

EMPLOYEES' PROVIDENT FUND ORGANISATION

NEW DELHI



126th Meeting of the

FINANCE INVESTMENT AND AUDIT
COMMITTEE

[A SUB-COMMITTEE OF THE CENTRAL BOARD,
EMPLOYEES' PROVIDENT FUND]

On

27.06.2016 at 2:00 P.M.

VENUE:

Conference Hall,
3rd Floor, EPFO (Head Office),
Bhavishya Nidhi Bhawan,
14, Bhikaiji Cama Place,

EMPLOYEES' PROVIDENT FUND ORGANISATION

AGENDA BOOK 126th Meeting of the Finance Investment and Audit Committee, Central Board, EPF.

Date: 27.06.2016

INDEX OF ITEMS

Time: 2.00 P.M.

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126th Meeting of FIAC 27.06.2016

Item No. 1: Confirmation of the Minutes of 125TH Meeting of the Finance Investment and Audit Committee held on 24.05.2016 at EPFO, Headquarter, New Delhi.

Minutes of 125TH Finance Investment and Audit Committee (FIAC) meeting held on 24.05.2016 was circulated vide letter No. Invest.1/1(125TH)Mtg./FIAC/2016/4281 dated 30.05.2016 . Copy of the minutes is enclosed as Annexure -'A' of this item. This office has not received any observations from the members on the minutes of the meeting.

Minutes may be taken as confirmed.

Annexure - A

SPEED POST

Telephone: 26178450

Fax No: 26194349



कर्मचारी भविष्य निधि संगठन
Employees' Provident Fund Organisation

(श्रम एवं रोजगार मंत्रालय, भारत सरकार)
(Ministry of Labour & Employment, Govt. Of India)

मुख्यालय / Head Office

Bhavishya Nidhi Bhawan, 14-Bhikaji Cama Place, New Delhi-110066

No. Invest.I/1(125th) Mtg./FIAC/2016

Date:

To

30 MAY 2016

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

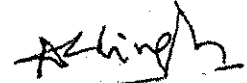
Sub: Forwarding of Minutes of 125th Meeting of the Finance Investment & Audit Committee (FIAC), CBT, EPF held on 24.05.2016 at EPFO Head Office, New Delhi - Reg.

Sir,

Minutes of 125th meeting of the Finance Investment & Audit Committee (FIAC) held on 24.05.2016 approved by the Chairperson is enclosed herewith for your kind perusal and necessary action please.

Yours faithfully,

Encl:- As above


(AMUL RAJ SINGH)
Regional P.F. Commissioner-II (INVEST.)

जारी किया
ISSUED

Minutes of the 125th Meeting of the Finance Investment & Audit Committee (FIAC) held on 24.05.2016

1. The 125th Meeting of Finance Investment & Audit Committee of CBT, EPF, chaired by Dr. V.P. Joy Central Provident Fund Commissioner was held on 24.05.2016 from 11.00.A.M. onwards in the Conference Hall, 3rd Floor, EPFO, Head Office, New Delhi.
2. The following members/representatives were present in the meeting.

1.	Sh. Heera Lal Samariya	Additional Secretary (L&E), Ministry of Labour & Employment, Govt. of India.
2.	Ms. Meenakshi Gupta,	Joint Secretary & Financial Advisor, Ministry of Labour & Employment, Govt. of India.
3.	Sh. Babhu Dayal	Director, Deptt. of Financial Services, Ministry of Finance as Representative of Joint Secretary, MOF, Govt. of India as Domain Expert.
4.	Sh. Kalasubrahmanyam Kamarsu	Member, Central Board, (Employers' Representative)
5.	Sh. P. Prabhakar J. Kamarsu	Member, Central Board, (Employees' Representative)

The following members could not attend the meeting:

1.	Sh. Sanjeeva Reddy	Member, Central Board, (Employees' Representative)
2.	Sh. P. Chowdhary	Member, Central Board, (Employers' Representative)

In addition to the above, Shri Subhash Kumar, Under Secretary, Ministry of Labour & Employment, Govt. of India was also present during the meeting.

FA & CAO, EPFO was convener of the meeting.

3. The Chairman welcomed all the members and officers present in the meeting. Thereupon the agenda were taken up.

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Item No. 1: Confirmation of the Minutes of 124th Meeting of the Finance Investment & Audit Committee (FIAC) held on 22.03.2016.

It was suggested by Shri P.J.Banasure Member Central Board to record the minutes and elaborate in future. With this suggestion, the minutes of 124th Meeting of the Finance Investment & Audit Committee held on 22.03.2016 were confirmed.

Item No. 2: Action taken report on the recommendation of the 124th Meeting of Finance Investment & Audit Committee (FIAC) held 22.03.2016.

The action taken report as placed was taken note of by the Committee.

Item No. 3: CBLO borrowing transactions by the Portfolio Managers during the period 01.03.2016 to 31.03.2016.

The item was taken note of by the Committee. The same shall be placed in the next CBT Meeting.

Item No. 4: Request for Proposal (RFP) for Appointment as External Concurrent Auditor (ECA) for the Employees' Provident Fund Organisation (EPFO).

The committee members approved the draft RFP for appointment of External Concurrent Auditor (ECA) for the audit of investments done by EPFO's Portfolio Managers subject to the following changes:

Section of draft RFP	Contents of the clause	Change suggested and agreed by FIAC members.
Section 4, clause 4.1.1	Ensure that the audit is to be conducted by a team consisting of one leader and at least two staff personnel. The leader of the team should be a qualified chartered accountant with at least five years of experience in the field of Audit and at	It was discussed and agreed by all members that staff personnel in the proposed execution team mentioned in this clause should be Chartered Accountants with at least one year of work experience.

	<p>least three years of experience in the field of Portfolio Audit. The audit should be carried out under direct supervision of a Partner of the chartered accountant firm if the leader of the Team is not a Partner of the Chartered Accountant firm.</p>	
<p>Additional item proposed to be added in RFP.</p>	<p>NA</p>	<p>It was discussed and agreed by all members that only auditors empanelled with Comptroller and Auditor General of India (CAG) as on the date of RFP should be eligible.</p>

Item No.5: Standard Operating Procedure for investment in exchange traded Fund (ETF) and Liquid Mutual Fund (LMF).

The item was approved by the Committee. The same shall be placed in the next CBT meeting.

Item No.6: Concurrent Audit Reports of Provident Fund (including other funds) and Pension Fund for the month of September 2015 to March 2016.

It was decided by the members that from next FIAC a consolidated Action taken on the observations made by ECA shall be placed as Agenda item in the FIAC. The Audit Report need not be sent by post to members. The Report be placed in the meeting for reference if any needed at the time of deliberation.

Item No.7: Selection of Mutual Fund as ETF manufacturer for investment in ETFs by EPFO.

FA & CAO suggested that the following further criteria may be considered for inclusion in the draft RFP.

- i. The tracking error can be calculated using the total return index.
- ii. The number of ETF clients both institutional & retailers.
- iii. The promoter company international experience in ETF business as ETFs in India is nascent.

M/s CRISIL informed that with regard to point no (i) above, the provision has already been made in RFP at point no.6.3.1.5. With regard to other two points CRISIL informed that these are relevant observation and the Committee members agreed they can include it in the RFP and CRISIL was directed to update the RFP accordingly. With this modification the Committee approved the RFP. Addl. Secretary stated that it is an early stage of ETF investment and it is yet to stabilise. He was of the view that presently SBI may be allowed to be continued. JS & FA pointed out that SBI MF was selected as single source selection at initial stage with a clear stipulation that their term would be upto 31st March 2016. This was subsequently extended to 30th June 2016 with the directions that process for selection of ETF manufacturer following the procedures should be completed by that time.

The Chairman suggested that since the CBT has not indicated the number of mutual fund to be selected as ETF manufacturer, we may seek the approval of Central Board in this regard in its next meeting. An agenda with regard to this be brought before the next CBT meeting. The approved RFP may be advertised.

Item No.8: Proposal for increasing the number of days for borrowing of funds from CBLO for participation in primary auctions of Government securities and corporate bonds from existing 15 to 30 days.

The item was approved by the Committee. The same shall be placed in the next CBT Meeting.

The meeting ended with a vote of thanks to the chair.

Item No 2: Action Taken Statement on the minutes of 125TH meeting of the Finance Investment and Audit Committee (FIAC) held on 24.05.2016

Sr No.	Decisions/Directions of FIAC								
1.	<p>CBLO borrowing transactions by the Portfolio Managers during the period 01-03-2016 to 31-03-2016.</p> <p>The item was taken note of by the Committee. The same shall be placed in the next CBT Meeting.</p> <p style="text-align: center;"><i>(Item no. 3 of 125th FIAC)</i></p>		<p>An agenda for the same will be placed in upcoming 213th meeting of CBT.</p>						
2.	<p>Request for Proposal (RFP) for Appointment as External Concurrent Auditor (ECA) for the Employees' Provident Fund Organisation (EPFO) Portfolio Managers.</p> <p>The committee members approved the draft RFP for appointment of External Concurrent Auditor (ECA) for the audit of investments done by EPFO's Portfolio Managers subject to the following changes:</p> <table border="1" data-bbox="229 1191 1164 2065"> <thead> <tr> <th data-bbox="238 1191 396 1344">Section of draft RFP</th> <th data-bbox="405 1191 784 1344">Contents of the clause</th> <th data-bbox="793 1191 1155 1344">Change suggested and agreed by FIAC members.</th> </tr> </thead> <tbody> <tr> <td data-bbox="238 1344 396 2065">Section 4, clause 4.1.1</td> <td data-bbox="405 1344 784 2065">Ensure that that audit is to be conducted by a team consisting of one leader and at least two staff personnel. The leader of the team should be a qualified chartered accountant with at least five years of experience in the field of Audit and at least three years of experience in the field of Portfolio Audit. The audit should be carried out under direct supervision of a Partner of the chartered accountant firm if the</td> <td data-bbox="793 1344 1155 2065">It was discussed and agreed by all members that staff personnel in the proposed execution team mentioned in this clause should be Chartered Accountants with at least one year of work experience.</td> </tr> </tbody> </table>		Section of draft RFP	Contents of the clause	Change suggested and agreed by FIAC members.	Section 4, clause 4.1.1	Ensure that that audit is to be conducted by a team consisting of one leader and at least two staff personnel. The leader of the team should be a qualified chartered accountant with at least five years of experience in the field of Audit and at least three years of experience in the field of Portfolio Audit. The audit should be carried out under direct supervision of a Partner of the chartered accountant firm if the	It was discussed and agreed by all members that staff personnel in the proposed execution team mentioned in this clause should be Chartered Accountants with at least one year of work experience.	<p>The approved RFP for appointment of External Concurrent Auditor(ECA) has been published vide advertisement No. davp/23109/11/0011/1617 dated 6-06-2016 and corrigendum vide No. davp/23109/11/0013/1617 dated 23-06-2016.</p> <p>The pre bid conference is scheduled to be held on 27-06-2016 at 3.00 PM and the RFP process is under way.</p>
Section of draft RFP	Contents of the clause	Change suggested and agreed by FIAC members.							
Section 4, clause 4.1.1	Ensure that that audit is to be conducted by a team consisting of one leader and at least two staff personnel. The leader of the team should be a qualified chartered accountant with at least five years of experience in the field of Audit and at least three years of experience in the field of Portfolio Audit. The audit should be carried out under direct supervision of a Partner of the chartered accountant firm if the	It was discussed and agreed by all members that staff personnel in the proposed execution team mentioned in this clause should be Chartered Accountants with at least one year of work experience.							

	leader of the Team is not a Partner of the Chartered Accountant firm.	
Additional item proposed to be added in RFP.	NA	It was discussed and agreed by all members that only auditors empanelled with Comptroller and Auditor General of India (CAG) as on the date of RFP should be eligible.

(Item no. 4 of 125th FIAC)

3.

Standard Operating Procedure for investment in exchange Traded Fund (ETF) and Liquid Mutual Fund (LMF).

The item was approved by the Committee. The same shall be placed in the next CBT meeting.

(Item no. 5 of 125th FIAC)

An agenda for the same will be placed in upcoming 213th meeting of CBT.

4.

Concurrent Audit Reports of Provident Fund (including other funds) and Pension Fund for the months of September, 2015 to March, 2016.

It was decided by the members that from next FIAC a consolidated Action taken on the observations made by ECA shall be placed as Agenda item in the FIAC. The Audit Report need not be sent by post to members. The Report be placed in the meeting for reference if any needed at the time of deliberation.

(Item no. 6 of 125th FIAC)

The decision of the Committee has been taken note of for future compliance.

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Selection of Mutual Fund as ETF manufacturer for investment in ETFs by EPFO.

FA & CAO suggested that the following further criteria may be considered for inclusion in the draft RFP.

A separate agenda item on selection of mutual

- i) The tracking error can be calculated using the total return index.
- ii) The number of ETF clients both institutional & retailers.
- iii) The promoter company international experience in ETF business as ETFs in India is nascent.

funds as ETF manufacturer for investment in ETF's by EPFO is being placed before 126th FIAC.

M/s CRISIL informed that with regard to point no (i) above, the provision has already been made in RFP at point no.6.3.1.5. With regard to other two points CRISIL informed that these are relevant observation and the Committee members agreed they can include it in the RFP and CRISIL was directed to update the RFP accordingly. With this modification the Committee approved the RFP. Addl. Secretary stated that it is an early stage of ETF investment and it yet to stabilise. He was of the view that presently SBI may be allowed to be continued. JS & FA pointed out that SBI MF was selected as single source selection at initial stage with a clear stipulation that their term would be upto 31st March 2016. This was subsequently extended to 30th June 2016 with the directions that process for selection of ETF manufacturer following the procedures should be completed by that time.

The Chairman suggested that since the CBT has not indicated the number of mutual fund to be selected as ETF manufacturer, we may seek the approval of Central Board in this regard in its next meeting. An agenda with regard to this be brought before the next CBT meeting. The approved RFP may be advertised.

Item no. 7 of 125th FIAC

Proposal for increasing the number of days for borrowing of funds from CBLO for participation in primary auctions of Government Securities and Corporate bonds from existing 15 to 30 days.

6. The item was approved by the Committee. The same shall be placed in the next CBT Meeting.

An agenda for the same will be placed in upcoming 213th meeting of CBT.

(Item no. 8 of 125th FIAC)

Item No. 3 - Revision of Service Charges on Collection by State Bank of India

The rates of service charges on collection were last revised by SBI from Rs.3.00 per thousand rupees to Rs. 2.40 per thousand rupees for physical transactions (cheques) and Rs.1.80 per thousand rupees for transactions through internet banking (INB). The above charges at reduced rates were implemented w.e.f. 01.08.2014. The Central Board was also apprised of the same by way of an agenda item placed in 204th meeting of the CBT, EPF.

Since the above charges were still on a higher side and were not in accordance with the applicable rate prescribed by RBI for handling government business, i.e. Rs.50/- for physical transaction and Rs.12/- for online transaction, the issue has been regularly raised before the State Bank of India at different levels. SBI has been taking a view that RBI's rates cannot be applied to EPFO since SBI does not consider EPFO as a part of government. However, such a view point was contested by EPFO at various meetings.

SBI has now given their revised rates vide letter dated 24.05.2016 as under:

(i) Before site to site integration

- Rs.100/- per transaction for physical transaction
- Rs.35/- per transaction for internet transaction

(ii) After site to site integration

- Rs.100/- per transaction for physical transaction
- Rs.12/- per transaction for internet transaction

(iii). The revised collection charges at reduced rates would be effective from retrospective date i.e. from the date of renewal of the agreement which is due from 01.12.2015.

SBI vide letter dated 08.06.2016 has also waived the payment charges as per RBI rate of 5.5 paise per hundred rupees. EPFO has given its consent to the above revised rates of service charges.

Savings to EPFO

The commission payable to SBI on existing rates and at revised/reduced rates is tabulated below by taking the data of April, 2016 for 5.87 lakh challans out of which 5.25 lakh challans were through internet banking and 62391 were through physical mode.

Existing Rates Rs.2.40 per thousand for cheque and Rs.1.80 per thousand for INB	Proposed Rates before site to site integration Rs.100/- per transaction for cheque and Rs.35/- per transaction for INB	Proposed Rates after site to site integration Rs.100/- per transaction for cheque and Rs.12/- per transaction for INB
Rs.209.40 crores yearly	Rs.29.52 crores yearly	Rs.15.04 crores yearly
	Saving: 180 crores.	Saving: 194 crores

The Agenda Item is placed for kind information of the Board.



भारतीय स्टेट बैंक
भारतीय स्टेट बैंक
State Bank of India

एन. एम. ई. एन्टरप्राइजिज् क्लब, कार्पोरेट सेंटर, मादाम कामा प्लेस,
एन. डी. ब्लॉक, १२, नुसई - ४०० ०२५.

लघु एवं मझोले उद्योग, व्यवसायिक इकाई, कार्पोरेट सेंटर, मादाम कामा प्लेस,
एन. डी. ब्लॉक, १२, नुसई - ४०० ०२५.

Small & Medium Enterprises, S. U. Corporate Centre, Madame Cama
Post Box No. 12, Mumbai - 400 025.

Tel: 022-2274 0833 / 022-2274 0831 / 022-2274 0833 | Fax: 022-2254 2192

The Central Provident Fund Commissioner
Employees Provident Fund Organisation
Bhavshya Nidhi Bhawan
14 Bhikai, Cama Place
New Delhi - 110 066

Date:

Ref. No.:

TBU/L&TP/45
Dated 24 05 2016

Dear Sir,

SERVICE CHARGES ON EPFO COLLECTIONS

With further reference to our letter No SME/L&TP/197 dated 09 12 2015 on the captioned topic minutes of the meeting with EPFO held on 22 03 2016 at EPFO Headquarter, New Delhi and State Bank of India's valuable relationship with EPFO, we have again reviewed service charges

2. In this connection, we refer to the clause Nos. 5 10, 5 11 and 5 12 of the Agreement between Employees' Provident Fund Organization and State Bank of India with regard to the service charges payable on EPFO collection and advise the revised rates as under

i) BEFORE SITE TO SITE INTEGRATION

- Rs 100/- per transaction for physical transaction
- Rs 35/- per transaction for internet transaction

ii) AFTER SITE TO SITE INTEGRATION

- Rs 100/- per transaction for physical transaction
- Rs 12/- per transaction for internet transaction

iii) Introduction of RBI rate of 5.5. paise per hundred rupees on payment business by EPFO after negotiations with E P F O.

iv) The revised collection charges rates would be effective from retrospective date i.e. from the date of renewal of agreement which is 01 12 2015

v) Rates for Pension Payments i.e. both for Pension Payments of EPFO employees and Pension Payments to Subscribers of EPFO would be decided separately

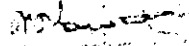


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3. As decided during the deliberations in the aforesaid meeting for Site to Site integration a Current Account has been opened at our Bhikaji Cama Place branch New Delhi for trial purpose and Corporate Internet Banking facility has been provided to EPFO in this account. Vide our letter no SME/L&TP/42 dated 06.04.2016, we have requested E.P.F.O. to submit the forms duly completed as per the e-Commerce and m-Commerce policy of the Bank for integration of the web-site of E.P.F.O with our INB and request for submission of the same to complete the process of Site to Site Integration.

4. In the light of the foregoing we request consent by the appropriate authority in respect of the above revised rates at the earliest to proceed ahead with the execution of the Agreements which has fallen due for renewal w.e.f 01.12.2015

Yours faithfully


(K.P.S. Rawat)
General Manager (TBU)



भारतीय स्टेट बैंक
भारतीय स्टेट बैंक
State Bank of India

व्यवसाय व लेन देन उत्पाद विभाग, नए एवं पुराने उद्योग व्यवसाय इकाई, कॉर्पोरेट अंड
3रा मजला, स्टेट बैंक भवन, गदाम कामा रोड, मुंबई- 400 021
व्यवसाय एवं लेन देन उत्पाद विभाग, नए एवं पुराने उद्योग व्यवसाय इकाई, कॉर्पोरेट अंड
3रा मजला, स्टेट बैंक भवन, गदाम कामा रोड, मुंबई- 400 021
Liability & Transaction Product Dept., SME Business Unit, Corporate Centre
3rd Floor, State Bank Bhawan, Madhane Cama Road, Mumbai- 400 021

Tel: 022-2384 2192 / 2384 2193 / 2384 2194 / 2384 2195 | Fax: 022-2384 2192 / 2384 2193

The Central Provident Fund Commissioner
Employees Provident Fund Organisation,
Bhaivshya Nidhi Bhawan
14 Bhikaji Cama Place
New Delhi 110 066

No.TBU/L&TP/57
Date. 08.06.2016

Dear Sir,

SERVICE CHARGES ON EPFO COLLECTIONS

With further reference to our letter No TBU/L&TP/45 dated 24.05.2016 on the captioned topic and considering our valued and long standing relationship with EPFO, we have once again reviewed conditions of the service charges

2. In this connection, we refer to the clause Nos 5.10, 5.11 and 5.12 of the Agreement between Employees' Provident Fund Organisation and State Bank of India with regard to the service charges payable on EPFO collection and advise that the appropriate authority has since waived the condition occurring in para 2(iii) of the aforesaid letter i.e "Introduction of RBI rate of 5.5 paise per hundred rupees on payment business by EPFO after negotiations with EPFO", which stands waived

3. In the light of the foregoing, we request acceptance by the authorised authority of EPFO for the revised service charges advised vide our letter no TBU/L&TP/45 dated 24.05.2016 and the aforesaid condition waived to proceed ahead with execution of the Agreement which has fallen due for renewal w.e.f 01.12.2015.

Yours faithfully,

For General Manager (TBU)

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Item No. 4:- Proposal for amendment in EPF Scheme, 1952 for engaging Private Sector Banks- ICICI Bank, HDFC Bank and Axis Bank- in addition to SBI and other Nationalized Banks for collection of contributions.

Para 48 of the Employees' Provident Funds Scheme, 1952 provides that the Commissioner shall deposit the contributions received from the employers, electronically through internet banking or any other mode other than internet banking (cheques and drafts), in the Reserve Bank or the State Bank of India or any other Nationalized Banks or through PayGov platform authorized for collection in the Current Account of the Fund.

2. Currently, all nationalized banks and three private sector banks viz. ICICI Bank, HDFC Bank and Axis Bank have been authorized by the Ministry of Finance, Government of India to collect taxes on behalf of Income Tax, Customs, Excise & Service Tax Departments. At present, it is possible for employers to pay statutory provident fund contributions through the payment aggregator- Bill Desk as well as direct online payments through SBI. The collections received through the payment aggregator is indirect, settlements are done in T+3 days and at times leads to reconciliation issues. However, the collections received through internet banking e.g. SBI are direct, seamless, efficient and the contributions are received in T+1 day. The Reserve Bank of India vide its circular No. RBI/2011-12/377 dated 31st January, 2012 has also reviewed their policy that in addition to ICICI Bank, HDFC Bank and Axis Bank all private sector banks may be considered eligible to handle any central or state government business at par with public sector banks with a view to enhance the quality of customer service in Government business through more competition, improving customer convenience by increasing the number of customer service outlets and broad basing the revenue collection and payments mechanism of Governments.

3. In order to collect contributions efficiently and to provide hassle free service to the establishments, EPFO may authorize three private sector banks - ICICI Bank, HDFC Bank and Axis Bank- in addition to SBI, any other nationalized bank and through PayGov platform, for collection of EPFO contributions. Such a step would cut down float available with the payment aggregator by two days and would lead to an earning of Rs. 15 crores annually for EPFO. Nearly 25% of total collections is received through these three private sector banks.

4. It has been an endeavour of EPFO to accredit more and more banks for collection of dues as part of "Ease of doing business" and to collect such dues through the internet. Similarly, it has been a consistent policy to electronically credit money to beneficiaries in which so ever bank that a subscriber may have opened his bank account. Such payments are made through RBI's NEFT platform or through the Core Banking Solutions (CBS) of the State Bank of India. As more and more banks are associated with EPFO, it shall be

possible to seamlessly credit payments to the subscribers using the CBS of the respective banks. Such payments would be more efficient and would improve service delivery to the EPF subscribers.

5. The existing provisions under para 38(1) and para 48 of EPF Scheme, 1952 would be required to be amended by the Government to add private banks- ICICI Bank, HDFC Banks and Axis Bank- for collection of EPF dues as well as to provide for an enabling provision for authorizing other private sector banks in future.

6. The Central Board of Trustees, EPF may approve suitable amendments in para 38(1) and Para 48 of the Employees' Provident Funds Scheme, 1952 to enable EPFO to collect contributions through three private banks- ICICI Bank, HDFC Bank and Axis Bank- in addition to SBI, any other nationalized banks and through PayGov platform.

Proposal: The FIAC may recommend to the CBT, EPF for suitable amendments in Para 38(1) and Para 48 of the Employees' Provident Funds Scheme, 1952 to enable EPFO to receive contributions through private sector banks in addition to SBI, other Nationalized Banks and through PayGov platform.

AMENDMENT PROPOSED IN THE EPF SCHEME, 1952

Sl. No.	Existing Paragraph	Proposed Paragraph
1	<p>38. Mode of payment of contributions</p> <p>(1) The employer shall, before paying the member his wages in respect of any period or part of period for which contribution are payable, deduct the employee's contribution from his wages which together with his own contribution as well as an administrative charge of such percentage of the pay (basic wages, dearness allowance, retaining allowance, if any, and cash value of food concessions admissible thereon) for the time being payable to the employees other than excluded employee and in respect of which provident fund contribution are payable, as the Central Government may fix. He shall within fifteen days of the close of every month pay the same to the fund electronic through internet banking of State Bank of India or other Nationalized Bank or through PayGov Platform authorized for collection on account of contributions and administrative charge.</p> <p>Provided that the Central Provident Fund Commissioner may for reasons to be recorded in writing, allow any employer or class of employer to deposit the contributions by any other mode other than internet banking.</p>	<p>38. Mode of payment of contributions</p> <p>(1) The employer shall, before paying the member his wages in respect of any period or part of period for which contribution are payable, deduct the employee's contribution from his wages which together with his own contribution as well as an administrative charge of such percentage of the pay (basic wages, dearness allowance, retaining allowance, if any, and cash value of food concessions admissible thereon) for the time being payable to the employees other than excluded employee and in respect of which provident fund contribution are payable, as the Central Government may fix. He shall within fifteen days of the close of every month pay the same to the fund electronic through internet banking of State Bank of India or any other Nationalized Bank or through PayGov Platform or private sector banks as may be authorized by the Central Government for collection on account of contributions and administrative charge.</p> <p>Provided that the Central Provident Fund Commissioner may for reasons to be recorded in writing, allow any employer or class of employer to deposit the contributions by any other mode other than internet banking.</p>

2.	Paragraph 48: Current Account – The Commissioner shall deposit the contributions received from the employers electronically through internet banking or any other mode other than internet banking in the Reserve Bank or the State Bank of India or any other Nationalized Bank or through PayGov Platform in the Current Account of the Fund.	Paragraph 48: Current Account – The Commissioner shall deposit the contributions received from the employers electronically through internet banking or any other mode other than internet banking in the Reserve Bank or the State Bank of India or other Nationalized Bank or through PayGov Platform or private sector banks as may be authorized by the Central Government in the Current Account of the Fund.
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Item No. 5: Selection of Asset Management Companies as ETF manufacturer for investment in ETFs by EPFO

1. The Central Board in its 208th Meeting held on 16/09/2015 had approved selection of SBI mutual Fund as ETF manufacturer for investment in ETF by EPFO. It had considered the fact that to begin with investment in ETF can start with Asset Management Companies (AMCs) under Public Sector. Among PSUs there were only two asset management companies namely SBI Mutual Fund and UTI mutual fund. Since at that point in time only SBI mutual fund had ETF on Nifty 50 and Sensex, EPFO started investing in ETF through SBI Mutual Fund.
2. The tenure of investment with SBI Mutual fund was initially till 31st March 2016, which was later extended till 30th June 2016 till the appointment of Asset Management Companies.
3. In pursuance to the decision of 123rd FIAC and 212th Central Board, the Request for Proposal (RPF) for Selection of Asset Management Companies for EPFO's Investments in Exchange Traded Funds (ETFs) was advertised on 03rd June 2016.
4. In the 125th FIAC held on 24.05.2016 it was decided that since the CBT has not indicated the number of mutual fund to be selected as ETF manufacturer, the same may be sought from the Central Board in its next meeting.
5. Now, considering the fact that ETF market in India is still considered nascent, it has been thought prudent to evaluate the size and expense ratio of both the permissible Nifty 50 and Sensex ETFs which are in the market by different AMCs with the purpose of considering feasibility of selecting AMCs with majority ownership under Public Sector for investment in ETFs by EPFO.
6. The total size of such equity ETFs is approximately 12,000/- crores till March, 2016. The following AMCs have Assets under management (AUM) of not less than Rs 15,000 crores under equity mutual funds as on March, 2016 and also have both the Nifty 50 and Sensex ETFs:-

Sr. No.	Eligible AMCs	May 2016 -Month-end AUM (In Rs Cr)	
		Nifty ETF	Sensex ETF
1	HDFC Mutual Fund	44.17	2.11
2	ICICI Prudential Mutual Fund	534.90	5.21
3	Reliance Mutual Fund	25.04	39.81
4	UTI Mutual Fund	102.19	14.22
5	SBI Mutual Fund	7066.96	2054.42
6	Kotak Mahindra Mutual Fund	330.37	10.93

From the above table it is evident that apart from SBI Mutual Fund none of the AMCs have sizeable corpus in ETFs of Nifty 50 and Sensex. Even for SBI Mutual Fund approximately 7,000 crores belongs to EPFO out of a total of 9,100 crores.

7. The expense ratio of these ETFs are as under:

Sr. No.	Eligible AMCs	Expense Ratio (as on May 2016)	
		Nifty ETF	Sensex ETF
1	HDFC Mutual Fund	0.05%	0.08%
2	ICICI Prudential Mutual Fund	0.05%	0.08%
3	Reliance Mutual Fund	0.08%	0.07%
4	UTI Mutual Fund	0.07%	0.07%
5	SBI Mutual Fund	0.07%	0.07%
6	Kotak Mahindra Mutual Fund	0.10%	0.25%

The table suggests that for Sensex ETF the expense ratio for the AMCs with majority ownership under Public Sector i.e. SBI Mutual Fund and UTI Mutual Fund have the lowest expense ratio @.07%. For Nifty 50 ETF the expense ratio of UTI mutual Fund is at par with SBI Mutual Fund @.07% with which

EPFO is currently making investments. This is however slightly higher than HDFC mutual Fund and ICICI Prudential Mutual Fund which is @ .05%.

8. Considering the fact ETFs as an investment vehicle are relatively nascent in the Indian market it would be prudent to invest only with AMCs with majority ownership under Public Sector rather than expanding the investment universe to all other AMCs as was decided by the Central Board when for the first time investment in ETF was allowed. It is also important to mention that the expense ratio for Sensex ETF is already the lowest for the two Public sector managed AMCs i.e. SBI Mutual Fund and UTI Mutual Fund.

Proposal:

- A. Selection of Asset Management Companies with majority ownership under Public Sector i.e. SBI Mutual Fund (63% stake by State Bank of India and 37% stake by Amundi India holding) and UTI Mutual Fund (18.29% each stake by State Bank of India, Life Insurance Corporation of India, Bank of Baroda and Punjab National Bank and 26% stake by T. Rowe Price) for investment in ETFs by EPFO. Further the committee constituted in the 123rd FIAC for selection of Mutual Fund/Asset Management Companies as ETF manufacturer for investment in ETFs by EPFO may negotiate the expense ratio with these AMCs.
- B. The Process for selection of Asset management companies through the bidding process which was advertised may be terminated.