

EMPLOYEES' PROVIDENT FUND ORGANISATION

NEW DELHI



116th Meeting of the

**FINANCE INVESTMENT AND AUDIT
COMMITTEE**

[CENTRAL BOARD OF TRUSTEES, EMPLOYEES' PROVIDENT FUND]

On

09.01.2015 at 02:30 P.M.

VENUE:

**Conference Hall,
3rd Floor, EPFO (Head Office),
Bhavishya Nidhi Bhawan,
14, Bhikaiji Cama Place,
NEW DELHI - 110066.**

EMPLOYEES' PROVIDENT FUND ORGANISATION

AGENDA BOOK

116th Meeting of the Finance Investment and Audit Committee, CBT, EPF

Date: 09.01.2015

INDEX OF ITEMS

Time: 02:30 P.M

Item No.	Agenda	Page No.
1.	Confirmation of the Minutes of 115 th Meeting of the Finance Investment and Audit Committee held on 11.11.2014 at EPFO, Head Office, New Delhi.	2-11
2.	Appointment of State Bank of India (SBI) as one of the Portfolio Managers of EPFO on nomination basis.	12-23
3.	Opening of bids for appointment of Portfolio Managers, and further action thereon (brief check list is enclosed).	
	Any other item with the permission of the Chair	

Item No. 1: Confirmation of the Minutes of 115th Meeting of the Finance Investment and Audit Committee held on 11.11.2014 at EPFO Headquarter, New Delhi

Minutes of 115th Finance Investment and Committee meeting held on 11.11.2014 was circulated vide letter No. Invest.1/ (115th) FIAC/2014/25296 dated 01.12.2014. Copy of the minutes is enclosed as Annexure - 1 of this item.

Minutes may be taken as confirmed.

ANNEXURE-1

115th FIAC Meeting

Minutes of the 115th meeting of Finance Investment & Audit Committee held on 11.11.2014

1. The 115th meeting of the Finance and Investment Committee, Central Board of Trustees, Employees' Provident Fund was held at 11:00 A.M. on 11.11.2014 at EPFO, Head office, New Delhi.

2. The following were present in the meeting:

- | | |
|-------------------------------|---|
| a. Shri K.K.Jalan | Chairman, Finance Investment & Audit Committee (FIAC), CBT, EPF and Central Provident Fund Commissioner, Employees' Provident Fund Organisation, Head Office. |
| b. Sh. Arun Kumar Sinha | Additional Secretary, MOL & E |
| c. Ms. Meenakshi Gupta | Joint Secretary & Financial Advisor, MOL&E |
| d. Dr. Ram S. Tarneja | Member, CBT, EPF (Employers' Representative) |
| e. Shri J.P.Chowdhary | Member, CBT, EPF (Employers' Representative) |
| f. Shri Prabhakar J. Banasure | Member, CBT, EPF (Employees' Representative) |
| g. Shri Sanjay Kumar | Convener and FA & CAO, EPFO |

3. The following members could not attend the meeting:

- Dr. G.Sanjeeva Reddy, Member, CBT, EPF (Employees' Representative)
- Shri Anup Wadhawan, Joint Secretary DFS (Domain Expert)

4. The following officers/invitees were in attendance:

- Shri Sanjay Kumar, RPFC-I (FA)
- Shri Chandramauli Chakraborty, RPFC-I (Pension)
- Shri Amul Raj , RPFC-II (Investment)
- Shri Ajay Kumar, RPFC-II (IMC)
- Shri M.S.Arya RPFC-II (WSU)
- Shri M.K.Srivastava, APFC(Banking)
- Shri J. Pandit, Actuary

Consultant Representative:

1. Mr. Mukesh Agarwal – President, CRISIL Research
2. Mr. Piyush Gupta – Associate Director, CRISIL Research
3. Mr. Vikram Shastry – Manager, CRISIL Research

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

6. The Agenda wise discussions are recorded below:

Item No 1: Confirmation of the Minutes of 114th Meeting of the Finance and Investment Committee held on 25.08.2014 at EPFO, Head Office, New Delhi.

The minutes were confirmed.

Item No 2: Actions taken on the recommendations of the 114th meeting of Finance & Investment Committee held on 25.08.2014.

The Committee took note of the Action Taken Report.

Item 3: Finalization of Request for Proposal (RFP) Documents for selection of Portfolio Managers.

A. The Committee raised certain queries while discussing the RFP for appointment of Portfolio Managers. The queries alongwith the response of the Consultant and decision of the FIAC on the respective points is as per the table below:

Sl.No.	Queries raised by FIAC	Discussion/Clarifications	Final Decision
i.	Why the ratio of Technical bid: Financial bid is 80:20 as standard practice is 70:30?	- Same ratio was followed last time for the selection of Portfolio Managers. - More emphasis should be given to technical strength	Maintain 80:20

		as the Portfolio Managers need to have stronger technical capabilities considering the volume of transactions and size of funds to be managed.	
ii.	Why the experience of applicants in Fixed Income Management has been increased to 5 years from 3 years as compared to last selection process?	Five years would cover a complete interest rate cycle. Even the potential applicants had suggested five years during the discussions with them on draft RFP put up by EPFO on its website for comments.	<ul style="list-style-type: none"> - It was decided to keep it 3 years as 5 years would make it restrictive. - Necessary changes have been incorporated in the attached RFP for the selection of portfolio managers
iii.	Should we keep at the AUM under debt fund of Rs. 15,000 crores (or Rs. 7,500 crores under retirement funds) in the pre-qualification criteria as on date, as at September 30, 2014 or average of last 4 quarters?	AUMs are volatile in nature and average AUMs give better idea on the funds managed by the potential applicant as AUM as on date (i.e. September 30, 2014) could be one-time nos. and could mislead about the experience of the applicant.	<ul style="list-style-type: none"> - AUM as on October 31, 2014 to be considered. - Necessary changes have been incorporated in the attached RFP for the selection of portfolio Managers.
iv.	Evaluation period of applicants on AUM under retirement funds/AUM under long term debt portfolios/analysis of point-to-point		Necessary changes have been incorporated in the attached RFP for the selection of portfolio

	returns/analysis of purchase yield should be for 3 years to align it with the pre-qualification criteria as discussed above.		managers
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B. The Committee approved the final RFP document after incorporating the above changes. The document after changes is available at Annexure 'A'.

C. The committee was of the view that the present extended tenure of the Portfolio Managers is due to expire on 31st March, 2015. Therefore, the process of selection of Portfolio Managers should be concluded as early as possible. Accordingly, it was agreed that applications of the prospective applicants may be received within 30 days from the date of publishing of RFP as against 6 weeks as suggested by the Consultant.

D. FA brought to the notice of the Committee that the Committee needs to examine as to whether SBI should be in competition with other portfolio managers. He told the Committee that in the last selection of portfolio manager, SBI was last one in the competition and this time given the circumstances might not be in the first five or six also. The Committee deliberated upon the situation and it felt that SBI must be one of the portfolio managers. The committee observed that it is necessary because association with SBI as portfolio manager has always been there.

E. Hon'ble Consultative Committee (Labour & Employment) has also noted about the same. Further SBI as portfolio manager can be a good indicator for evaluating the services of other portfolio managers. The committee also felt that SBI being the sole banker and one time the sole portfolio manager, it would be difficult to keep SBI out. The Committee, therefore, was of considered view that SBI shall be associated as Port Folio Manager on nomination basis.

F. The Committee also decided that as regards the charges of SBI (which are higher in case of SBI then other portfolio managers) and the share of the portfolio to be managed by the SBI, CBT can take a decision or could constitute a sub-committee to look into the issue.

G. It was brought to the notice of the Committee that on the previous occasion for selection of portfolio manager, EOI was called before the RFP was issued. However, since the RFP is given to each and every eligible portfolio manager with same pre-qualification criteria as would have gone in EOI, the step of inviting a separate EOI may be dispensed with. It was also pointed out that Coal Mines Provident Fund as well as PFRDA in their recent process for selection of portfolio managers have also gone for

RFP without going for EOI. Accordingly, the Committee decided that EPFO can also go for RFP directly.

Item 4: Request for Proposal (RFP) for Appointment as Custodian of Securities for the Employees' Provident Fund Organization (EPFO)

The Consultant tabled the changes in the selection process of custodian. The committee agreed with the changes made by the Consultant.

FA & CAO informed the Committee that the custodian work is complex and of significant importance for the correct accounting of the investments, timely receipt of interest thereon and also for ensuring timely receipt of amount on maturity of the assets. Change of Consultant requires more than one year in the process of stabilization and providing quality service to us. This comment comes from the experience of change in Custodian in 2011. He further informed that as per the best practice followed by the Funds, Custodians are normally kept for very long term, many a times more than 10 years. He also brought to the knowledge of the Committee that the present custodian is charging merely 0.0000001 % of the assets under custody from EPFO. This has translated into an outgo of about Rs 22000/- only for the entire financial year 2013-14 as custodian fees. In view of this paltry custodian fees being charged by the present custodian change of the custodian will not bring any material saving even if it is assumed that few of the other custodians may quote a lower fee. Change of Fund Managers and custodian at the same time also may result into new persons performing the job of Fund management and custodian. For better continuity of the services, it will be appropriate to stagger period of engagement of the custodian and Fund Manager so that at the time of change, either of the 2 parties will ensure continuity of the information.

In view of the above arguments, FIAC concluded that it will be in the interest of the Organisation to continue with the same custodian for the next cycle of appointment of the Fund Managers. The FIAC further decided that the term of Custodian may be extended by a period of 6 month beyond the date of expiry of the Fund Managers to be appointed by the process discussed at Agenda Item No. 3. FIAC further directed that a letter of consent should be obtained from the present custodian and the matter may be placed before the CBT in the next meeting.

In case, the CBT is not in agreement with the above view point, the RFP document as annexed at Annexure 'B' is approved for appointing the custodian.

Item 5: Request for Proposal (RFP) for Appointment as External Concurrent Auditor (ECA) for the Employees' Provident Fund Organization (EPFO)

The Consultant tabled the changes in the selection process of the External Concurrent Auditor that were agreed to by the FIAC.

FA & CAO however, informed the committee that the term of the current external concurrent auditor should be extended to 5 years in line with the provisions of the present Companies Act. If agreed to, this will ensure the continuity of the Chartered Accountant who has acquired specialized knowledge for doing the concurrent audit of highly regulated investment process that EPFO follows. Extending the tenure of the concurrent auditor, will in turn ensure that at the time of new cycle of appointment of portfolio managers, concurrent auditor is better equipped with its previous experience to oversee and monitor the functioning of the portfolio managers. Considering the above arguments, the FAIC decided that the tenure of present external concurrent auditor should be extended till October, 2016 on the same terms and conditions on which they were appointed. The committee further directed that a letter of consent should be obtained from the present external concurrent auditor and agenda may be placed before the next CBT for its approval.

In case, the CBT is not in agreement with the above view point, the RFP document as annexed at Annexure 'C' is approved for appointing the ECA.

Item No 6: Discussion on amended Regulations of BASEL III bond by RBI

The FA & CAO introduced the item to the Committee. Sh. Chaudhary desired that a detailed note on BASEL III Additional Tier (AT) 1 bond may be placed before the Committee. It was further decided that an Expert Committee already approved to look into various issues pertaining to investments may be asked to analyze this issue also. Thereafter, the recommendation of the Expert Committee on Basel III AT 1 bond may be placed before the Committee.

Item No 7: Note on formation of Expert Committee for issues related to Investment Guidelines and Bajpai Report on Investment Pattern.

The committee took note of the efforts made by EPFO and empowered the CPFC to nominate some other Expert as Chairman of the said Sub-Committee in place of Sh. Arun Kaul.

Item No 8: Proposal for Amendment in EPF Scheme 1952 for engaging Scheduled Commercial Banks in addition to SBI for collection of Contribution.

The proposal for amendment in EPF Scheme, 1952 for engaging Scheduled Commercial Banks in addition to SBI for collection of contribution was placed before the Finance, Investment and Audit Committee (EPF). The matter was discussed and recommended by FIAC, EPF for placing the same before the CBT, EPF.

Item No 9: 14th 15th & 16th (Combined) Valuation Report of the Employees' Pension Fund as on 31.03.2012 – Report submitted by M/s. K.A. Pandit, Consultants & Actuaries, the Valuer, appointed by the Central Government.

Initiating the discussion on the agenda item FA&CAO informed the members of the Committee that the Actuarial Valuation Report of the Employees Pension Fund for the combined three years period from 31.03.2010 – 31.03.2012 was submitted by Mr. K. Pandit the Actuary appointed by the Central Government and the same had been placed in the 204th CBT meeting held on 26.08.2014. The Board after going through the report had referred the same to be placed before the Finance & Investment Committee for examining the following:-

- 1) The reasons for substantial fluctuation in the surplus/deficit as brought out in the actuarial reports.
- 2) The terms of reference of the actuary appointed for conducting the valuation of the pension fund.

The report has been accordingly placed for deliberation before the FIAC. He informed FIAC that the actuarial valuation of the Employees Pension Fund was essentially an assessment of the Net Present Value of the Fund taking into account the benefit payment obligation as well as the response of the contribution and other credits in the Fund in respect of all the existing members and pensioners of the Fund as on the date of valuation.

The valuation conducted just prior to the present reports i.e. as on 31.03.2009 had revealed as deficit of Rs. 61,608 crores whereas the present valuation as on 31.03.2012 had shown the deficit of Rs. 10,855 crores only. Further, more the report status as on 31.03.2010 the deficit was Rs. 5162.38 crores where on 31.03.2011 there was a surplus of Rs. 12,989 crores. The reason for such variation was to be looked into by the FIAC.

It was brought to the notice of the FIAC that one of the major shortcomings of the valuation exercises earlier had been inadequacy of data both in terms of quality and quantity. Earlier the valuation was carried out the 5-15% data and to that extent there was always room for doubt for the valuation result. Further, earlier the operation of EPFO were largely manual with some computers assistance. The present valuation as on 31.03.2012 a very intensive and special drive for collection of data was carried as a result of which complete data in respect of 1.90 crore members which 57.92% of the active members was provided to the actuary for valuation. Therefore the reliability of valuation result as on 31.03.2012 are much higher.

The exercise of cleaning up and completing the data is continuing in EPFO and at present data for almost 93% active members have been collected by EPFO. The data for future valuation would for more comprehensive and the valuation result will therefore be more reliable.

In so far as the fluctuation in valuation over the 3 years period i.e. 31.03.2010, 31.03.2011 and 31.03.2012 is concerned, the FIAC noted that the result

emerged out of data available for members, pensioners and their respective payment obligation and receipt in flows as estimated for these 3 years is given in the table below:-

No	Valuation Metrics	Valuation as on 31.03.2010	Valuation as on 31.03.2011	Valuation as on 31.03.2012
1.	Membership	58796000	61588000	85500000
2.	Pensioners	3510006	3600089	4103014
3.	Corpus of Fund	1,23,790.43	1,42,050.82	1,61,780.08
4.	Present value of benefit-obligations(In Crs)	2,52,064.97	2,45,055.45	3,22,602.79
5.	Present value of contribution/receipts(In Crs)	1,23,112.16	1,15,994.34	1,49,967.38
6.	Net Deficit/Surplus(In Crs)	5,162.38	12,989.70	10,855.33

The FIAC noted that the valuation data provided for the valuation as on 31.03.2012 was more reliable and comparatively of better quality. Therefore, the qualitative result was more reliable. The data for valuation of the previous years was inadequate and hence there was fluctuation in the valuation result.

With these observations the FIAC recommended that combined Actuarial Report for 14th, 15th and 16th valuation for the period 31.03.2010, 31.03.2011 and 31.03.2012 as presented by M/s. K.A. Pandit may be accepted by the Board.

Item No.10: Revised Estimates for the year 2014-15 and Budget Estimates for the year 2015-16 for the EPFO and Schemes administered by EPFO.

Additional Secretary (L&C) and Joint Secretary & RA(Labour, Ministry of Labour & Employment pointed out that the RE 2014-15 is higher than the BE 2014-15 under the budget heads "Publicity" and "Staff paid from Contingencies".

FA&CAO, EPFO confirmed that the high projection of RE 2014-15 under the said budget heads is mainly due to organizing the felicitation programme for pensioners on enhancement of minimum pension and on account of outsourcing of staff against the shortfall of regular posts in the cadre of SSA & MTS.

The committee decided to recommend the Revised Estimates 2014-15 and Budget Estimates 2015-16 for placing the same before the CBT, EPF.

Item No 11: Increasing the limit for investment in Private Sector category from 10% to 15%.

The item was tabled. The Committee after discussion approved the proposal as contained in Para G.

Item No 12: Amendment in Pattern of Investment notified by MOL & E on 21st November, 2013.

The item was tabled. The Committee after discussion approved the proposal as contained in Para D.

Item No 13: Risk Management Policy for investment in EPFO.

The item was tabled. The Committee took note of the item and decided to take up the item in next Meeting.

The Meeting ended with vote of thanks to the chair.

Item No. 2

Item: Appointment of State Bank of India (SBI) as one of the Portfolio Managers of EPFO on nomination basis.

1. The FIAC in its 115th Meeting held on 11.11.2014 recommended to CBT to appoint SBI as one to the Portfolio Manager of EPFO on nomination basis. The FIAC further recommended that CBT may take a decision or constitute a sub-Committee for negotiation on Management Fees with SBI and allocation of funds to SBI (relevant portion of the minutes is placed as Annexure 'A').
2. The recommendations of the Committee were placed before CBT in its 205th Meeting held on 19.12.2014 as **Item no. 18**. The Board after deliberation approved the appointment of SBI as one of the Portfolio Managers of EPFO on nomination basis. However, there was no decision on the share of portfolio to be managed by SBI and the charges to be paid to SBI. (Agenda and relevant portion of minutes are placed as Annexure 'B').
3. It is highlighted that the bids for Portfolio Managers will be opened and further action thereon taken by FIAC on 09.01.2015 and it would be appropriate that the share of portfolio to be managed by SBI and the charges to be paid to SBI are finalized before the opening of the technical bids. Accordingly, since the FIAC, which is a Sub-Committee of CBT for finance/investment issues, is also the Committee for recommending the names of shortlisted Portfolio Managers to the CBT for appointment, it is proposed that the FIAC may take a decision on the share of portfolio to be managed by SBI and the charges to be paid to SBI.
4. **Background of association of SBI as Portfolio Manager of EPFO is briefly placed below for deciding the share of portfolio to be managed by SBI and the charges to be paid to SBI:**
 - Prior to 17.09.2008, SBI was sole Portfolio Manager of EPFO. SBI was managing EPFOs corpus on a transaction fees of 0.03% on face value of every investment other than in SDS with certain other conditions.
 - In 2008, EPFO, to bring in competition in Fund Management to increase its earning, appointed four Portfolio Managers as follows on below given fees and fund allocation:

Sr. No.	Portfolio Manager	Management Fees as % of incremental investments	Allocation of Fund
1.	HSBC AMC	0.0063%	34%
2.	ICICI Prudential AMC	0.0075%	27%
3.	SBI	0.01%	20%
4	Reliance Capital AMC	0.01%	20%

- In 2011, EPFO appointed following Portfolio Managers as per the below given fees and fund allocation:

Sr. No.	Portfolio Manager	Management Fees as % of incremental investments	Allocation of Fund
1.	SBI	0.01%	35%
2.	ICICI Securities PD Ltd	0.0003%	25%
3.	Reliance Capital AMC	0.0004%	20%
4	HSBC AMC	0.0036%	20%

- From the above, it is evident that there is considerable difference between the management fees quoted by SBI and by other portfolio managers. It is expected that this time, EPFO may get even lower quotations of Management fees by prospective portfolio managers. In the above background, fund management fees that may be paid to SBI may be decided by FIAC in consultation with SBI. Further, in regards of allocation of funds to SBI, it is suggested that the same may be decided after finalization of Management fees payable to SBI.

Proposal: *Proposal contained in Para 3 above is placed before the Committee for consideration/approval.*

Annexure-A'

Telephone: 26178450

Fax No: 26194349



एम्प्लॉयर्स प्रोविडेंट फंड संगठन
Employees' Provident Fund Organisation

(कर्मचारी प्रोविडेंट फंड, भारत सरकार)
(Ministry of Labour & Employment, Govt. Of India)
मुख्यालय / Head Office

Bhavistya Mohal Marg, 14, Bhikaji Cama Place, New Delhi-110066

No. Invest.I/(115th Mtg.)/FIAC/2014

Date: 01.12.2014

1 - DEC 2014

To

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

Sub: Forwarding the Minutes of 115th meeting of the Finance Investment & Audit Committee (FIAC), CBT, EPF held on 11.11.2014 at EPFO, Head Office, New Delhi - Reg.

Sir,

Minutes of 115th meeting of the Finance Investment & Audit Committee (FIAC) held on 11.11.2014 alongwith Annexures (A, B & C) approved by the Chairperson are enclosed herewith for your kind perusal and necessary action please.

Yours faithfully,

Encls: As above

(AMUL RAJ SINGH)

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

Consultant Representative:

1. Mr. Mukesh Agarwal – President, CRISIL Research
2. Mr. Piyush Gupta – Associate Director, CRISIL Research
3. Mr. Vikram Shastry – Manager, CRISIL Research

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

6. The Agenda wise discussions are recorded below:

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The minutes were confirmed.

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The Committee took note of the Action Taken Report.

Item 3: Finalization of Request for Proposal (RFP) Documents for selection of Portfolio Managers.

A. The Committee raised certain queries while discussing the RFP for appointment of Portfolio Managers. The queries alongwith the response of the Consultant and decision of the FIAC on the respective points is as per the table below:

Sl.No.	Queries raised by FIAC	Discussion/Clarifications	Final Decision
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		Portfolio Managers to have stronger technical capabilities considering the volume of transactions and size of funds to be managed.	
ii.	Why the experience of applicants in Fixed Income Management has been increased to 5 years from 3 years compared to last selection process?	5 years would cover a complete interest rate cycle. The potential applicants had suggested 5 years during the discussions with them on draft RFP put up by EPFO on its website for comments.	<ul style="list-style-type: none"> - It was decided to keep it 3 years as 5 years would make it restrictive. - Necessary changes have been incorporated in the attached RFP for the selection of portfolio managers
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	returns/analysis of purchase yield should be for 3 years to align it with the pre-qualification criteria as discussed above.		managers
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B. The Committee approved the final RFP document after incorporating the above changes. The document after changes is available at Annexure 'A'.

C. The committee was of the view that the present extended tenure of the Portfolio Managers is due to expire on 31st March, 2015. Therefore, the process of selection of Portfolio Managers should be concluded as early as possible. Accordingly, it was agreed that applications of the prospective applicants may be received within 30 days from the date of publishing of RFP as against 6 weeks as suggested by the Consultant.

D. FA brought to the notice of the Committee that the Committee needs to examine as to whether SBI should be in competition with other portfolio managers. He told the Committee that in the last selection of portfolio manager, SBI was last one in the competition and this time given the circumstances might not be in the first five or six also. The Committee deliberated upon the situation and it felt that SBI must be one of the portfolio managers. The committee observed that it is necessary because association with SBI as portfolio manager has always been there.

E. Hon'ble Consultative Committee (Labour & Employment) has also noted about the same. Further SBI as portfolio manager can be a good indicator for evaluating the services of other portfolio managers. The committee also felt that SBI being the sole banker and one time the sole portfolio manager, it would be difficult to keep SBI out. The Committee, therefore, was of considered view that SBI shall be associated as Port Folio Manager on nomination basis.

F. The Committee also decided that as regards the charges of SBI (which are higher in case of SBI than other portfolio managers) and the share of the portfolio to be managed by the SBI, CBT can take a decision or could constitute a sub-committee to look into the issue.

G. It was brought to the notice of the Committee that on the previous occasion for selection of portfolio manager, EOI was called before the RFP was issued. However, since the RFP is given to each and every eligible portfolio manager with same pre-qualification criteria as would have gone in EOI, the step of inviting a separate EOI may be dispensed with. It was also pointed out that Coal Mines Provident Fund as well as PFRDA in their recent process for selection of portfolio managers have also gone for

RFP without going for EOI. Accordingly, the Committee decided that EPFO can also go for RFP directly.

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The Consultant tabled the changes in the selection process of custodian. The committee agreed with the changes made by the Consultant.

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In view of the above arguments, FIAC concluded that it will be in the interest of the Organisation to continue with the same custodian for the next cycle of appointment of the Fund Managers. The FIAC further decided that the term of Custodian may be extended by a period of 6 month beyond the date of expiry of the Fund Managers to be appointed by the process discussed at Agenda Item No. 3. FIAC further directed that a letter of consent should be obtained from the present custodian and the matter may be placed before the CBT in the next meeting.

In case, the CBT is not in agreement with the above view point, the RFP document as annexed at Annexure B is approved for appointing the custodian.



Subject:1. Draft minutes of the 205th CBT meeting held on 19.12.2014.
2. Minutes of Informal meeting held with non-official members on 13.10.2014.

Please find enclosed minutes of the above referred meetings. Draft minutes of the CBT have been submitted for approval of Hon'ble Chairman, CBT (EPF). During the 205th meeting of CBT held on 19.12.2014, members raised issue of their being either non-availability of action taken on decisions of the Board or incomplete action taken report.

CPFC has directed that the above mentioned minutes be perused and updates on each of the decision point pertaining to your Division, may be compiled. CPFC will be taking a review on the issue within a week's time.

(Signature)
26/12/14

(Navendu Rai)

Regional PF Commissioner (Conf./MIS/PQ)

U.O. No. Conf.1(1)205th CBT(EPF/2014

Dated: 26.12.2014

To

1. FA & CAO
2. CVO
3. ACC-HQ (VNS)
4. ACC-HQ (RB)
5. All ACCs Headquarters
6. PS to CPFC for information and with the request to intimate date and time for the review by CPFC on the captioned subject.

② R LFA
② R LFA (M)
26/12/14

29/12/14
RF

Put up immediately for 'A'
29/12/14
J.A.
RECEIVED ON... 26/12/14

EMPLOYEES' PROVIDENT FUND ORGANISATION
MINUTES OF THE 205th CBT MEETING
(NEW DELHI: 19th DECEMBER 2014; 11AM)

The 205th meeting of the Central Board of Trustees', Employees' Provident Fund (CBT, EPF) was held under the Chairmanship of Shri Bandaru Dattatreya, Chairman CBT, EPF and Union Minister of Labour & Employment. The following members attended the meeting:-

1. Smt. Gauri Kumar, Secretary
Ministry of Labour & Employment
Government of India, New Delhi
Central Government representatives
2. Shri Arun Kumar Sinha, Additional Secretary
Ministry of Labour & Employment
Government of India, New Delhi
3. Smt. Meenakshi Gupta, JS & FA
Ministry of Labour & Employment
Government of India, New Delhi
4. Shri D.S. Negi, Director (SS)
Ministry of Labour & Employment
Government of India, New Delhi
5. Ms. Anna Roy, DFS
Ministry of Finance, Government of India,
New Delhi
6. Shri K.K. Jalan,
Central PF Commissioner
7. Shri J.P. Chowdhary
8. Shri Sharad Patil
9. Shri Ravi Wig
10. Sh. Ashok Kumar Gupta (in place of Dr. U.D. Houbey)
11. Shri Badish Jindal
Employers' representatives
12. Shri B.P. Pant
13. Shri Sushanta Sen
14. Shri G.P. Srivastava
15. Dr. S.S. Patil
16. Shri Virijesh Upadhyay
17. Shri M Jagdeeswara Rao
18. Shri A.D. Nagpal
19. Shri D.L. Sachdev
20. Shri Ashok Singh
21. Shri Shankar Saha
Employees' representatives
22. Shri Ramen Pandey
23. Shri A.K. Padmanabhan
24. Shri Prabhakar J Banasure

Secretary (L&E) stated that FIAC may again examine along with report for next two years giving explanation for noticeable fluctuations along with data. Further, FIAC may get the actuaries report peer reviewed .

With these observations the issue was again referred to FIAC.

Item No. 16: Mechanism for regulating the investments being made by exempted funds.

The proposal as contained in the agenda was approved with the direction that performance of exempted trust/establishments should be placed before the Committee on Exempted Trust on periodic basis.

Item No. 17: Status report of Worker's Capital Trust and setting up of Worker's Bank.

The Board noted the contents of the item. Secretary (L&E) stated that members' demands of having a Workers' Bank can be referred to Ministry of Finance.

Item No. 18: RFP for appointment of Portfolio Managers- Recommendation of FIAC to appoint SBI as Port Follo Manager on nomination basis.

The proposal as contained in the agenda was approved.

Item No. 19: Extension of M/s Standard Chartered Bank as Custodian

The proposal as contained in the agenda was approved.

Item No. 20: Extension of M/s Chandoobhoy and Jassoobhoy as External Concurrent Auditor.

The proposal as contained in the agenda was approved.

Item No. 21: Amendment in Pattern of Investment notified by MoL & E on 21st November 2013.

The proposal as contained in the agenda was approved.

Item No. 22: Increasing the limit of investment in Private Sector category from 10% to 15%.

The Board desired that the issue be examined first by the expert committee and then by FIAC. The detailed analysis of expert committee and FIAC should later be presented before Board.

Item No. 18: RFP for appointment of Portfolio Managers. Recommendation of FIAC to appoint SBI as Portfolio Manager on nomination basis.

18.1 The CBT in its 204th Meeting held on 26.08.2014 inter alia:

- i. Approved appointment of M/s. CRISIL Ltd. as Consultant for Selection of Portfolio Managers, Custodian and External Concurrent Auditor and Performance Evaluation of Selected Portfolio Managers for the next term.
- ii. Decided that the task of selection of portfolio managers, custodian and external concurrent auditor with the assistance of consultant may be carried out by FIAC.

18.2 Accordingly, M/s. CRISIL Ltd. prepared the draft Request for Proposal (RFP) documents for the appointment of Portfolio Managers, and the same was placed before the FIAC in its 115th Meeting held on 11-11-2014 as an agenda on Finalization of RFP document for appointment of Portfolio Managers. The FIAC after detailed discussion approved the RFP documents with certain changes in it. The minutes of 115th Meeting of FIAC as approved by the Chairman, FIAC are placed as Annexure 18A along with the RFP document for appointment of Portfolio Managers placed as Annexure-18B.

18.3 SBI has long association with EPFO both as agency for collecting funds and also as PM. From 1995 to 2008 SBI was the sole PM for EPFO. The work of fund management of some of the peer Provident / Pension Funds namely Coal Mines Provident Fund as well as Seamen Provident Fund have given their fund management to SBI on nomination basis for different periods.

18.4 SBI being a PSU works as a reliable PM, the return of SBI provides an independent benchmark for comparison of the performance of other PMs.

18.5 During the previous cycle of appointment of PMs, SBI was given preference in the allocation of corpus among all selected PMs despite not being the lowest bidder.

18.6 The cost of management of fund for the current appointment cycle i.e. from 2011-2014 in case of SBI is 0.01% of fresh investments being made by them. The fund management charges being paid to SBI was highest among all the PMs for 2011-2014, the same was however much below the fixed charges previously given to SBI when it was the sole Portfolio Manager, charging 0.25% of the actual money invested. Similarly, the PFRDA in one of the earlier instances had given 0.25% AUM as fund management fee. SBI has managing the investment of EPFO on the following rate over the earlier periods:

Period	% of Incremental Portfolio	Management Fee as % of Incremental Investment
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22

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1995-2008	100%	0.25%
2008-2011	20%	0.01%
2011 to till date	35%	0.01%

18.7 In the 115th Meeting of FIAC held on 11.11.2014, FA brought to the notice of the Committee that the Committee needs to examine as to whether SBI should be in competition with other portfolio managers. He told the Committee that in the last selection of portfolio manager, SBI was last one in the competition and this time given the circumstances might not be in the first five or six also. The Committee deliberated upon the situation and it felt that SBI must be one of the portfolio managers. The committee observed that it is necessary because association with SBI as portfolio manager has always been there.

18.8 Hon'ble Consultative Committee (Labour & Employment) has also noted about the same. Further SBI as portfolio manager can be a good indicator for evaluating the services of other portfolio managers. The committee also felt that SBI being the sole banker and one time the sole portfolio manager; it would be difficult to keep SBI out. The Committee, therefore, was of considered view that SBI shall be associated as Port Folio Manager on nomination basis.

18.9 The Committee also decided that as regards the charges of SBI (which are higher in case of SBI than other portfolio managers) and the share of the portfolio to be managed by the SBI, CBT can take a decision or could constitute a sub-committee to look into the issue.

18.10 As recommended by FIAC at Para 'E' & 'F' of the minutes of 115th FIAC on the respective item, the CBT may:

- a) Consider appointment of SBI as Portfolio Manager on nomination basis, and
- b) Take a decision on the share of portfolio to be managed by SBI and the charges to be paid to SBI.

Proposal: The proposal at Para 18.10 (a) & (b) above is placed before the Board for consideration.