

106th FIC Meeting (27.07.2011)

EMPLOYEES' PROVIDENT FUND ORGANISATION

NEW DELHI



106th Meeting of the

**FINANCE AND INVESTMENT
COMMITTEE**

[CENTRAL BOARD OF TRUSTEES, EMPLOYEES' PROVIDENT FUND]

on

27 /07/2011 at 10.30 a.m.

Venue:

**Bangalore
Karnataka**

EMPLOYEES' PROVIDENT FUND ORGANISATION

AGENDA BOOK
106th Meeting of the Finance & Investment Committee, CBT, EPF

Date: 27.07.2011

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Time: 10.30 am

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Item No.1:- Confirmation of the Minutes of the 105th meeting of the Finance & Investment Committee held on 14.07.2011 at EPFO, HQs, New Delhi.

Minutes of 105th Finance and Investment Committee meeting held on 14.07.2011 were circulated vide letter No Invest. I/1(105)/FIC/2011/5261 dated 20.07.2011. Copy of the minutes is enclosed as **Annexure – A** this item.

Minutes may be taken as confirmed.

Annexure-A of Item No. 1

Minutes of the 105TH meeting of Finance & Investment Committee held on 14.07.2011

The 105TH meeting of the Finance and Investment Committee, Central Board of Trustees, Employees' Provident Fund was held at 12.00 Noon on 14.07.2011, 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.	Dr. G. Sanjeeva Reddy	Member, CBT, EPF (Employees' Representative)
4.	Shri A. D. Nagpal	Member, CBT, EPF (Employees' Representative)
5.	Dr. Ram S. Tameja	Member, CBT, EPF (Employers' Representative)
6.	Shri Sharad Patil	Member, CBT, EPF (Employers' Representative)
7.	Shri S K Verma	Director Social Security, Ministry of Labour and Employment, Government of India
9.	Shri Rajesh Bansal	Convener and FA & CAO, EPFO

Shri B N Rai and Sh Santosh Saraf could not attend the meeting and sought leave of absence.

(b) The following officers attended:

1. Shri K. L. Goyal, RPFC-I(IMC)
2. Shri Rajiv Bisht, RPFC-II (IMC)
3. Shri. Sanjay Bisht, RPFC-II (Conference)
4. Shri Rakesh Kumar, RPFC-II (IMC)
5. Shri Manoranjan Kumar, RPFC-II (Investment)

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

Item 1: Confirmation of the Minutes of the 103rd & 104th meeting of the Finance & Investment Committee held on 28.01.2011 & 03.02.2011 at EPFO, HQs, New Delhi

The minutes were approved by all the members.

Item No. 2: Statement showing the actions taken on the recommendations of the 103rd Finance & Investment Committee meeting held on 28.01.2011.

The Committee took note of the Action Taken Report.

Item No.3. Appointment of new fund managers for managing the EPFO corpus for a period of 3 years.

- a) CPFC informed the members that the chronological sequence of events in the selection of fund managers was given in the agenda item. The addendum placed on the table included the final recommendation of the three-member Committee regarding the selection of the multiple fund managers. As per the evaluation of the technical and financial bids, following four fund managers were recommended for appointment as fund managers of EPFO for a period of 3 years:

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

The copy of the minutes of the selection Committee on 13.07.2011, in which the selection was finalised, was also placed before the FIC.

- b) CRISIL, the consultant, made a presentation to FIC on the process and criteria followed for the selection of Fund Managers.
- c) The committee was informed that 11 Expression of Interest (EOI) were received after the advertisement, and 10 of them were found eligible for issuing the Request for Proposal document. All 10 entities submitted the completed RFP document including technical and financial bids. The technical evaluation consisted of a detailed set of quantitative and qualitative parameters and whightage of each such parameters as decided beforehand. It was also decided to keep 65% as minimum qualifying score in technical bid for

consideration for opening of financial bid. The complete set of scoring was made available in the addendum.

- d) Out of 10 technical bids only 5 applicants qualified by scoring more than minimum 65% criteria and their financial bids were opened on 08.07.2011.
- e) The final report on the basis of combined score of technical and financial bids was submitted by the consultant, CRISIL on 13.07.2011, which was placed and discussed by the selection Committee on the same day.
- f) The FIC after examining the Agenda note, the Addendum to agenda note and the recommendations of the selection committee decided to recommend the above mentioned 4 fund managers (Para (a) of Item No. 3) to the CBT for appointment of fund managers from 01.09.2011 for a period of 3 years.
- g) Further, based on the deliberations at FIC, it was observed that there was a wide variation among the fund managers with respect to the financial bids. On an average accretion of Rs. 20,000 crore per annum to each bidder, the fee payable to the lowest bidder (ICICI Securities Primary Dealer) would be Rs.6 lacs, Rs.8 lacs to the next lowest bidder (Reliance Capital AMC), Rs.72 lacs to the next lowest bidder (HSBC AMC) and Rs.2 crore to the highest bidder (State Bank of India). The members of FIC were not comfortable with this wide variation and therefore recommended that the fund allocation should be done in relation to the financial bids. Accordingly, FIC recommended that the funds be allocated in the following proportion:
 - ICICI Securities Primary Dealership – 35%
 - Reliance Capital AMC – 35%
 - HSBC AMC – 20%
 - State Bank of India – 10%

The meeting ended with vote of thanks to the Chair.

Item No.2:- Statement showing the actions taken on the recommendations of the 105th Finance & Investment Committee meeting held on 14.07.2011.

Reference	Subject	Decision	Action Taken
105 th FIC Item No.3	Appointment of new fund managers for managing the EPFO corpus for a period of 3 years.	It was decided this matter to be placed before the CBT,EPF.	The matter was placed before the 195 th CBT,EPF held on 14.07.2011.

Item No 3. : Appointment of External Concurrent Auditor (ECA) to audit the investments of EPFO by Fund Managers.

1. The Central Board of Trustees' EPF in its 181st meeting held on 24.01.2008 had approved the appointment of External Concurrent Auditor (ECA) to audit the investment of EPFO made by the Multiple Fund Managers. Thereafter the Executive Committee, EPF in its 67th meeting held on 04.12.2009, approved the appointment of M/S. Jain Chowdhary & Co., the CA firm, as ECA for the period of one year for a monthly fee of Rs. 72,000 (Rupees Seventy Two Thousand per month) and also delegated powers to the CPFC for extension of the auditor for another one year based on satisfactory working of ECA. The Tenure of ECA expired on 31.03.2011.
2. The tenure of the then existing fund managers of EPFO also expired on 31.03.2011. Since, the process of selection of new fund managers was likely to take some more time, hence an agenda seeking the extension of the then existing fund managers for 3 months was put before CBT in its 193rd meeting held on 30.03.2011. However, the CBT did not approve the extension of tenure of existing fund managers and decided that the fund management of EPFO corpus will be done solely by SBI till the selection of new fund managers.
3. In the same meeting of CBT held on 30.03.2011, an agenda was placed before it to extend the tenure of existing Concurrent Auditor for another 3 months to maintain continuity and consistency with the tenure of the then existing fund managers. But, since the CBT decided, not to extend the tenure of existing fund managers, the agenda for extension of tenure of External Concurrent Auditor was withdrawn.
4. Since the tenure of the ECA expired on 31.3.2011, hence the process of appointment of New Concurrent Auditor was initiated and accordingly a committee was constituted by the competent authority under the Chairmanship of FA & CAO with RPFC (IMC) and Director (Audit) as members to propose the name of New Concurrent Auditor after following all the necessary procedures of selection, who will be acting External Concurrent Auditor for the EPFO Fund Managers.

5. A Request for Proposal (RFP) was issued on 20.06.2011 to shortlisted 10 CA firms based on the list provided by office of Comptroller & Auditor General of India (C & AG). The shortlisted CA firms were requested to submit their Technical and Financial bids. Technical bids were to be analysed on the basis of certain technical qualifications like technical manpower, past experience and technical knowhow etc. The technical qualifications prescribed as per RFP Document to qualify for opening of financial bids are as follows:

- i). The name of the Partnership Firm should be registered with the ICAI.
- ii). There must be at least Five Qualified Chartered Accountants working as full-time Partners.
- iii). The firm must have at least Fifteen other accounting staff members in addition to the Partners.
- iv). The firm must be registered with the ICAI on or before 01 April 2000.
- v). The Firm must have experience of at least Five years in audit on (Concurrent basis) of the accounts of Portfolio Managers having turnover of not less than Rs. 5000 Crores.
- vi). The Firm/any partner should not have been convicted by a court of law or indictment / adverse order passed against the firm/ any partner by any regulatory authority that casts a doubt on the ability of the applicant to conduct audit, during the past Five years i.e. 01 April 2006 till date. A declaration on affidavit to this extent shall be furnished duly signed by the Managing Partner of the Firm in the Technical Bid. The affidavit should be attested by a Notary Public/Magistrate.

The aforesaid technical qualifications were only qualifying in nature for the shortlisted CA Firm to become eligible for opening of its financial bid.

6. A Pre-bid conference was held on 29 June 2011 to clarify the doubts of the applicants, if any. Last date of submission of RFP document was fixed on 8 July 2011.
7. In response to RFP document issued, 3 CA firms submitted their bids within the stipulated time which are as under:-

Sl.No.	CA Firm
1.	M/s Sarda & Pareek, Mumbai
2.	M/s Chokshi & Chokshi, Mumbai
3.	M/s Chandabhoy & Jassoobhoy, Mumbai

8. In addition to the above, two more CA firms, i.e. M/s Rastogi & Donald, New Delhi and M/s Kommandor & Company, Hyderabad also submitted their proposal. However, it was observed by the committee that two aforesaid CA firms were not included in the list supplied by the C&AG and hence have not been issued the RFP Document. The Committee decided not to open the bids submitted by these 2 CA firms.
9. Technical Bids of 3 CA Firms mentioned at Sl. No. 1 to 3 of abovementioned table in para 7 were opened on 11.07.2011. After evaluation of the technical bids, it was found that only two CA firms out of the three qualify for opening of their financial bids, based on the documents submitted by them. One of the applicant firm i.e M/s Sarda & Pareek, Mumbai had neither submitted the details of experience in Portfolio Management Services (PMS) audit nor the size of the funds handled in audit were specified. Hence the committee decided that M/s Sarda & Pareek, Mumbai does not qualify in the technical bid.
10. The financial bids of two qualifying CA Firms were opened on 15.07.2011. The results are summarized as under:

Sl No.	Name of the CA Firm	Concurrent Audit Fee Quoted per month		Status
1.	M/s Chandabhoy & Jassoobhoy, Mumbai	Rs. 1,00,000/-	(Rupees One Lakh Only)	L1
2.	M/s Chokshi & Chokshi, Mumbai	Rs. 2,50,000/-	(Rupees Two Lakhs and Fifty Thousand only + Out of Pocket expenses not exceeding 10 % of fee and applicable taxes)	L2

11. Based on the financial bids submitted by the qualifying CA Firms, the selection committee recommended the name of M/s Chandabhoy & Jassoobhoy, Mumbai as the External Concurrent Auditor to audit the investments of EPFO by the Fund Managers, since it is the L1 bidder out of the participating applicants, having quoted a fee of Rs. One Lakh only per month, irrespective of number of Fund Managers.

12. In view of the recommendations of the selection committee, it is proposed that M/s Chandabhoy & Jassoobhoy, Mumbai may be recommended to the CBT for appointment as the External Concurrent Auditor to audit the investments of EPFO by the Fund Managers, for a period of 3 years, in synchronization with the tenure of the fund managers at a total fee of Rs. One Lakh only per month irrespective of number of Fund Managers.

The proposal as outlined in Para 12 is placed before the Finance and Investment Committee for deliberation and recommendation to the Central Board of Trustees.

Item No. 4 Appointment of Custodian of Securities of CBT,EPF.

1. An item to appoint a separate custodian for securities of EPFO was approved by the CBT in its 194th meeting held on 26.06.2011 as it was felt that there should be an arm's length distance between the fund managers and the custodian of the securities and it was more prudent to appoint a custodian directly by EPFO who is different from banker and fund managers of EPFO.
2. Accordingly a selection committee was constituted to complete the process of selection of the custodian for EPFO securities. The selection committee in its second meeting held on 29/06/2011 finalized the criteria for selection of custodians. In the same meeting the Request for Proposal Document inviting technical and financial bids from the prospective applicants was also finalized. The committee also decided that the RFP document will be issued to all the 19 entities that were registered with SEBI and were permitted to offer custodial services.
3. The RFP document has been designed for the purpose of ensuring minimum technical qualification of the applicant so that they can effectively discharge their role of a custodian for a fairly large portfolio of securities like that of EPFO. The Technical and Financial bids submitted by the applicants are to be evaluated on pre-defined criteria.

(a) **Technical bid-** Qualifying if fulfilling the following eligibility criteria as laid out in RFP:

I. Qualifications:

- i. Custodian should be registered with SEBI and RBI and the registration should be valid on the date of application.
- ii. Applicant should have more than 5 year experience in providing custody services.
- iii. Custodian should have more than Rs. 1,00,000 crores total Assets Under Custody (AUC) as on 31-3-2011.

- iv. Should be having at least Rs. 50,000 Crores of Debt Assets Under Custody as on 31-3-2011.
- v. Should be able to offer custodial services, settlement services and reporting thereof for all type of eligible securities i.e. Corporate Bonds, Government Securities (through SGL/CSGL), Bank FDRs, CBLO or any other securities in which CBT,EPF may transact in future as prescribed by the Government.
- vi. Should have a system which can generate consolidated MIS reports as required by EPFO which should include reports on all eligible securities as mentioned in point 3(a)v above. The reports should be system generated.
- vii. Capability to develop a new system for catering to automation and straight through processing and reporting requirements of EPFO.
- viii. Flexibility in the system to provide any new reports required by EPFO.
- ix. Scalability in system to handle large volumes.
- x. Adequate insurance to cover any liability that may arise.
- xi. Should have functional offices at Mumbai & Delhi having responsible officials.

II. Disqualifications:

- i. Any conviction by a Court of Law or indictment/adverse order by a regulatory authority that casts a doubt on the ability of the applicant to provide Custodial and other related services.
- ii. The Custodian of EPFO should be different from Banker and/or Fund Manager of EPFO. However EPFO reserves its right to allow the Custodian of EPFO work as Banker and/or Fund Manager of EPFO.

(b) Financial bid- All Applicants, who qualify in the Technical bid by fulfilling the eligibility criteria, are to be short-listed for the opening of their financial bid.

4. The RFP document was issued to all the SEBI registered 19 entities on 01.07.2011. The last date for submission of RFP was fixed for 15.07.2011.
5. A Pre-bid conference was held on 11.07.2011 to clarify the queries of the applicants, if any.
6. The technical & financial bids were received from the following 8 applicants:
 - i. M/s. Stock Holding Corp. of India Ltd., Mumbai
 - ii. M/s. Deutsche Bank AG, Mumbai
 - iii. M/s. CITI Bank NA, Mumbai
 - iv. M/s. Hongkong and Shanghai Bank Corporation Ltd. Mumbai
 - v. M/s. HDFC Bank Limited, Mumbai
 - vi. M/s. Standard Chartered Bank, Mumbai
 - vii. M/s. ICICI Bank Limited, Mumbai
 - viii. M/s SBI-SG Global Securities Services Pvt. Ltd., Mumbai

The technical bids were opened on 15.07.2011 at 3.00 pm.

7. On evaluation of the technical bids of the eight applicants as mentioned in Para 6 above by the selection committee, it was found that two entities i.e. M/s. SBI-SG Global Securities Services Pvt. Ltd., Mumbai and M/s. ICICI Bank Limited, Mumbai did not fulfill the eligibility criteria as laid out in Para 3(a) above and remaining six applicants fulfilled the eligibility criteria for being eligible for opening of financial bid. The status of all the eight applicants as per the eligibility criteria of the RFP is annexed as **Annexure-A**.
8. The financial bids of the six applicants qualifying in the technical criteria were opened on 19.07.2011 and the same are under process with the selection committee.
9. The outcome of the selection committee shall be tabled in the 106th meeting of the Finance and Investment Committee on 27.07.2011.

ANNEXURE-A of Item no. 4

Sl. No.	Name of the Custodian	SEBI/RBI Registration	Experience	Total Asset Under Custody (TAUC) (Rs. In Crores)	Debt Assets Under Custody (DAUC) (Rs. In Crores)	Undertaking as per the RFP for point 3(a) (4 to 11)	Affidavit regarding non conviction by court of law or indictment / adverse order passed by the Regulatory Authority	ELIGIBILITY STATUS
1	2	3	4	5	6	7	8	9
1	M/s. Stock Holding Corp. of India Ltd., Mumbai	Yes	22 Years	7,95,196	3,02,593	Yes	Yes	Eligible
2	M/s. Deutsche Bank AG, Mumbai	Yes	17 Years	6,58,890	1,75,427	Yes	Yes	Eligible
3	M/s. CITI Bank NA, Mumbai	Yes	20 Years	4,25,493	76,625	Yes	Yes	Eligible
4	M/s. Hongkong and Shanghai Bank Corporation Ltd. Mumbai	Yes	13 Years	3,83,036	70,503	Yes	Yes	Eligible
5	M/s. HDFC Bank Limited, Mumbai	Yes	15 Years	3,50,758	2,50,564	Yes	Yes	Eligible
6	M/s. Standard Chartered Bank, Mumbai	Yes	13 Years	1,55,902	53,689	Yes	Yes	Eligible
7	M/s. ICICI Bank Limited, Mumbai	Yes	12 Years	1,28,352	22,822	Yes	Yes	Not Eligible 1. DAUC < Rs. 50000 Cr
8	M/s SBI-SG Global Securities Services Pvt. Ltd., Mumbai	Yes	1 Year 1 month	34,897	13,312	Yes	Yes	Not Eligible 1. Experience < 5 yrs 2. TAUC < Rs 100000 Cr 3. DAUC < Rs 50000 Cr

Addendum to Item No. 4 of the 106th Meeting of FIC to be held on 27.07.2011

This is in continuation to the Agenda Item No. 4 already circulated vide this office letter no. Invest.I/1(106)FIC /2011/ 5287 dated 21.07.2011

1. After evaluation of the technical bids submitted by the applicants following 6 (six) applicants qualified for opening of their financial bids:-
 - I. M/s. Standard Chartered Bank, Mumbai
 - II. M/s. HDFC Bank Limited, Mumbai
 - III. M/s. CITI Bank NA, Mumbai
 - IV. M/s. Stock Holding Corp. of India Ltd., Mumbai
 - V. M/s. Deutsche Bank AG, Mumbai
 - VI. M/s. Hongkong and Shanghai Bank Corporation Ltd. Mumbai
2. The Financial bids of the aforesaid 6 Successful applicants were opened on 19.07.2011 at 11:00 A.M. The applicants participated in the proceeding of opening of the financial bids through their representatives.
3. In the RFP document it was mentioned that the custodian will be finalized on the basis of evaluation criteria as prescribed in the RFP document and the successful custodian will be informed. **It was not mentioned in the RFP document that the final selection will be on the basis of financial bid alone.**
4. Accordingly the selection committee shortlisted 6 applicants on the basis of those fulfilling the technical criteria with their financial bids in order of their financial bids. The details of the 6 shortlisted applicants with their fees and approximate financial implication on an average Asset Under Custody of Rs 1 Lac crore is as under:

S No.	Applicant	Financial Bid Quoted (Monthly)	Fee to be paid for Asset Under Custody of Rs 1 lac crore (Assumed) ANNUAL
1	Standard Chartered Bank, Mumbai.	.00000010%	12000.00
2	HDFC Bank Limited, Mumbai	.00000758%	9,09,600.00
3	CITI Bank NA, Mumbai.	.00001250%	15,00,000.00
4	Stock Holding Corp. of India Ltd., Mumbai Private Ltd.	.00002470%	29,64,000.00
5	Deutsche Bank AG, Mumbai	.00003250%	39,00,000.00
6	Hongkong and Shanghai Bank Corporation Ltd. Mumbai	.00004375%	52,50,000.00

5. The outcome of the committee for selection of the custodian of securities of EPFO as mentioned in Para 4 above, is placed before the FIC for deliberations and final selection for recommendations to the CBT. The term of the selected custodian will be for a period of 3 years w.e.f. 01/09/2011 in synchronization with the appointment of the fund managers.

The proposal as outlined in Para 5 above is submitted for consideration

**Corrigendum to the Annexure 'A' of item No. 4 of 106th Finance
and Investment Committee**

At page 15, in column 5 of the table and against serial no. 7, the Total Assets Under Custody (TAUC) of M/s. ICICI Bank Limited, Mumbai may be read as Rs 1, 51,174/- Crores in place of Rs. 128,352/- Crores.