idling adjustment has been done by considering closing uninvested funds to be idle every day for 1 day.

- All investments with more than 20 yrs maturity having annualized yield more than 8.50% are excluded from negative penalty

-----
Item: No. 8: Dropping past cases of penalty on belated credits

This is relating to the time when SBI was the sole Portfolio Manager for CBT EPF Funds. As a part of its Default Management Practices, SBI used to keep a close watch on all the monies that became due to the CBT, EPF on account of interest or redemption proceeds and in each and every case where there used to be any delay in the receipt/credit of such monies to the account of CBT EPF, it used to lodge claim for charging penalty from the Issuer for such belated credits, at the rate of 2 percentage points over and above the Coupon rate of the respective security.

However, the Issuers hardly acknowledged this delay as a default on their part and hence desisted from paying any amount by way of penalty. This led to the piling up of a large number of cases where the claim was made but there was no recovery.

Following table lists all such pending cases along with related details:

<table>
<thead>
<tr>
<th>S.N.</th>
<th>Establishment</th>
<th>Amount Received Belatedly</th>
<th>Rate of Penalty (Coupon Rate plus 2%)</th>
<th>Amount of Penalty (in Rs)</th>
<th>Period of Delay</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>M/s HPRIDC</td>
<td>Annex - A</td>
<td>Ranging from 13.30% to 14.40%</td>
<td>4,71,194.84</td>
<td>It varied from 1 to 7 days in most cases and upto 11 and 25 days once each.</td>
</tr>
<tr>
<td>2</td>
<td>M/s GMIDC</td>
<td>Annex - B</td>
<td>Various rates between 13% to 16.5%</td>
<td>7,29,267.00</td>
<td>It varied from 1 to 6 days in most cases, upto 9 days in certain cases and only once for 13, 21 &amp; 28 days each.</td>
</tr>
<tr>
<td>3</td>
<td>M/s PNSEB</td>
<td>Annex - C</td>
<td>13.85% - 17.50%</td>
<td>1,33,906.00</td>
<td>It varied from 1 to 6 days in most cases, upto 9 days in certain cases and only once for 13, 21 &amp; 28 days each.</td>
</tr>
<tr>
<td></td>
<td>M/s</td>
<td>Annex</td>
<td>Interest Rate</td>
<td>Amount</td>
<td>Details</td>
</tr>
<tr>
<td>---</td>
<td>--------</td>
<td>-------</td>
<td>---------------</td>
<td>---------------</td>
<td>-------------------------------------------------------------------------</td>
</tr>
<tr>
<td>4</td>
<td>M/s PFC</td>
<td>D</td>
<td>9.5% - 12.68%</td>
<td>7,78,634.00</td>
<td>It varied from 1 to 2 days in most cases and only once for 3 days.</td>
</tr>
<tr>
<td>5</td>
<td>M/s MSRDC</td>
<td>E</td>
<td>13.50% - 16.15%</td>
<td>46,205.00</td>
<td>It varied from 1 to 2 days in most cases and only once for 3, 5 &amp; 257 days each.</td>
</tr>
<tr>
<td>6</td>
<td>M/s WBIDC</td>
<td>F</td>
<td>13.35 % - 16%</td>
<td>2,59,804.00</td>
<td>It varied from 1 to 5 days in most cases, upto 36 days some cases, upto 279 days once.</td>
</tr>
<tr>
<td>7</td>
<td>M/s MJP</td>
<td>G</td>
<td>13 % - 17%</td>
<td>3,44,115.77</td>
<td>It varied from 1 to 10 days in most cases and in other between 22 to 37 days in others.</td>
</tr>
<tr>
<td>8</td>
<td>M/s MKVDC</td>
<td>H</td>
<td>11% - 15.50%</td>
<td>96,051.00</td>
<td>Upto 10 days in most cases and instances of 115, 212, 641, 823 and 1002 days.</td>
</tr>
<tr>
<td>9</td>
<td>M/s VIDC</td>
<td>I</td>
<td>13.5% - 15%</td>
<td>2,32,321.77</td>
<td>Upto 11 days</td>
</tr>
<tr>
<td>10</td>
<td>M/s IIBI</td>
<td>J</td>
<td>13.5% - 15%</td>
<td>2,48,306.00</td>
<td>Between 1 to 40 days and 92 days in one case</td>
</tr>
<tr>
<td>11</td>
<td>M/s HCL</td>
<td>K</td>
<td>15.50%</td>
<td>1,22,545.00</td>
<td>Four cases of delay of 27, 27, 392 &amp; 757 days each.</td>
</tr>
<tr>
<td>12</td>
<td>M/s GIIC</td>
<td>L</td>
<td>14.50%</td>
<td>64,450.00</td>
<td>3 cases - delays of 1,1,4 days each</td>
</tr>
<tr>
<td>13</td>
<td>M/s HUDCO</td>
<td>M</td>
<td>9.92% - 17%</td>
<td>70,434.00</td>
<td>6 days in most cases and upto 25, 10,11,7 days in other cases</td>
</tr>
<tr>
<td>14</td>
<td>M/s NCRPB</td>
<td>-</td>
<td>11.52% - 15.50%</td>
<td>18,46,476.67</td>
<td>5 cases - 2,4,4,5 &amp; 12 days each</td>
</tr>
</tbody>
</table>
Further analysis of the matter finds that in most cases, the reasons were attributable to the factors external to the issuer's control i.e., force-majeure. Some such instances are as under:

- Postal vagaries like delay in delivery of Cheque/Draft etc. or maybe even loss of instrument in the transit.

- Wrong delivery by the messenger i.e., delivering the packet at wrong address or to a person other than the addressee. It is a frequent occurrence at SBI Mumbai Main Branch (MMB), where the building is very huge and multi-storeyed and it has several sub-branches or Divisions therein. The courier would often leave the packet at some other division of SBI and not the Securities Services Branch, where it was actually required to be delivered.

- As per the details as on the record date for any payment becoming due, the holder's details may be pertaining to the Previous holder whereas by the time when the payment actually becomes due, the holder may be changed. This is very common in case of Acceptance cases.

- If the cheque or DD, whichever, is received even on the due date but after the stipulated time for High Value* Clearing (which is 11.30 AM) then it can be presented for clearance only on the next working day of the banks. Further, there is no High value clearing on Saturdays, thus if the instrument is not presented latest by 11.30 AM on Friday then it can be presented only on Monday if it is not a bank holiday.

- There could be some natural factors like, flood etc., or any other natural disaster which affect the normal course of business and thus cause delay in either dispatch or delivery of the instruments.

The above list is only illustrative and there could be several other factors like these.

It may be said that the cases where period of delay is within 10 days time they could be due to any of the above stated factors. This is one category of defaults.
Another major reason for delay in receipts could be high coupon rates for periodical interest payments coupled with precarious financial condition of Central and State Public Sector Undertakings. Most of the default cases pertain to the investments which carry a very high rate of interest which were prevalent in the period before early 2000s. After that the soft interest rate regime commenced and it became increasingly difficult for the establishments to service the older debts at extremely high rates (refer above table). However, they still managed somehow and discharged their liabilities but at times, with certain delay. Some cases are of this nature as well although their number is very small. This is second category of defaults.

As stated above the majority cases fall in first category claim and few falls under the second category. In the first type of cases the issuers claim full discharge of obligations under the terms of agreement and simply refuse to consider it as a delay and hence the question of default or penalty does not arise with them.

So far as the second category is concerned, no issuer agrees to pay penalty for the delay in remittances as there is no term in the Investment agreement which provides for the consequences of such delays. The Information Memorandum issued in respect of any Security or Bond does not provide for any right to the investor to claim any damages or conversely any obligation for the borrower to pay any penalty to the investor. As such there is no legal backing behind the claim for penalty against any delay in receipt of the due amounts. And as stated above SBI has been following this practice only as matter of convention.

To summarise the whole issue:

- Most cases of delays are on account of uncontrollable and external factors and the period of delay varies between 1 to 10 days. In such cases issuers allege no delay or default.
- Few cases are due to other factors mainly the poor financial health of the establishments.
• This further deters any additional payment by way of penalty, that too, at such high rates.

• There is no legal enforceability of the claim for penalty on such delays.

• SBI has been following this practice of claiming penalty only as a matter of convention and as a tool for default management.

• Protracted pursuit has not yielded any material results.

• In many cases the cost of pursuit may exceed the amount claimed.

The Proposal

In view of the above it is proposed that the cases under consideration may be dropped for any further claim and in future as well such type of cases may be dealt purely on administrative grounds considering specific facts and circumstances in each case and a periodical review of such cases may be placed before the FIC for information.

Submitted for consideration by the Finance & Investment Committee and recommending to the CBT, EPF for approval.
Item: No. 9: Two years tenure of engagement of the Portfolio Managers to end on 31.03.2011

EPFO adopted the New Portfolio Management system for handing investment of EPF funds, by appointing multiple Fund Managers in September 2008. After due process of bidding etc., four Fund Managers were selected which are:

1. HSBC AMC Ltd,
2. ICICI Prudential AMC Ltd,
3. Reliance Capital Asset Management Ltd,
4. State Bank of India.

The new arrangement was put in place with effect from 17th September 2008, when the Funds collected in CBT EPF Accounts were distributed among the four Fund Managers in the agreed proportion and they started individual operation for investment management of these Funds.

Present system is governed by the terms of the Portfolio Management Agreement signed between the CBT, EPFO and the Portfolio Managers individually. Para 6 of the said Agreement specifies the Tenure of Engagement of the Portfolio Managers. Relevant abstracts from the said Para are as under:

Tenure of Engagement of the Portfolio Manager

The appointment of the Portfolio Manager as Investment Manager is for 2 (two) years subject to performance and on the basis of acceptable commercial considerations. This may be extended by mutual consent of the Portfolio Manager concerned and CBT, EPF by one year depending on the performance of the former. The language in the above Para specifies the period of Engagement of the Portfolio Managers as 2 (two) years in the normal course. Now the question arises as to how to reckon this period of two years, should it:

- Start from the date of commencement of the operations by the new Fund Managers i.e. 17th September 2008 and end in September 2010, or
- Be based on the completed Financial year (s), i.e. first year may begin with a new financial year starting from 1st April 2009 and second year may end as on 31st March 2010.

Following factors merit consideration before deciding on the matter:

The investment pattern prescribed for the management of EPF funds is based on the yearly targets for minimum or maximum investment in each specified category.

Accordingly the Pattern is to be achieved by the end of a year. Meantime during the currency of a financial year there remains the flexibility to make choice between different categories of investment viz., CTG, STG/SDL, Private or PSUs. For instance if we anticipate rise in the interest rates in a particular segment, we may withhold deployment in that category and instead invest in other categories in the meantime. And then when the right time comes we may deploy more in that category to meet the statutory requirements which are to be met only by the end of a year.

Further, in the Investment Guidelines proscribed by the CBT EPF, there are various types of limits viz., Issuer limits, Rating Based limits, Maturity limits, broker turnover limits, etc. All these are also observed on a yearly basis.

All types of stipulation whether provided under the Investment Pattern on the Investment Guidelines are prescribed for yearly maintenance, leaving some space for discretionary strategic planning in the course of a year. As such all the Fund Managers are given some flexibility during the course of a year while being simultaneously accountable to meet all the stipulations at the end of a year.

Reviewing the contract during the currency of a financial year would constrain the Fund Managers to meet the said Limits by the end of that period. They would be subjected to assessment at the end of the said period and thus they may have to adopt certain distress steps to meet various types of limits as mentioned above. It would ultimately reflect in the performance of Fund and thus hamper the interest of CBT, EPF.

The Proposal

---

45
In view of the above, it is proposed that we may interpret the provision of two years to be on the basis of two completed financial Years and thus we may reckon the two years period to end on 31st March 2011.

Item is placed before the FIC for recommending the same to the CBT, EPF.
Item No.10: Changes in the Existing Guidelines for increasing the exposure limits for PSU/PSFI/PSB investments

As per the Existing Investment Pattern, EPFO invests a minimum of 30% (and a maximum of 60%) in the Public Sector Undertaking (PSU)/Public Sector Financial Institution (PSFI)/Public Sector Banks (PSB) category instruments as prescribed in the pattern:

<table>
<thead>
<tr>
<th>INVESTMENT PATTERN</th>
<th>Percentage amount to be invested</th>
</tr>
</thead>
<tbody>
<tr>
<td>(iii) (a) Bonds/ Securities of 'Public Financial Institutions' as specified under Section 4(1) of the Companies Act; “public sector companies” as defined in Section 2(36-A) of the Income Tax Act, 1961 including public sector banks; and/or Short duration (less than a year) Term Deposit Receipts (TDR) issued by public sector banks</td>
<td>30%</td>
</tr>
</tbody>
</table>

EPFO has placed further restrictions on investments in PSU/PSFI/PSB category through Investment Guidelines. One of the major restrictions is regarding 'Exposure Limit' to such eligible entities. As per the existing guidelines, EPFO can invest up to a maximum of 40% of Net Worth of a Public Sector Undertaking (PSU) or Public Sector Financial Institution (PSFI) and up to a maximum of 45% of the Net Worth of a Public Sector Bank (PSB).

It is pertinent to mention here that the said limits were previously pegged at 25% of the net worth for a Public Sector Undertaking (PSU) or Public Sector Financial Institution (PSFI) and at 30% of the Net Worth of a Public Sector Bank (PSB) and were amended to the existing limits in the 94th meeting of the Finance and Investment Committee held on 26/03/2009 (and subsequently approved by the Central Board of Trustees).

Need for Amendment

It is proposed to again relook the ‘Exposure Limits’ as provided in the existing guidelines due to the following:

1. This category accounts for the maximum incremental investments of the EPFO Funds and constitutes the highest yield generating category in the prescribed pattern.

2. On one hand, the incremental investments of EPFO are increasing every year, e.g., there was an increase of Rs 24,870 Crores in the corpus of the three flagship schemes of EPFO during the financial year 2006-07, while the corresponding increase in 2007-08 was Rs 30,900 Crores, i.e., a jump of almost 25%; during 2008-09, the corpus further increased by another Rs 36,828 Crores (net of redemptions), which is another 20% jump over the previous year. On the other hand, there is no corresponding increase in safe avenues for parking such funds especially in the PSU/PSFI/PSB category as there are not too many issuers that are eligible investment avenue for EPFO.
3. There are a number of issuers where EPFO has either already exhausted or is on the verge of exhausting even the enhanced exposure limit. These issuers are:

1. Corporation Bank
2. Export-Import Bank of India (EXIM Bank)
3. Power Finance Corporation (PFC)
4. Rural Electrification Corporation (REC)
5. IDBI Bank
6. IFCI
7. Indian Railways Finance Corporation (IRFC)

These issuers, especially PFC, REC and IRFC are among the major players in the market and inability to subscribe to their issuance would seriously compromise EPFO’s interests as EPFO would then be forced to invest in other instruments at terms favourable and suitable more to the issuers.

4. EPFO is presently facing unusual situation of increasing funds but lessening the number of issuers to subscribe to. This may have serious repercussions on our ability to earn the best possible rates on our investments. Increasing the exposure limit would give us a breather by not only giving more bargaining power with existing issuers, but also by increasing the number of options at our hand.

**Market Practices**

The Insurance Regulatory and Development Authority (IRDA) has prescribed ‘Exposure to Public Financial Institutions’ related norms for the Insurance Companies as follows:

<table>
<thead>
<tr>
<th>Equity Share and Preference Shares (at their face value)</th>
<th>Not exceeding 15% in general of the paid up equity/ preference capital of the institution or the existing holding % level, if higher.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment in Equity Capital, Bonds, Debentures, Term Loans.</strong></td>
<td><strong>Not exceeding 10% of the capital employed by an institution as per the last audited Balance Sheet.</strong></td>
</tr>
<tr>
<td><strong>Total Investment vis-à-vis Net Worth of the Company.</strong></td>
<td><strong>Not exceeding 60% of Net Worth of the institution.</strong></td>
</tr>
<tr>
<td>Total Investment in a Financial Year.</td>
<td>7.5% of annual accritions.</td>
</tr>
</tbody>
</table>
Total Investments in all the Financial Institutions.

Annual aggregate financial assistance to all Development Financial Institutions put together in a single year shall not exceed 20% of the estimated annual accretions for the year.

The relevant portions are placed in bold and italics. As is evident from the above, IRDA has prescribed a cap of 10% of Capital Employed or 60% of Net Worth, whichever is lower, for investment in Bonds (and equity, which is not applicable as per EPFO’s Investment Pattern) of PFI’s. The Capital Employed typically consists of Net Worth and all the long term liabilities.

Proposal for Enhancing the Exposure Limit

In view of the above, it is proposed to enhance the ‘Exposure’ limit for investments in PSU/PSFI/PSB category. It is suggested that the ‘exposure limit’ should be 10% of Capital Employed or 60% of Net Worth, whichever is lower as specified by IRDA.

It is proposed that the exposure limit to PSU/PSFI/PSB category be further revised in case of only those issuers that are rated dual AAA. As far as the eligible issuers having less than dual AAA rating are concerned, the older limits of 40% for the PSU/PSFI category and 45% for the PSB category may be maintained. For the bonds issued by Private Sector Companies eligible for investments, the original exposure limit of 25% and 30% (of the net worth) for the non banking companies and banks respectively should be adhered to.

The item is placed before the Finance and Investment Committee for consideration and recommendation to the Central Board of Trustees.
Item No.11: Multi Banking Arrangements for Collection of EPFO Dues

State Bank of India has been the sole Banker for collecting the contribution for EPFO under dual banking network of Base Branch working under a Link Branch, for each Regional Office/ Sub-Regional Office. A detailed standard Reference Note on Banking Arrangement with SBI is placed at Annexure-I.

2. The collection agreement with SBI has expired in May, 2008 and the revision of agreement has been due. As demanded by the SBI, the revised collection charges to Rs.3 per Rs.1000 in place of existing collection charges of Rs.1.50 per Rs.1000 for Link Branch and Rs.2.00 per Rs.1000 for Base Branch as well as the Rs.2 lac per Link Branch as the facilitation charges for introducing the collection through e-challan is pending finalization. The purported logic behind raising the rate was the discontinuance of cross-subsidisation between treasury and collection businesses as well as the loss of floats available to the Bank at present which they would be loosing after introducing the collection through e-challan. Despite intervention of Ministry of Labour & Employment and Ministry of Finance, agreement could not be finalized on mutually agreeable terms. Rather, SBI has unilaterally enforced revised rates of collection @ Rs.3 per thousand w.e.f. 01.12.2009 and has stopped implementing the e-challan collections at centres other than Gurgaon & Kamal which were started on experimental basis.

3. Earlier agreements designated SBI as Sole Collection Banker for EPFO. Now, when there is no agreement in-force, Multi Banking for collection may be explored, on e-challan platform. E-challan modality ensures the transfer of fund electronically and there is no float available to bank. At present, lot of technological upgradation has happened in the banking sector. In order to take benefits on these technological advancements, services of a consultant may be required to select the right kind of Bank with right kind of technology to cater our requirements. Under expert guidance of the consultant, shortlisting of the banks may be done in two bid system of technical evaluation and financial bid in addition to the pre-bid conference.

4. The process of gathering the data of all the collection branches of SBI has been initiated, which is proposed to be matched with those of the prospective banks. For initiating the process, approval may be accorded for:

a) Appointing a consultant through competitive bidding
b) To consider collection of contributions through e-challan modalities by separate banks on zonal basis adopting two bid system.

However, in order to facilitate the collection of contribution through multi-banking certain provisions of the EPF Scheme, 1952 would require amendment. Detail of the amendments proposed is placed at Annexure-II.

Proposal: The proposal for taking decision on Multi Banking Arrangement for collection of funds is placed for consideration of the FIC and for recommendation to the Executive Committee for approval.
Standard Reference Note on Banking Arrangement

State Bank of India (SBI) has been the sole Banker for collection since beginning i.e. 1952. Collections of contribution received from the establishments is under a dual banking network of Base Branches, working under a Link Branch, for each Regional Office/Sub-Regional Office (RO/SRO). Presently the transfer of fund from base branch to Link branch happens by way of Demand Draft with duplicate copy of challans sent to the link branch which is forwarded to the RO/SRO concerned with a Bank Statement on weekly basis. A regular reconciliation at RO/SRO level is done on monthly basis, looking for the correctness of debit/credit to the proper account, timely transfer of money (i.e. within 3 days for the local base branch to link branch & 5 days for outstation base branch to link branch) and any missing debit or credit.

Earlier the rate for collection charges have been as below:

<table>
<thead>
<tr>
<th>Period</th>
<th>Collections at Link Branch</th>
<th>Collection at Base Branch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Since 1990 to April 2001 No formal agreement it was only an arrangement</td>
<td>Nil</td>
<td>Rs.2.50/1000</td>
</tr>
<tr>
<td>First formal agreement in 2001 for 5 year</td>
<td>Rs. 1.50/1000</td>
<td>Rs. 2.50/1000</td>
</tr>
<tr>
<td>Second agreement signed in 2007 w.e.f 21st May 2006 for 2 years</td>
<td>Rs. 1.50/1000</td>
<td>Rs. 2.00/1000</td>
</tr>
</tbody>
</table>

Since 21st May 2008 the agreement stands expired. While renewing this agreement, SBI had proposed the following vide their letter No. SME/L&TP/187 dated 19.09.2008 (Annexure I) wherein separate rates are provided for collection & MIS.

i. Challan transfer Rs.5 per thousand irrespective of link branch or base branch.
ii. If challan based charges, Rs.120 per challan.
iii. For all fund transfers, other than challan transfers (collection of contributions) Bank's usual charges will be levied for each transfer.
iv. Statement certification charges- Rs.250 per occasion.
v. Duplicate statement on request- Rs.100/-
v. New process implementation -- Rs 2 lacs per centre (link Branch) for further roll outs.
vii. Usual charges will be levied for transfer of funds as per instruction of EPFO.
viii. SBI will not accept any cheque which requires an outstation (other than clearing) collection for receipt of contributions. Such cheques may be accepted for departmental remittances/transfers, but normal collection charges will be levied.

The reason cited for this steep increase vide SBI letter No.SME/L&TP/333 dated 26.02.09 (Annexure-II) was that earlier charges were based on a package deal with an element of cross-subsidization between the treasury and collection business. With introduction of multi-fund managers, SBI had no choice but to protect the profitability of the services offered by it to EPFO. However during year 2007-08, EPFO paid Rs.48.81 crores as collection charges to SBI. The
income collection charges and transaction charges paid to the bank for treasury (investment) during corresponding year is mere 2.79 crores. It is pertinent to mention here that from 1995 onwards to 16th Sep 2008 SBI has been the sole portfolio Manager. Before 1995 the investment were done by Reserve Bank of India. Post 16th September 2008, SBI has been put under competition with Multi Fund Managers and has been managing only 30% of EPF Corpus.

- The proposed agreement was further discussed and moderated and SBI vide its letter No.SME/L&T/023 dated 04.05.09 (Copy enclosed) offered revised agreement conditions as below (Annexure III):

1. A flat charge of Rs.3 per Rs.1000 to be paid by EPFO for receipt of EPF contributions both at base branches and link branches.
2. An implementation charge of Rs.2 lakhs per center to be paid by EPFO for implementation of new process
3. The agreement to be valid for 5 years from the date of expiry of the previous agreement i.e., with effect from 21st May 2008.
4. This rate is applicable only if SBI is the sole banker to the collection business of EPFO contributions.

- EPFO & SBI had mutually agreed to implement the modalities of e-challan for the collection of money and the same has been successfully piloted at Gurgaon and Karnal. E-challan modality ensures the transfer of fund electronically and there is no float available to the Bank. SBI required a dedicated support system to facilitate collection through e-challan and providing MIS to RO/SRO on the same day and enabling Computerized Receipt Accounting System (CRAS) uploadable challan, which can be loaded to CRAS. SBI insisted that the cost borne by the EPFO @ Rs.2 lacs per centre i.e. Link Branch, coming to Rs.2.40 crores.

- As the implementation cost was beyond the regular rates & fees, an approval was required from Executive Committee, CBT(EPF). In detailed discussion during the Executive Committee meeting held on 03.07.2009, it was raised that:
  i. The RBI/Govt proposed rates for collection is at Rs.45/challan or Rs.1.18/1000. The same should be extended to EPFO’s business.
  ii. Offer of rates subject to condition that “SBI will be sole banker” seems to be monopolistic and restrictive trade practice.
  iii. The rate should have been proposed keeping the volume of collection in view, that too has been ever increasing.
  iv. Explore the possibility of shifting the Bank or exploring multi-banking.

Copy of Agenda item placed before EC and minutes of meeting are placed at Annexure IV

- However, as per RBI guidelines (Ref: letter No. DGBA/GAD No. H-2625-2658/31.12.010(c)/2004-05 dated 17.12.2004, Annexure-V.), the Govt. business is defined as below:
  - Revenue receipts and payments on behalf of the Central/State Governments
  - Pension payments in respect of Central Government and State Governments
  - Special Deposit Scheme (SDS) 1975, Public Provident Fund (PPF) scheme
  - Senior Citizen Savings Scheme (SCSS)
Any other item of work specifically advised by Reserve Bank as eligible for agency commission (viz. Relief Bonds/ Savings Bonds etc. transactions)

Evidently, EPFO’s business does not qualify to be Govt. business in view of the definition given as above.

- A DO letter was written by CPFC to the Chairman, SBI (D.O.No. Bkg.1(5)2006/Agreement/ dated 20.07.2009) requesting to review the conditions raised in draft agreement (Annexure VI).
- A DO letter was also written by Secretary(Labour) to the Finance Secretary requesting to intervene in the matter and convene a meeting in which Chairman, SBI could be invited and all issues could be resolved. (D.O. No. LS/MS/EPFO/2009 dated 17.08.2009, Annexure VII).
- In response to CPFC’s DO letter dated 20.07.2009, DY.M.D. and Group Executive of SBI has replied vide letter No. SME/L&TP/77 dated 20.08.09 that (Annexure VIII):
  - The transaction of EPFO do not fall under the category of Government Business as EPFO is neither Department of Government nor does mention an account with RBI.
  - Bank will not be able to continue further with the New Process without paying of Rs.2 lacs per centre by EPFO.
  - No comparison can be made between EPFO & ESIC charges due to different in business module.
  - SBI is directing its branches to charge @Rs.3 per thousand w.e.f. 01.09.2009.
  - New technological process is also being put on hold till EPFO pays Rs.2 lacs per RO.
  - SBI is claiming differential amount till Rs.3 per thousand for payments from 21.05.2008 on all transaction done.
  - SBI has asked EPFO to streamline and align intra-day overdraft granted to ROs.
- Vide letter under reference CGM, SME, SBI again threatened to instruct all SBI branches to recover the charges on collection business at the revised rate, i.e. Rs.3 per Rs.1000, with effect from 10th October, 2009 (Annexure IX). The bank also requested EPFO to arrange for payment of arrears of difference of Rs.3 per Rs.1000 and the actual charges paid with effect from 21st May, 2008.
- Evidently, the SBI is bent upon unilateral enforcement of rates with retrospective effect and EPFO is forced to follow dictum of the SBI.
- In response to Labour Secretary’s D.O. letter to Finance Secretary, a tripartite meeting was convened by Shri K. V. Eapen, Joint Secretary (Banking Administration) on 04.11.2009 wherein FA & CAO represented EPFO and Dy.MD & Group Executive and CGM, SME were present on behalf of the SBI. During the discussion, Dy. MD, SBI agreed to reduce the period of agreement even upto 2 years and to waive off the condition of SBI being the sole collection Banker. However, on waiver of the proposed charges of Rs.2 lakhs per centre for implementation of new process, he stated that this has to be decided by SBI Board. Dy. MD also stated that SBI has spent a lot on the EPFO’s BPR Project implementation and they would not like to extend such services free of cost.
- He also emphasized that since the EPFO has taken a business decision by introducing Multiple Fund Managers for managing their corpus, the SBI is also compelled to take a similar decision based upon the actual cost of facilitating the transactions relating to the PF Collections. Dy MD concluded that since the SBI has lost the status of being the sole fund manager, the cross-
subsidy enjoyed by the EPFO in the rates and fees of PF collection could no more be extendable. The meeting ended without any final solution.

For considering alternatives to existing banking arrangements, it is necessary to delve into efforts made for introducing multibanking for collection of funds. While discussing the Item No. 2 of 91st meeting, Finance & Investment Committee desired to approach top ten banks on the basis of their branch spread and as to how quickly they could transfer the collected money to respective investment accounts and arrangement they may propose for sending physical challans to the designated EPF offices.

Accordingly top ten public sector banks were approached and requested to give their expression of interest before 30th June 2008 with full particulars such as:

i. Name, address and Organizational Structure of the Bank.

ii. Number of Branches and Geographical Spread.

iii. How quickly the bank could transfer the collected money from the base branches to the link branch and ultimately to the respective investment accounts and arrangements they may propose for sending physical challans to the designated EPF Offices.

iv. Detailed customized solution for the proposed assignment, covering all points at para 3 above.

v. Any other relevant information

In response, 7 Banks expressed interest for collection of contribution and administrative charges under the three schemes.

- From the proposals received, it was seen that all the banks had proposed to transfer the funds collected to the Central Accounts within a period ranging T+0 to T+3 working days and for transfer of challans from T+3 to a Fortnight.

- However, no bank except Union Bank of India had quoted the service charges for handling the collection. Union Bank had quoted Rs.1.50 per thousand rupees of collection. The Union Bank of India approached EPFO to understand our business and developed customized software for e-collection which is ready for trial run.

- The banking arrangement of EPFO involves lakhs of transactions which are ultimately to be reconciled and accounted for and even slightest mistake in software would have led to huge accounting problems. Appointment of multiple collection banks in manual system would have complicated the reconciliation work. Similarly, in shifting the collection Banker from SBI to some other Bank, a huge reconciliation on account of debits/credits, which is always in pipeline as part of a continuous process, may pose a serious challenge. Moreover, some 3800 branches of SBI & its Associates are involved in facilitating the collection from all across the country; it may have been difficult to substitute with any other Bank on Branch strength. Thus, multibanking for collection of funds was not implemented and e-challan initiative was continued with existing banker i.e. SBI.

-
• However, now a deadlock situation has emerged wherein the SBI is bent upon unilateral enforcement of rates with retrospective effect and EPFO is forced to follow dictum of the SBI. The Bank has also put on hold e-challan implementation till payment of Rs.2 lac/centre.

• Considering unilateral dictum of SBI to implement revised rates, an item was placed for decision of Executive Committee in its 67th meeting held on 04.12.2009.

• EC decided that EPFO may work with SBI on agreed terms arrived at through involvement of MoL and MoF for a timeframe of 2 to 3 years. Meanwhile, the organization may start negotiations with other Banks for exploring the possibility of switching over the collection business to other Banks.

• Recently, a letter from the Department of Financial Services has been received seeking comments on SBI's letter No. SME/L&TP/165 dated 16.11.2009 which has not been directly received in EPFO till date.

• Vide above referred letter, SBI has asked Rs.3/Rs.1000 as collection charges and has reiterated its old stand on charging Rs.2 Lac per centre as implementation charge for facilitating collection through e-challan (New Process).

• As this letter expecting our reply by 30.11.2009 failing which the collecting charges of Rs.3/Rs.1000 were proposed to be made effective w.e.f. 01.12.2009, was not received, comments could not be offered. Again vide letter dated 07.12.2009, SBI has communicated that it has advised its concerned branch to recover charges for collection of EPF contribution @ Rs.3/Rs.1000 irrespective of link or Bank Branch and applicable service tax w.e.f. 01.12.2009.

• References are being received from our field formations that SBI has started charging collection fees at revised rates.
28. Transfer of accumulations from existing Provident Funds.- (1) Every authority in charge of, or entrusted with the management of, any Provident Fund in existence the accumulations wherein are to be transferred to the Fund under sub-section (2) of section 15 of the Act, or sub-section (5) of section 17 thereof, as the case may be shall—

(i) send to the Commissioner a statement showing the amount standing to the credit of each subscriber on the date of the transfer, the total accumulations to the credit of subscribers generally on that date and the advances, if any, taken by the subscribers within twenty-five days of the application of the Scheme, or cancellation of exemption, as the case may be,

(ii) transfer to the Fund in the manner specified in sub-paragraph (2) the total accumulations standing to the credit of the subscribers in relation to each factory or other establishment within ten days of the application of the Scheme, or cancellation of the exemption, as the case may be, in case of liquid cash in bank and within thirty days in case of securities, and

(iii) transfer to the Central Board all pass books, books of account and other documents relating to the said accumulations.

(2) All accumulations standing to the credit of the subscribers, howsoever invested, shall be transferred to the Fund by the authority aforesaid in cash:

Provided that where the whole or any part of such accumulations consists of investments in Government securities, or in securities guaranteed by appropriate Government as regards repayment of principal and payment of interest or in both, the authority making the transfer to the Fund shall transfer those securities at the price for which they were actually purchased or transfer a sum equivalent to such price. In case, however, the whole or any part of such accumulations is invested in National Savings Certificates or National Plan Savings Certificates, the appreciated value of such certificates at the time of the transfer will be taken into account in determining the amount of the accumulations to be transferred, provided that the difference between the face value of such certificate and their appreciated value at the time of the transfer has already been credited to the accounts of the subscribers:

Provided further that where the whole or any part of such accumulations consists of investments in securities bearing no guarantee of an appropriate Government as regards repayment of principal and payment of interest, the Central Government may, in exceptional cases, allow acceptance of the transfer of such securities from the authority making the transfer to the Fund at the price for which they were actually purchased.

Explanation: The total amount of provident fund accumulations includes interest thereon and the authority in charge of the Fund shall transfer in cash any balance of interest on investments which happens to be undistributed on the date of the transfer, or realised or realisable for the period prior to the registration of the securities in the name of the Central Board of Trustees, Employees' Provident Fund.

(3) Any cash transferred under sub-paragraph (2) shall be deposited in any office or branch of the Reserve Bank of India or the State Bank of India or such other Scheduled Bank as may be specified by the Central Government from time to time in this regard to the credit of the Central Board and the receipt obtained in respect thereof shall be forwarded to the Commissioner:

Provided that where there is no office or branch of either of the two Banks at the place where the factory or other establishment is situated the amount shall be credited to the Central Board by means of a Reserve Bank of India Governmental Draft at par.

(4) The accumulations transferred to the Fund in accordance with this paragraph shall be credited to the account of each of the members of the Fund, to the extent to which he may be entitled thereto.
having regard to the statement furnished by the authority aforesaid.

(5) When the accumulations in any such Provident Fund as is referred to in sub-paragraph (1) have been so transferred to the Fund, the Commissioner may, by notification in the Gazette of India, declare that the subscribers of such Provident Fund have now become members of the Fund and that the accumulations aforesaid have now become vested in the Central Board.

8. Mode of payment of contributions:-(1) The employer shall, before paying the member his wages in respect of any period or part of period for which contributions are payable, deduct the employee's contribution from his wages which together with his own contribution as well as an administrative charge of such percentage of the pay (basic wages, dearness allowance, retaining allowance, if any, and cash value of food concessions admissible thereon) for the time being payable to the employees other than an excluded employee, as the Central Government may fix. He shall within fifteen days of the close of every month pay the same to the fund by separate bank drafts or cheques on account of contributions and administrative charge:

Provided that if the payment is made by a cheque, it should be drawn only on the local bank of the place in which deposits are made: Provided further that where there is no branch of the Reserve Bank or the State Bank of India or such other Scheduled Bank as may be specified by the Central Government at the station from time to time in this regard where the factory or other establishment is situated, the employer shall pay to the Fund the amount mentioned above by means of Reserve Bank of India Governmental Drafts at par separately on account of contributions and administrative charge.

(2) The employer shall forward to the Commissioner within twenty-five days of the close of the month, a monthly abstract in such form as the Commissioner may specify showing the aggregate amount of recoveries made from the wages of all the members and the aggregate amount contributed by the employer in respect of all such members for the month:

Provided that an employer shall send a Nil return, if no such recoveries have been made from the employees:

Provided further that in the case of any such employee who has become a member of the pension fund under the Employees' Pension Scheme, 1995, the aforesaid form shall also contain such particulars as are necessary to comply with the requirements of that Scheme.

(3) The employer shall send to the Commissioner within one month of the close of the period of currency, a consolidated annual contribution statement in Form 6A, showing the total amount of recoveries made during the period of currency from the wages of each member and the total amount contributed by the employer in respect of each such member for the said period. The employer shall maintain on his record duplicate copies of the aforesaid monthly abstract and consolidated annual contribution statement for production at the time of inspection by the Inspector.

48. Current Account:- The Commissioner shall deposit the Bank drafts or cheques received from the employers in the Reserve Bank or the State Bank of India or such other Scheduled Bank as may be specified by the Central Government from time to time in this regard at the station in the Current Account of the Fund.