

102 meeting of FIC – 07.12.2010

**EMPLOYEES' PROVIDENT FUND ORGANISATION**

**NEW DELHI**



**102<sup>nd</sup> Meeting of the**

**FINANCE AND INVESTMENT  
COMMITTEE**

**[CENTRAL BOARD OF TRUSTEES, EMPLOYEES' PROVIDENT FUND]**

**on**

**07/12/2010 at 12.00 Noon**

**Venue:**

**Conference Hall, 3<sup>rd</sup> Floor,  
EPFO  
Head Office,  
Bhavishya Nidhi Bhawan,  
14, Bhikaiji Cama Place,  
New Delhi – 110 066**

## EMPLOYEES' PROVIDENT FUND ORGANISATION

<b>AGENDA BOOK</b> <b>102<sup>nd</sup> Meeting of the Finance &amp; Investment Committee, CBT, EPF</b>
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**Date: 07. 12 .2010**

**INDEX OF ITEMS**

**Time: 12.00 P.M**

<b>Item No.</b>	<b>Agenda</b>	<b>Page No.</b>
1.	Confirmation of the Minutes of 101 <sup>st</sup> Meeting of the Finance and Investment Committee held on 26.11.2010 at EPFO Head Office, New Delhi	3-6
2	Revised Estimates for the year 2010-11 and Budget Estimates for the year 2011-12 for the Employees' Provident Fund Scheme 1952, Employees' Pension Scheme 1995 and Employees' Deposit Linked Insurance Scheme 1976.	7
3.	Relaxation in Investment Guidelines to increase limit and expand the basket of instruments in Pvt. Sector	8-10
4.	Any other item with the permission of the chair	

**Item No.1:- Confirmation of the Minutes of the 101<sup>st</sup> meeting of the Finance & Investment Committee held on 26<sup>th</sup> November 2010 at EPFO, HQs, New Delhi.**

**Draft Minutes of the 101<sup>st</sup> Meeting of the Finance & Investment Committee held on 26.11.2010**

The 101<sup>st</sup> meeting of the Finance and Investment Committee, Central Board of Trustees, Employees' Provident Fund was held at 3.00 P.M on 26.11.2010, in the Conference Room, 3rd floor, EPFO Head Office, New Delhi.

(a) The following were present in the meeting:

1	Shri S. Chatterjee	Chairman, Finance and Investment Committee, CBT, EPF, and Central Provident Fund Commissioner, Employees' Provident Fund Organisation, Head Office.
2.	Shri Chaman Kumar	Vice Chairman, Finance and Investment Committee, CBT, EPF and Addl. Secretary, Financial Advisor, Ministry of Labour & Employment, Government of India.
3.	Shri A D Nagpal	Member, CBT, EPF (Employees' Representative)
4.	Shri Santosh Saraf	Member, CBT, EPF (Employers' Representative)
5.	Shri Sharad Patil	Member, CBT, EPF (Employers' Representative)
6.	Shri Abhay Kr. Singh	Convener and FA & CAO, EPFO

(b) The following also attended:

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

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

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

**Item 1: Confirmation of the Minutes of 100<sup>th</sup> Meeting of the Finance and Investment Committee held on 25.08.2010 at EPFO HQ, New Delhi.**

The minutes were unanimously approved by all the members.

**Item 2: Action Taken Report on the recommendations of the 100<sup>th</sup> Finance and Investment Committee**

The Committee took note of the Action Taken Report.

**Item 3: Review of Investments In respect of Provident Fund, Pension Fund & EDLI Fund up to 30.09.2010**

The Vice Chairman enquired how in Public Account investment of EDLI fund is appearing. It was clarified by FA&CAO that the figure appearing is of the past period only and no fresh investment of EDLI fund is being done in the Public Account. The amount is gradually increasing due to addition of interest component. However the Chairman directed to examine and ensure the facts.

It was suggested by the committee that figures of investment in PSU/PVT Sector Bonds / Securities must be shown separately. The chairman directed to comply with the suggestion.

**Item 4: Performance evaluation of the Portfolio Managers for the period pending 30<sup>th</sup> September 2010.**

It was asked by one member if any fund manager has performed below the benchmark on the criteria of yield performance. It was clarified by the FA&CAO that none of the fund managers has performed below the benchmark during the period April 2010 to September 2010.

Further it was decided to enclose only summary of the performance evaluation report in the agenda booklet in place of the entire report in future.

It was further decided that presentation by the consultant may be done once in a year.

**Item 5: Shifting investment from IIFCL Bonds to SDLs.**

The issues relating to pattern of investment are actually covered under the domain of the Executive Committee (EC). However, there was a precedent where on referring the matter regarding 'New Investment Pattern', the E.C. had referred the matter to the FIC for its views. Keeping that in mind the matter was placed before FIC for their view on it which would be an input for EC meeting to be held on 08.12.2010.

Considering the absolute gain arising out of the proposed transaction, with no incidental cost involved, the FIC decided to recommend the matter to E.C. for consideration.

**Item 6: Revised Estimates for the year 2010-11 and Budget Estimates for the year 2011-12 for the Employees' Provident Fund Scheme 1952, Employees' Pension Scheme 1995 and Employees' Deposit Linked Insurance Scheme 1976.**

Point 13 relating to 'Post & Telegraph' expenses under 'Explanatory note on variation between budget estimates for 2010-11 vis-a-vis revised estimates 2010-11', was discussed. It was decided to verify and confirm the figure, since NEFT would result in larger saving of at least Rs. 10-15 crores.

Further, it was directed to verify the figures once again rectify all the errors and circulate to FIC.

Another meeting on the agenda item would be held on 07-12-2010 from 12.00 p.m.

**Item 7: Relaxation in Investment Guidelines for Investment in Bonds/Securities of PSUs/PSBs/PSFIs- EXPANSION OF LIMITS TO NETWORTH**

The proposal as outlined at Para A (b) was approved for recommending to the CBT,EPF.

The proposal at Para A (a) was not approved.

**Item 8: Relaxation in Investment Guidelines to increase limit and expand the basket of instruments in Pvt. Sector**

The committee was concerned about the security of the bond, and even if secured, the level of such security.

It was decided that this matter should be examined further regarding the security of the bond invested by the EPFO so far and whether we should add the private sector bond, should it be secured and with whom.

The same should be placed before the committee on 07-12-2010 for further discussion and decision on the matter.

**Item 9: Investment in dual AAA (SO) rated instruments**

The item was approved for recommending to the CBT,EPF

**Item 10: Deferring further investment in LIC Housing Finance Company in Private Sector Category (tabled item)**

The item was recommended by FIC not to take further exposure in the entity till the whole issue is clarified.

***The meeting ended with vote of thanks to the Chair.***

**Item No.2:-Revised Estimates for the year 2010-11 and Budget Estimates for the year 2011-12 for the Employees' Provident Fund Scheme 1952, Employees' Pension Scheme 1995 and Employees' Deposit Linked Insurance Scheme 1976.**

In terms of the provisions contained in paragraph 58 of the Employees' Provident Fund Scheme 1952, the Budget proposals (Revised Estimates 2010-11 and Budget Estimates 2011-12) in respect of Employees' Provident Fund Scheme 1952 (including the Employees Pension Scheme, 1995) and Employees' Deposit Linked Insurance Scheme, 1976 have been tabulated and the position is indicated in the Budget Book **(ANNEXURE -A)**

The statements showing the receipts on account of Contribution, Administrative Charges, Inspection Charges, Penal Damages, Miscellaneous Income and Recovery of Advances and the proposals for expenditure made in the Revised Estimates for the year 2010-11 and Budget Estimates for the year 2011-12 are indicated in the Budget Book.

The Revised Estimates for the year 2010-11 and the Budget Estimates for the year 2011-12 for the three Schemes framed under the EPF & MP Act were placed for consideration before Finance and Investment Committee, Employees' Provident Fund in 101<sup>st</sup> meeting of the FIC held on 26-11-2010 in which it was decided to place them afresh in next meeting of FIC because of late receiving of RE & BE Booklet and also a few of the printing mistakes were found apparently.

The mistakes have been rectified and the booklet circulated well in time vide this office letter no.Conf.1(1)191st CBT/2010/29094 dated 29.11.10 and the same are placed for consideration before Finance and Investment Committee, EPF and to recommend to the CBT,EPF for approval.

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

An item to relax Investment Guidelines for Investment in private sector Bonds was placed in 98<sup>th</sup> meeting of FIC held on 28.02.2010 where it was proposed to expand the investment basket in private sector by including the credit worthy private sector companies also. However FIC recommended to CBT to include only such private companies where a minimum 26% of the shares are held individually or jointly , by any PSU(s)/central Government or State Government and the company has dual AAA ratings for its Bonds and same was approved in 189<sup>th</sup> CBT.

Only two entities i.e. LIC Housing Finance & Infrastructure Leasing and Finance Company Ltd (ILF&S Ltd) got included in the private sector investment basket as a result of the relaxation and since their net worth was small the exposure limits available got utilized immediately.

From the existing Investment basket also out of total seven eligible entities, limits are nearly saturated in case of HDFC Ltd.(25%), ILF&S Ltd(20.36%) & IDFC Ltd(25%) .

Thus there is a strong case for having a fresh consideration of revisiting the existing guidelines for investment in private sector by way of both expanding the investment basket as well as expanding the existing limit of net worth in this category. An opinion from our consultant CRISL on the issue of expansion of investment basket in the private category has also been obtained and enclosed as **Annexure-A**.

In this regards following proposals are placed for consideration:-

PRESENT PROVISIONS	SUGGESTED CHANGES	EFFECT OF CHANGES
<p>I. As per the Investment Pattern 2003 (copy enclosed) it is provided as follows in para (v) " The Trust 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</p>	<p>A. It is proposed that the existing basket of eligible entities in private sector may be increased to include some more Private Companies to enable expanded opportunities to invest and get higher yields with sufficient security of the Bonds. We could have following criteria: a) Having Net Worth of</p>	<p>If the proposal is considered it will open new avenues for investment in safe private sector entities (list enclosed as <b>Annexure-B</b>), resulting in increased bargaining power of EPFO for maximizing yields.</p>



<p>investment grade rating from at least two credit rating agencies”</p> <p><b>II.</b> Within this investment pattern 2003 , the CBT had approved investment as follows :</p> <p>a) Pvt Bank Bonds with dual AAA ratings upto 25% of networth and maximum 15 years tenure which presently includes <b>Axis Bank, HDFC Bank &amp; ICICI Bank.</b></p> <p>b) <b>HDFC Ltd &amp; IDFC Ltd</b> are two other Pvt. Sector corporate entities presently approved by CBT.</p> <p>c) All joint sector entities having minimum 26% shares held by the PSUs/Central Government/State Government (jointly or singly) and having dual AAA rating are eligible for investment. So far <b>LIC Housing Ltd &amp; ILFS Ltd</b> only are two eligible entities.</p>	<p>Rs. 1000 Crores or more,</p> <p>b) Dual AAA rating by SEBI approved rating Agencies</p> <p>c) Having continuous profitability and declaring dividend over last 10 years</p> <p>d) Must be a listed company on any Indian stock exchange.</p> <p>e) The maximum tenure of investment in such Bonds will not be exceeding 10 years</p> <p>f) A minimum spread of at least 100 bps or more over corresponding tenure of PSU Bond need to be captured.</p> <p><b>B.</b> Further the maximum limit for investment of 25% of net worth may also be considered to be raised to 40% of net worth since these limits are already exhausted or about to be exhausted in following eligible entities :</p> <p>a) HDFC Ltd</p> <p>b) IDFC Ltd</p> <p>c) ILFS Ltd</p>	
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The proposal as outlined at Para A & Para B above in SUGGESTED CHANGES was submitted for consideration and recommendation to the CBT in 101<sup>st</sup> meeting of FIC

102 meeting of FIC - 07.12.2010

held on 26.11.2010. In the meeting it was decided to place additional information regarding the security of the bond invested by the EPFO so far and whether we should add the private sector bond, should it be secured and with whom.

The information will be placed on the table in 102<sup>nd</sup> meeting of FIC to be held on 07.12.2010 for consideration and recommendation to the CBT, EPF.