99th Meeting of the
FINANCE AND INVESTMENT COMMITTEE

[CENTRAL BOARD OF TRUSTEES, EMPLOYEES' PROVIDENT FUND]
on
28/07/2010 at 11.00 A.M.

VENUE:
Conference Hall, 3rd Floor,
EPFO Headquarters,
Bhavishya Nidhi Bhawan,
14, Bhikaiji Cama Place,
New Delhi – 110 066.
Draft Minutes of the 99th Meeting of the Finance & Investment Committee held on 28.07.2010

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

(a) The following were present in the meeting:

<table>
<thead>
<tr>
<th></th>
<th>Name</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Shri S. Chatterjee</td>
<td>Chairman, Finance and Investment Committee, CBT, EPF and Central Provident Fund Commissioner, Employees' Provident Fund Organisation, Head Office.</td>
</tr>
<tr>
<td>2</td>
<td>Shri Chaman Kumar</td>
<td>Vice Chairman, Finance and Investment Committee, CBT, EPF, and AS &amp; FA, Ministry of Labour and Employment, Government of India.</td>
</tr>
<tr>
<td>3</td>
<td>Shri S K Verma</td>
<td>Director (Social Security), Ministry of Labour and Employment, Government of India.</td>
</tr>
<tr>
<td>4</td>
<td>Dr. G. Sanjeeva Reddy</td>
<td>Member, CBT, EPF (Employees' Representative)</td>
</tr>
<tr>
<td>5</td>
<td>Shri A D Nagpal</td>
<td>Member, CBT, EPF (Employees' Representative)</td>
</tr>
<tr>
<td>6</td>
<td>Shri B N Rai</td>
<td>Member, CBT, EPF (Employees' Representative)</td>
</tr>
<tr>
<td>7</td>
<td>Dr. Ram S. Tarneja</td>
<td>Member, CBT, EPF (Employees' Representative)</td>
</tr>
<tr>
<td>8</td>
<td>Shri Sharad Patil</td>
<td>Member, CBT, EPF (Employees' Representative)</td>
</tr>
<tr>
<td>9</td>
<td>Shri Abhay Kr. Singh</td>
<td>FA &amp; CAO, EPFO and Convener</td>
</tr>
</tbody>
</table>

(b) The following also attended:

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

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

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

The minutes were unanimously approved by all the members.

**Item 2: Statement on the Actions Taken on the Recommendations of the EPFO**

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

**Item 3: Appointment of a Consultant for Selection of Fund Managers and their Performance Evaluation- Regarding.**

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

i) Appointment of the new Fund Managers

ii) Performance Appraisal of the Fund Managers

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

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

FA & CAO proposed the constitution of a three member committee consisting of the officers of EPFO to carry out the exercise of selection of Consultant.
Some members suggested that the composition of the committee may be broadened to include the representatives of the Employers and Employees, one from each side. It was decided to recommend the proposal to the CBT as under:

The Proposal

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

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

The item was approved.

Item 5: Cleaning of Data - Inoperative Accounts - Regarding

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

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

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

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

Item 6: Performance of Portfolio Managers of EPFO - Regarding.

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

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

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

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

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

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

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

## AGENDA BOOK

99th Meeting of the Finance & Investment Committee, CBT, EPF

**Date:** 28.07.2010  
**Time:** 11.00 AM  

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<th>Agenda</th>
<th>Page No.</th>
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<tr>
<td>2.</td>
<td>Action Taken Report on the recommendations of the 98th Finance and Investment Committee</td>
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<td>3.</td>
<td>Appointment of a Consultant for Selection of Fund Managers and their Performance Evaluation.</td>
<td>34-38</td>
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<tr>
<td>4.</td>
<td>Including Brickwork as an approved Credit Rating Agency</td>
<td>39-41</td>
</tr>
<tr>
<td>5.</td>
<td>Any other item with the permission of the chair</td>
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</table>
Item No. 1: Confirmation of the Minutes of 98th Meeting of the Finance and Investment Committee held on 26.02.2010 at EPFO Headquarter New Delhi.

Minutes of 98th Finance and Investment Committee meeting held on 26.02.2010 was circulated vide letter No. Invest.1/1(98th)/FIC/2010/1292-1357/ dated 08.04.2010. No comments have been received on the minutes of the above said meeting. Copy of the minutes is enclosed as Annexure – A (Page No. 2 to 8).

Minutes may be taken as confirmed.
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:

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(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 actual 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 Tameja 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. Tameja further stated that the Item to 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 of 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, within 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-I 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.
### Item No 2: Statement on the actions taken on the recommendations of the 98th Finance & Investment Committee.

<table>
<thead>
<tr>
<th>Ref:</th>
<th>Subject</th>
<th>Decision</th>
<th>Action Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>Item No.3 of 98th FIC held on 26.02.2010</td>
<td>Recommendation of rate of interest to be credited to the EPF member's accounts for the year 2010-2011.</td>
<td>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%.</td>
<td>The item was placed in the 189th meeting of CBT,EPF held on 09.04.2010 for approval.</td>
</tr>
<tr>
<td>Item No.4 of 98th FIC held on 26.02.2010</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)-Regarding.</td>
<td>It was decided that the matter may be placed before the COD for an appropriate decision guidance again.</td>
<td>The case has been referred to C.O.D., for their re-consideration.</td>
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<tr>
<td>Item No.5 of 98th FIC held on 26.02.2010</td>
<td>CBT, EPF - Deletion of delayed period interest entries below Rs. 1000/- generated by SBI system up to 30.09.2009.</td>
<td>The Item was approved</td>
<td>The item was approved by the 189th CBT,EPF held on 09.04.2010. Necessary direction issued to SBI, Mumbai vide letter No. Invest.1/1/(141)/Defaulter /09/PL/07.07.2010. (Annexure -TB_PI_Np_12)</td>
</tr>
<tr>
<td>Item No.6 of 98th FIC held on 26.02.2010</td>
<td>Relaxation in investment guidelines for investments in Private Sector Bonds</td>
<td>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(s); and the matter was placed before the 189th meeting of CBT held on 09.04.2010 and was approved. The decision of CBT was communicated to the Fund Managers through e-mail on 11.05.2010.</td>
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<tr>
<td>Item No.7 of 98th FIC held on 26.02.2010</td>
<td>Quarterly Review of the performance of the Portfolio Managers for the quarter ending on 31.12.2009.</td>
<td>The Committee took note of the performance of different Fund Managers and expressed concern over the dismal 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.</td>
<td>EPFO's concerns were clearly conveyed to the low performing Fund Managers in the Quarterly Performance Review Meeting held with them.</td>
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<td>Item No.8 of 98th FIC held on 26.02.2010</td>
<td>Dropping past cases of penalty on belated credits.</td>
<td>Committee desired that before taking any decision on the matter, response may be sought from the concerned RPFCs. The item was thus deferred.</td>
<td>Necessary direction already issued to the RPFCs concerned vide letter No. Invest.1/1 (141)/Default er/2009/11030-11041 dated 28.06.2010, following which action have been initiated by the concerned RPFCs – their responses are placed at Annexure – C. RPFCs have been requested to fix a time frame within which the recoveries would be completed. The agenda would be re-introduced to the FIC once a full evaluation is done and communicated by the concerned field offices.</td>
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<tr>
<td>Item No.9 of 98th FIC held on 26.02.2010</td>
<td>Two years tenure of engagement of the Portfolio Managers to end on 31.03.2011</td>
<td>The Committee felt that is 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 formalized through CBT meeting well in advance before completion of tenure.</td>
<td>To initiate the process of selecting the new Fund Managers, the item regarding Appointment of Consultant for the same is put up at S. No. 3</td>
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<tr>
<td>Item No.10 of 98th FIC held on 26.02.2010</td>
<td>Change in the Existing Guidelines for increasing the exposure limits for PSU/PSFI/PSB investments</td>
<td>The Item was approved for recommending to the CBT.</td>
<td>189th CBT approved the item.</td>
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No: Invest 1/1(141)/Defaulter/09/Pt. 1205
Date: 07-07-2010

To

The Deputy General Manager,
State Bank of India,
Securities Services Branch,
2nd Floor, Mumbai Main Branch Building,
Mumbai Samachar Marg,
Mumbai-400 001

Sub:- CBT EPF – Deletion of delayed period interest entries below Rs. 1000/-
Generated by the system upto 30.9.2009.

Sir,

I am to invite a reference to your letter no. SSB/PMS/NEK/007435 dated 20.10.2009 on the above-cited subject.

Your advice pertaining to the list of 1326 entries of delayed period interest upto Rs. 1000/- aggregating to Rs. 1,87,736.00 was considered by the 98th CIC, CBT meeting held on 26-02-2010, and was approved. Accordingly, you are hereby advised to delete the entries and ensure that such system-generated entries do not occur in future.

Yours faithfully,

(K.L. GOYAL)
REGIONAL P.F. COMMISSIONER – I
No. Invest. I/(141)/Defaulter/2009

Dated: 06 July, 2010

To

The Regional Provident Fund Commissioner
Delhi (North), Shimla, Nagpur, Pune, Chandigarh, Mumbai (Bandra)

Subject: Recovery of overdue interest on belated credits on EPFO investment - regarding.


Sir,

With reference to the context cited above I am directed to invite a reference to our communication referred to above and the subsequent reminders issued thereafter. It is unfortunate to see that there has been no feedback on the action that has been taken by your office on the issue. The Finance and Investment Committee of CBT, EPF has taken a serious note that there has been no report from your office on the action that has been requested for.

The next meeting of the Finance and Investment Committee is scheduled for 26th July, 2010 and the action taken by each of the field offices is to be apprised. Accordingly it is requested that an immediate feedback in the matter may be given by return fax.

Yours faithfully,

(K.L. SOYAL)
REGIONAL PROVIDENT FUND COMMISSIONER-I (IMC)
To

The Regional Provident Fund Commissioner-I

Delhi Shinde (HP), Nagan (MMP), Chandorkar (HP),

Delhi, Mumbai, Central, Pune (MMP), Nagoa

Sub: Recovery of Over due Interest on belated credits on EPFO
Investment - regarding

Sir,

Please refer to this office letter no. Invst. I/1 (141)/Defaulter/2009 dated 23-11-2009 (Copy enclosed) on the above cited subject.

The action taken in this context is to be apprised to the FIC, CBP. It is accordingly requested that the latest update may kindly provided by return Fax.

Yours faithfully,

(R.G. EGVAL)

REGIONAL P.P. COMMISSIONER-I (MMP)

Copy to:- ACC for information & further action please.

Shinde, Nagan, Chandorkar, Delhi,
Bandra (Mumbai), Pune

Default cases
The issue pertains to investment of EPFO Funds in the various Central and State Public Sector Undertakings. The State Bank of India as the Portfolio Managers for the Central Board of Trustees, EPF Funds, as part of its default-management practices, 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 of delay used to lodge claims for charging penalty from the Issuers for such belated credits @2 percentage points over and above the coupon rate of the respective security.

However, it has been seen that the Issuers hardly acknowledged delay as a default on their part and desisted from paying up. This has led to piling up of a large number of cases where the claim has been made by SBI but there has been no recovery.

It is in this context letters were issued on 28-08-2009 followed by subsequent reminders dated 7-10-2009 & 9-10-2009. As a matter of fact, these demands may not be legally enforceable. But there are certain established market conventions where delay in payment of Interest/Principal are subjected to Levy of Penal Interest. In view of this fact, the concerned establishments may be persuaded to pay the dues.

Faithfully,

FINANCIAL ADVISOR & CHIEF ACCOUNTS OFFICER

(ABHAY, K. SINGH)
To,
The Regional Provident Fund Commissioner –
Employees' Provident Fund Organization
Regional Office, Delhi (NCR), All India

Subject: Recovery of overdue interest on belated credits on EPFO investments – regarding

Sir,

I am directed to invite a reference to this office letters of even number dated 28th August and 7th October 2009 on the subject cited above. Since no reply on the status has been received, it has been directed by the Finance & Investment Committee, GBT, EPF in their 56th meeting held on 8th October 2009 that the matter may be placed in the next FIC meeting scheduled to be held on 24th October 2009.

It is accordingly requested that the status of the cases may kindly be prepared for presentation in the ensuing Regional PF Commissioners' conference scheduled for the 1st week of October 2009 in New Delhi.

Yours faithfully,

[Signature]
Regional PF Commissioner, [Name]

[Stamp]
REMINDER

EMPLOYEES' PROVIDENT FUND ORGANISATION
(Ministry of Labour, Govt. of India)

Bhavishya Nidhi Bhawan, 14, Bhikaji Cama Place, New Delhi - 110 006.


To

The Regional Provident Fund Commissioner-I

Sir,

Please refer to this office letter of even number dated 28th August, 2009 from the FA&CAO, EPFO on the subject cited above.

In this connection, it may be informed that the 96th FIC meeting is scheduled to be held on 8th October, 2009. Accordingly, it is requested that the input from your side on the matter may kindly be provided since it is expected that the Finance & Investment Committee may need to be apprised of the same. An early action by way of your personal attention is requested please.

Yours faithfully,

Regional Provident Fund Commissioner-I

K.L. Goyal
The issue pertains to investment of EPFO Funds in the various Central and State Public Sector Undertakings. The State Bank of India as the Portfolio Managers for the Central Board of Trustees, EPF Funds, as part of its default management practices, 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 of delay used to lodge claims for charging penalty from the Issuers for such belated credits @2 percentage points over and above the coupon rate of the respective security.

However, it has been seen that the Issuers hardly acknowledged delay as a default on their part and desisted from paying up. This has led to piling up of a large number of cases where the claim has been made by SBI but there has been no recovery.

The matter was considered by the Finance & Investment Committee in their 95th Meeting held on 18.8.2009. The Finance and Investment Committee while deliberating on the issue have been of the opinion that genuine efforts for realizing these dues are to be made at the level of the Regional Provident Fund Commissioners of the respective regions by way of persuasion and utilizing their goodwill.
The details of such cases falling under your jurisdiction is as under:

<table>
<thead>
<tr>
<th>Sl.No.</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>
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<td></td>
<td></td>
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</tr>
</tbody>
</table>

Accordingly, you are requested to take action as suggested by the Finance & investment Committee, CBT, EPF. A report within a fortnight shall be appreciated.

Yours faithfully,

(Abhay Kumar Singh)
Financial Advisor & Chief Accounts Officer.

[Signature]

[Issued]
To,
The Central P. F. Commissioner
New Delhi

(Kind attention: Sh. K. L. Goyal, RPFC-I (IMC)

Subject: Recovery of Overdue Interest on belated credits on EPFO Investment - Regarding.

Sirs,

Kindly refer to your office letter no. Invest. I/(161)/Defaulter/2009/11035 dated 26/06/2010


The matter of recovery of overdue interest on belated credits has already been referred to

with the concerned authorities of PSEB (as per the enclosed list of securities) all of which are

only PSEB, Punjab). It is once again requested to kindly furnish the detail of investment made with

PSEB to pursue the case further.

Yours faithfully,

Regional P. F. Office

[Signature]

[Date]
EMPLOYEES' PROVIDENT FUND ORGANISATION
(Ministry of Labour, Govt. of India)
REGIONAL OFFICE, S.C.O. 4-7,
SECTOR-17D, CHANDIGARH-160017


The Secretary,
Punjab State Electricity Board,
Head Office, Patiala.

Subject: Recovery of Overdue interest on belated credits on EPFO Investment - Regarding.

As you may be aware that EPFO has made investment of EPF amount in your Board from time to time. The interest received on such investment have been received after due date as per detail enclosed.

It is therefore, requested to kindly release the amount of overdue interest of Rs. 1,33,906/- so that the same may be credited in the EPFO

Yours faithfully,

(Dr. Ved Parkash)
Regional P.F. Commissioner (III)

Copy to:
Shri. K. L. Goyal, R.P.F.C (II)(MC) , Head Office, New Delhi

(Dr. Ved Parkash)
Regional P.F. Commissioner (II)
Dear Sir,

CENTRAL BOARD OF TRUSTEES EMPLOYEES' PROVIDENT FUND (CBTEPF)  
WAIVER OF DELAYED RECEIPT OF INTEREST AND MATURITY PROCEEDS OF VARIOUS SECURITIES OF GUJARAT INDUSTRIAL INVESTMENT CORPORATION LTD. (GIIC)

We advise that the delayed period interest, details as per annexure aggregating Rs.64,450/- was claimed from GIIC on account of delayed receipts of coupon and maturity proceeds in order to protect CBTEPF's interest. The matter was continuously followed up with GIIC for payment of delayed period interest for considerable amount. Under these circumstances,

2. GIIC has advised vide their letter No.GIIC/GM(F)/1375 dated 22.10.2009 (copy enclosed) that they have dispatched the interest/maturity cheques before due dates and the delay is transit delay/postal delay. It is also observed that although overdue interest on account of postal delay is automatically calculated by the system, the investor is not entitled for overdue interest in terms of provisions as per Information Memorandum pertaining to postal delay/unforeseen circumstances etc. and GIIC also do not accept such claims. In the present case the delay is postal delay of 1 to 4 days.

3. Further, GIIC has honoured their obligation by paying interest due and redemption amount, the prospect of recovery of delayed period interest amount by filing of the suit is bleak considering, cost of filing the suit, follow-up the case, non-availability of security...
and possibilities of the claim getting time barred etc. We are of the considered opinion that lodging of the claim and follow-up of suit shall not have any desired result.

4. In view of the above, we have marked off the delayed period interest entries, as per annexure enclosed from the system/report.

Yours faithfully,

DY. GENERAL MANAGER

Encl: as above
To,
State Bank of India
Securities Services Branch,
2nd Floor, Mumbai Main Branch Bldg.,
Mahatma Gandhi Mtr.,
Mumbai – 400 001.

Dear Sir,

Sub: Payment of interest on SLR Bonds - Non-convertible

This has reference to your letter no. SSB/PMS/RB/ dated 25.9.09 requesting for
payment of penal interest on delayed receipt of periodical interest/maturity proceeds of
SLR bonds.

In this regard, it may please be noted that the cheques were issued by the Corporation on
or before due date of maturity or the due date of payment of interest. However, if there is
delay in transit, the Corporation can not be held responsible and hence it is not
required to pay any interest/penal interest.

It may also please be noted here that in GLIC P.F. Trust also, we do not receive any
interest for delay in transit period.

Thanking You,

Yours truly,

For GLIC Limited.

[Signature]

GENERAL MANAGER (FINANCE)

C.C.TO:

Central Board of Trustees Employees' Provident Fund
Securities Services Branch, Main Branch Bldg.,
Mumbai Samachar Marg, Fort, Mumbai - 400001

Gandhinagar 382 001, (Guj.)
Phone: (079) 23249041-44 Fax: (079) 2323644
E-mail: gicmail@gileable.com
Website: http://www.glicindia.com
GUJARAT INDIAN INVESTMENT CORPORATION LTD.

OVERDUE INTEREST ON ACCOUNT OF DELAYED RECEIPT OF INTEREST

<table>
<thead>
<tr>
<th>SEC CD</th>
<th>PARTICULRS OF SECURITY</th>
<th>FACE VALUE</th>
<th>COUPON AMT</th>
<th>DUE DATE</th>
<th>RECD ON</th>
<th>NO OF DAYS DELAY</th>
<th>OVERDUE INTEREST @ 2.00% OVER REGULAR COUPON</th>
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</thead>
<tbody>
<tr>
<td>S10044</td>
<td>12.50% GJ GIC 2007</td>
<td>100,000,000.00</td>
<td>12,500,000.00</td>
<td>6-Jan-2005</td>
<td>10-Jan-2005</td>
<td>4</td>
<td>19,863</td>
</tr>
<tr>
<td>S10044</td>
<td>12.50% GJ GIC 2007</td>
<td>100,500,000.00</td>
<td>11,735,472.00</td>
<td>1-Dec-2005</td>
<td>14-Dec-2005</td>
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<td>4,662</td>
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<tr>
<td></td>
<td>TOTAL</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>24,525</td>
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</table>

OVERDUE INTEREST ON ACCOUNT OF DELAYED RECEIPT OF MATURITY

<table>
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<tr>
<th>SEC CD</th>
<th>PARTICULARS OF SECURITY</th>
<th>MATURITY AMOUNT</th>
<th>MATURITY DUE DATE</th>
<th>MATURITY RECD ON</th>
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<td>TOTAL</td>
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SUMMARY OF DUES

OVERDUE INTEREST ON DELAYED RECEIPT OF INTEREST 24,525
OVERDUE INTEREST ON DELAYED RECEIPT OF MATURITY 39,925
TOTAL 64,450

ANNEXURE

Amount in Rupees

TOTAL

OVERDUE INTEREST ON ACCOUNT OF DELAYED RECEIPT OF INTEREST

<table>
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SUMMARY OF DUES

OVERDUE INTEREST ON DELAYED RECEIPT OF INTEREST 24,525
OVERDUE INTEREST ON DELAYED RECEIPT OF MATURITY 39,925
TOTAL 64,450
To

The W.B Infrastructure Development Finance Corpn.
Kolkata-700001.

Sub: Recovery of Over due Interest on belated credits on EPFO Investment --- Regarding.

Sir,

Please refer to this office letter No. A/SPL/Security/Ex/C.C-VI/INF/WB/1164/09 dtd. 05/11/09 on the aforesaid subject. The Provident Fund amount investment made with you organization from time to time but the redemption has not been made in due time. The details of which is enclosed herewith.

In view of the above, you are again requested to deposit an amount of Rs.2,59,804/- as per interest claim for belated transfer amount as calculated in annexures to the Central Board of Trustees, Employees' Provident Fund immediately.

Encl: As above.

Yours faithfully,

(Chairman)

ASSISTANT P.F COMMISSIONER (EXEMPTED)
The Investments in Industrial Investment
Bank of India (IIBI)
Kolkata-700001.

Sub: Recovery of Over due Interest on belated credits on EPF Investment --- Regarding.

Sir,

Please refer to this office letter No. A/SPL/Security/Ex/C.C.-VI/INF/WB/1165 del. 05/11/09 on the aforesaid subject.

The Provident Fund amount investment made with you organization from time to time but the redemption has not been made in due time. The details of which are enclosed herewith.

In view of the above, you are again requested to deposit an amount of Rs.2,48,306/- as per interest claim for belated transfer amount as calculated annexures to the Central Board of Trustees, Employees Provident Fund.

Immediately.

Encl: As above.

Copy to:
(1) The Head Office, New Delhi for information. This has a reference to the Head Office letter dtd. 28/8/09, 27/9/09, 09/10/09 & 25/11/09 in this regard.
(2) The Assistant P.F. Commissioner (Cash) for information. This has a reference to his U.O dated 21/12/09 in this regard.
(3) Sh. S. Halder, E.O along with the H.O letter No. 14516 dtd. 28/8/09 supra and the annexures related to interest claim for belated transfer amounts on EPF investment in r/o the different authorities and H.O Letter No. 9340 dtd. 25/11/09 for information with the direction to persuade the above mentioned authorities for depositing over due interest on belated credits on EPF Investment to the Central Board of Employees Provident Fund and submit the report of the same to the undersigned at the earliest.
Regional Provident Fund Commissioner (Investment),
Employees’ Provident Fund Organisation,
Ministry of Labour & Employment,
Government of India,
Bhavishya Nidhi Bhawan,
14, Bhikaji Kama Place,
New Delhi 110066

Dear Sir,

Hindustan Cables Ltd. (HCL)
Non-payment of delayed period interest

This is to advise that HCL bonds were received as acceptance case in February 2005 and the coupon payments and maturity proceeds were received with delay.

1. Our Security Services Branch, Mumbai had taken up with HCL to pay interest for the period of delay. However, no response has been received from HCL.

2. HCL is a Central Government Undertaking. As such EPFO is better placed to take up matter with them through Government. We, therefore, request you to use your good offices and take up with HCL through Central Government for payment of delayed period interest and advise us in the matter.

3. We request you to give priority to the matter.

Yours faithfully,

Dy. General Manager
(PMS & CS)
By Name to: Shri K.L. Goyah, EPPC (RMC)

To,
The Central PF Commissioner,
EPP Organisation,
14-Bhikaji Cama Place,
New Delhi-66.

SUB: Recovery of overdue interest on belated credits on EPFO investment-reg.


Sir,

Kind reference is invited to the letters referred above on the subject cited.

In the light of letter dtd. 28.6.2010 and copy of the letter dtd. 23.11.2009 received with that, I have taken up the matter with the Executive Director, Vidarbha Irrigation Development Corporation (VIDC), Nagpur and Executive Director, Godavari Marathwada Irrigation Development Corporation, Aurangabad in both the letters dtd. 1.7.2010 (copies enclosed), as no earlier reference could be traced in this matter.

In this regard, it is also to submit that the Managing Director of both the establishments are Secretary (Irrigation) stationed in Mumbai and Aurangabad, and therefore it will be of advantage to provide the information at the level through ACC (MH&CH).

Yours faithfully,

Encl: As above

[Signature]

[K.C. P Narayanan]
Regional PF Commissioner-I
Nagpur Region.
The Executive Director,
Godavari Marathwada Irrigation Development Corp.
Amravati, Dharwad

SIR,

SD P. Recovery of overdue interest on related/short credit of interest/emission proceeds.

Sir,

As per the information conveyed to me by the Employees Provident Fund Organisation, Head Office, New Delhi, State Bank of India as the Portfolio Managers for the Central Board of Trustees, EPFO has invested EPFO funds in some of the Bonds/Financial Instruments issued by you, State Bank of India has also conveyed that in the case of some of the Bonds/Instruments there have been short credit of interest/deity in the crediting of interest/maturity proceeds and they have accordingly lodged claim with you in respect of such short/belated credits in accordance with the established market conventions. The details of the claim lodged by SBI as Portfolio Manager for EPFO is given in the annexure attached.

It is requested kindy to arrange immediate fulfillment of the claims by making payment to the SBI in terms of claim made by them for EPFO.

Awaiting immediate response from your side.

Yours faithfully,

[Signature]

K.C. J.P. Narayan
Regional PF Commissioner
Nagpur Region
SUB: Recovery of overdue interest on belated/short credit of interest/redemption proceeds.

Sir,

As per the information conveyed to me by the Employees Provident Fund Organisation, Head Office, New Delhi, State Bank of India as the Portfolio Managers for the Central Board of Trustees, EPFO, has invested EPFO funds in some of the Bonds/Financial Instruments issued by you. State Bank of India has also conveyed that in the case of some of the Bonds/Instruments, there have been short credit of interest/delay in the crediting of interest/maturity proceeds and they have accordingly intimated claim with you in respect of such short/belated credits in accordance with the established market conventions. The details of the claim, as reported by EPFO, is given in the annexure.

It is requested kindly to arrange immediate fulfilment of the claims by making payment to the SBI in terms of claim made by them for EPFO.

Awaiting immediate response from your side.

Yours faithfully,
By name to: To
Shri K.L. Goyal
RPF-1(IMC) Head Office,
The Central P.F.Commissioner Employees' P.F.Organisation New Delhi.

Sub: Recovery of overdue interest on belated credits on EPFO investment
Reg.

Sir,

Kindly refer to your letter No.Invest.1(141)Defaulter/2009 dated 06.7.2010 regarding recovery of overdue interest on belated credits on the EPFO investments.

The matter was followed up with M/s.Maharashtra State Road Development Corporation, Mumbai – 400 036 and M/s.Maharashtra Jeevan Pradhikaran, Nariman Point, Mumbai – 400031 through the E.O. It has been reported that the Maharasthra Jeevan Pradhikaran has taken up the matter with the FA, CAO, stationed at Navi Mumbai for doing the needful. The details of overdue amount on the investments have also been faxed to them. The matter will be followed up at our level and it will be ensured that Maharasthra Jeevan Pradhikaran remit the overdue amount at the earliest.

As regards the overdue amount payable by MSRDC, the Deputy Company Secretary Shri Jatin Desai was contacted. He shall be writing to us on payment of the overdue interest at 2% in a couple of days. We are pursuing the matter with the above parties and shall revert.

Yours faithfully,

(P.M.MATHEW)
REGIONAL P.F.COMMISSIONER(I)
R.O. MUMBAI

32
To,
M/s HP Road & Other Infrastructure
Development Corp. Ltd.,
New Himrus Building, Circular Road,
Shimla-171001

Subject: Recovery of overdue interest on belated credits on EPFO Investment regarding.

Sirs,

It is intimated by State Bank of India, Mumbai that M/s H.P. Road & Other Infrastructure Development Corporation Ltd., has not yet paid the overdue interest amounting to Rs-471194.89 (Rs-Four Lacs Seventy one hundred and ninety four and Paise Eighty Nine only) which was claimed by State Bank of India, Securities Services Branch, Mumbai.

You are, therefore, requested to pay the above overdue interest to SBI, Mumbai immediately under intimation to this office.

Yours faithfully,
(P.K. AGARWAL)
REGIONAL PF COMMISSIONER-I

Copy to:
1. Sh. Mahesh Kumar (APFC), RO, Shimla: with request to visit the estt. with this letter and sort out the matter.
**Item No 3:** Appointment of a Consultant for Selection of Fund Managers and their Performance Evaluation

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

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

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

2. The selection of fund managers entailed the following steps:
   1. Issuance of Expression of Interest (EOI) package
   2. Receipt of EOIs from bidders
   3. EOI evaluation and short-listing of bidders to receive Request for Proposals (RFPs)
   4. Issuance of RFPs
   5. Pre-bid conference + clarifications provided to bidder queries
   6. Receipt of Proposals from bidders
   7. Evaluation of Proposals
      a. Technical Bid Evaluation
      b. Financial Bid Evaluation
   8. Discussion of the evaluation at Finance Investment Committee (FIC)
   9. Discussion and approval of evaluation at the Central Board of Trustees (CBT)
3. The CBT, in its 181st meeting held on 24.01.2008, had adopted a policy decision to take outside assistance for the selection of portfolio managers and their performance evaluation through a dynamic and customised performance benchmark based on regular professional inputs on market related data (see Annexure-II). The existing fund managers were shortlisted with the help of a credit rating agency (CRA) CRISIL which was involved in the process of inviting Expression of Interest (EOI) and detailed analysis of technical bids submitted by fund managers. CRISIL was also mandated to assist EPFO in evaluating the performance of fund managers.

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

The item is placed before the Finance & Investment Committee for consideration and recommending the proposal contained in Para 4 to the CBT, EPF for approval.
Item No. 3: Multi-Banking Arrangement for collection of EPFO dues

**Decision:** The Board approved the appointment of a consultant as proposed in the agenda who will give detailed feasibility report on multi-banking arrangements, guide on technology options and the process and reconciliation options, with the observation that the Report of the consultant would be placed before the Board for final decision in the matter.

Item No. 4: Relaxation in Investment Guidelines for investments in Private Sector Bonds.

**Decision:** After brief discussion it was approved by the Board that such private companies having 26% shares held by the PSUs/Central Govt./State Govt. and having dual AAA rating could be considered for investment in their bonds.

Item No. 5: Changes in the Existing Guidelines for increasing the exposure limits for PSU/PSFI/PSB investments.

**Decision:** The proposal contained in the memorandum was approved by the Board after brief discussion, for adoption of IRDA exposure norms of 10% of the capital employed or 60% net worth of the company, in addition to the existing limits.

Item No. 6: Two years tenure of engagement of the Portfolio Managers to be extended upto 31.03.2011

**Decision:** The agenda item was approved by the Board with the direction of the Chairman that, in the next meeting an agenda on the performance of the fund managers should be placed for information of the Board.
Benchmark Composition

The performance of the portfolio Managers of EPFO is measured against a Performance Benchmark developed by CRISIL in consultation with Investment Monitoring cell of EPFO. This performance benchmark is dynamic in nature and captures the daily yields of securities in which investment of EPFO money is permissible as per our existing investment pattern and Investment guidelines. It is a very important tool with which we are able to compare the performance of our portfolio managers. It also serves as a reference point for both EPFO as well as for the four Portfolio managers, giving an indicative minimum yield which could have been generated by investing in the prevailing market in the asset classes permissible as per extant Investment Pattern and Investment Guidelines.

The weightage given to different asset classes in the construction of the benchmark is as follows:

<table>
<thead>
<tr>
<th>Investment category</th>
<th>Constituents and Composition</th>
</tr>
</thead>
<tbody>
<tr>
<td>GILTs</td>
<td>30% (15yr, 20yr G-Seecs and Oil bond in ratio of 4:4:4:2)</td>
</tr>
<tr>
<td>SDLs</td>
<td>15% (Taken at 50 bps higher than 10 yr G-See Benchmark)</td>
</tr>
<tr>
<td>Corporate Bonds (PSU)</td>
<td>43.75% (Which will include 1.25% for FDs) with AAA and AA+ bonds in the ratio of 2:1</td>
</tr>
<tr>
<td>Corporate Bonds (Private)</td>
<td>10% (Taken as 25 bps over AAA PSU Bonds)</td>
</tr>
<tr>
<td>CBLO</td>
<td>1.25% (average rate for a day)</td>
</tr>
</tbody>
</table>

The benchmark is constructed on a daily basis with the yield to maturity calculations captured from the CRISIL’s corporate bond matrix.

There are some securities in the above asset categories which are not traded on a daily basis. Therefore it becomes difficult to obtain their YTM and price on a daily basis. CRISIL has a proprietary tool to price these securities and obtain their YTM on a daily basis. The mutual fund industry also has to take recourse to this proprietary tool for the valuation of their fixed income portfolio.

As a part of its continuous endeavour to provide an appropriate benchmark to compare the performance of EPFO’s portfolio managers, CRISIL reviews the methodology for computing the benchmark yield on a periodic basis.
Evaluation Methodology
The overall performance of the Portfolio Managers is evaluated on the basis of a composite score on three parameters i.e.
1. Return (80% weight)
2. Average Maturity (10% weight)
3. Asset Quality- (10% weight)

However from EPFO's point of view it is the actual yield generated which is the true parameter for measuring the performance of the Portfolio Managers. This actual yield performance during 2009-10 is presented as follows:

Yield Performance -(2009-10)

<table>
<thead>
<tr>
<th>Portfolio Manager</th>
<th>Quarter 1</th>
<th></th>
<th>Quarter 2</th>
<th></th>
<th>Quarter 3</th>
<th></th>
<th>Quarter 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yield %</td>
<td>Benchmark Yield %</td>
<td>Yield %</td>
<td>Benchmark Yield %</td>
<td>Yield %</td>
<td>Benchmark Yield %</td>
<td>Yield %</td>
</tr>
<tr>
<td>HSBC AMC</td>
<td>8.64%</td>
<td>7.28%</td>
<td>8.47%</td>
<td>7.41%</td>
<td>8.43%</td>
<td>8.13%</td>
<td>8.47%</td>
</tr>
<tr>
<td>RCAML</td>
<td>8.40%</td>
<td>7.28%</td>
<td>8.40%</td>
<td>7.41%</td>
<td>8.41%</td>
<td>8.13%</td>
<td>8.45%</td>
</tr>
<tr>
<td>ICICI PRU AMC</td>
<td>7.88%</td>
<td>7.28%</td>
<td>7.97%</td>
<td>7.41%</td>
<td>8.11%</td>
<td>8.13%</td>
<td>8.29%</td>
</tr>
<tr>
<td>SBI PMS</td>
<td>6.51%</td>
<td>7.28%</td>
<td>7.38%</td>
<td>7.41%</td>
<td>7.69%</td>
<td>8.13%</td>
<td>8.04%</td>
</tr>
</tbody>
</table>
Item 4: Including Brickwork as an approved Credit Rating Agency

The Background

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

| Description (with regard to the likelihood of meeting debt obligations on time) | Symbol (Rating category) |
|---|---|---|---|---|
| | CRISIL | CARE | ICRA | FITCH |
| Highest Safety | AAA | CARE AAA | L AAA | AAA (ind) |
| High Safety | AA | CARE AA | L AA | AA (ind) |
| Adequate Safety | A | CARE A | L A | A (ind) |
| Moderate Safety | BBB | CARE BBB | L BBB | BBB (ind) |
| Inadequate Safety | BB | CARE BB | L BB | BB (ind) |
| High Risk | B | CARE B | L B | B (ind) |
| Substantial Risk | C | CARE C | L C | C (ind) |
| Default | D | CARE D | L D | D (ind) |

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

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

**Present Guidelines concerning Credit Rating Agencies**

The existing guidelines of EPFO are as under:-

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

As per the above guidelines, EPFO accepts credit rating done by only those agencies that have already completed 10 years of service in India. The guidelines were duly passed by the Central Board of Trustees in their 186th meeting held on 05/12/2009. Four credit rating agencies, viz., Crisil, IORA, CARE and Fitch qualify as per the existing guidelines.

**Representation by Brickwork**

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

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

EPFO's Comments

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

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

The Proposal

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

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

The Item is placed before the FIC for consideration and recommendation to the CBT, EPF.