

Item No. 29: Amendment in the Investment Pattern 2015 notified by Ministry of Labour & Employment, Government of India.

1. Para 52 (1) of EPF Scheme 1952 provides that *"All moneys belonging to the Fund shall be deposited in the Reserve Bank or the [State Bank of India] or in such other Scheduled Banks as may be approved by the Central Government from time to time or shall be invested, subject to such directions as the Central Government may from time to time give, in the securities mentioned or referred to in [section 20 of the Indian Trusts Act, 1882 (11 of 1882)] provided that such securities are payable both in respect of capital and in respect of interest of India"*.
2. The Ministry of Labour & Employment, Government of India notifies/issues investment Pattern for investments by EPFO as well as Exempted Establishments. Lastly, the Government of India vide notification no. S. O. 1071 (E) dated 23rd April, 2015 notified pattern of Investment for investments by EPFO and vide notification no.1433 (A) dated 29th May, 2015 for Exempted Establishment.
3. Sub Para (iv) (f) of Category (ii) i.e. Debt Instruments and Related Investments of above mentioned Investment Pattern provides that *"the investment under sub-categories (a), (b) and (f) (i) to (iv) of this category No. (ii) shall be made only in such securities which have minimum AA rating or equivalent in the applicable rating scale from at least two credit rating agencies registered with Securities and Exchange Board of India under Securities and Exchange Board of India (Credit Rating Agency) Regulation, 1999. Provided further that in case of the sub-category (f) (iii) the ratings shall relate to the Non-Banking Financial Company and for the sub-category (f) (iv) the ratings shall relate to the investment in eligible securities rated above investment grade of the scheme of the fund"*.
4. Accordingly, investments of EPFO are being made as per the Investment pattern notified by Government of India.

5. Ministry of Finance vide DO. Letter no. 01/09/SE/2005 (Pt) dated 08th February, 2018 has referred Budget Announcement (Budget Para no. 105) i.e. *Corporate bonds rated 'BBB' or equivalent are investment grade. In India, most regulators permit bond with the 'AA' rating only as eligible for investment. It is now time to move from 'AA' to 'A' grade ratings. The government and concerned regulators will take necessary action.* The Ministry of Finance has requested to take necessary action with respect to Budget Announcement for timely implementation **(Annexure-29A)**.
6. The Corporate Bonds category includes (i) Public Sector Undertaking (PSU), (ii) Public Financial Institute (PFI), (iii) Public Sector Bank (PSB), (iv) Private Sector Bank (Pvt Bank) and (v) Private Sector Companies (PSC) instruments. Presently, EPFO is investing in upto AA rated instrument in (i) to (iii) mentioned above and dual AA+ in PSB.
7. In an earlier reference received from Ministry of Finance on this issue, we had sought comments of EPFO's Consultant, M/s. CRISIL Ltd on relaxation of minimum requirement of 'AA' in respect of Corporate Bonds wherein, CRISIL provided default study (one, two and three year average default rates (1988-2016) as give below **(Annexure-29B)**.

Rating Category	Issuer- months	One-year	Two- year	Three year
CRISIL AAA	17815	0.00%	0.00%	0.00%
CRISIL AA	39729	0.04%	0.29%	0.75%
CRISIL A	54216	0.51%	2.07%	4.25%
CRISIL BBB	123326	1.01%	2.70%	5.07%

8. On examining the default data provided by the M/s. CRISIL, Credit Rating Agency, EPFO has relaxed investment guidelines for Private Sector Companies from dual AAA rated instruments to dual AA+ rated instruments. Further, it was decided that it may not be appropriate for EPFO to invest in 'A' rated instruments, as the risk involved in such investments is associated with significant average default rates **(Annexure-29C)**.

9. In order to invest in A rated instruments, Government amendments in Pattern of Investment 2015 shall be required for Exempted Establishments.

10. The matter was placed before the FIAC in its 138th meeting held on 21.02.2018. The FIAC deliberated upon the matter and recommended that since EPFO has already downgraded investment grade to dual AA+ in private sector companies bonds, it would not be appropriate to further relax investment below AA in Public Sector Undertaking (PSU), Public Financial Institute (PFI) & Public Sector Bank (PSB) category, dual AA+ in Private Sector Banks and dual AA+ in Private Sector Companies bonds. FIAC further recommended the matter to be placed before Central Board.

The matter is placed before the Board for Consideration.

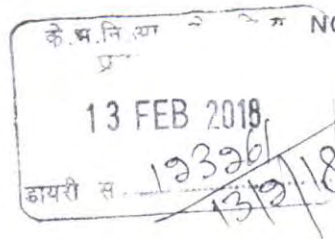
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PRAVEEN GARG, IAS
Joint Secretary



भारत सरकार
GOVERNMENT OF INDIA
वित्त मंत्रालय
MINISTRY OF FINANCE
आर्थिक कार्य विभाग
DEPARTMENT OF ECONOMIC AFFAIRS
नॉर्थ ब्लॉक, नई दिल्ली - 110001
NORTH BLOCK, NEW DELHI - 110001

D.O No.01/09/SE/2005 (Pt.)



8th. February, 2018

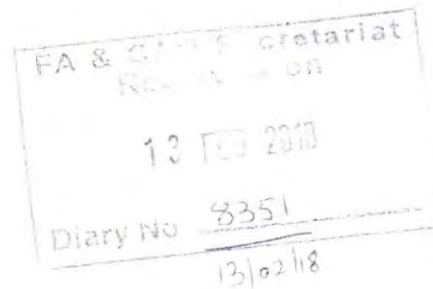
Dear *Dr Joy.*

Your kind attention is drawn towards the Budget Speech 2018 of Hon'ble Finance Minister, the following Budget Announcement was made:

Budget Para No.105: Corporate bonds rated 'BBB' or equivalent are investment grade. In India, most regulators permit bonds with the 'AA' rating only as eligible for investment. It is now time to move from 'AA' to 'A' grade ratings. The government and concerned regulators will take necessary action.

2. It is requested that necessary action may be taken with respect to the above Budget Announcement for timely implementation of the same. This Department may be apprised of the Action Taken Report (ATR) in this regard.

With kind regards,



Yours sincerely

(Praveen Garg)

✓ **Dr. V.P. Joy,**
Central Provident Fund Commissioner,
Employees Provident Fund Organisation (EPFO),
Bhavishya Nidhi Bhawan,
14- Bhikaji Cama Place,
New Delhi- 110066

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R/C (IMS)

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13/2/18



Comments on relaxation of minimum rating requirement of 'AA' in respect of Corporate Bonds under investment pattern 2015.

Vikram Shastry <vikram.shastry@crisil.com>

Sun, Oct 22, 2017 at 8:45 PM

To: "imc.epfo@epfindia.gov.in" <imc.epfo@epfindia.gov.in>, "rc1.imc@epfindia.gov.in" <rc1.imc@epfindia.gov.in>, "ac1.imc@epfindia.gov.in" <ac1.imc@epfindia.gov.in>

Cc: IMC EPFO <imcepfo@gmail.com>, "sunyad2313@yahoo.com" <sunyad2313@yahoo.com>, "ankur7um@gmail.com" <ankur7um@gmail.com>, Jiju Vidyadharan <jiju.vidyadharan@crisil.com>, "Piyush Gupta (Research)" <Piyush.Gupta1@crisil.com>, David Das <david.das@crisil.com>, Kashyap Barot <Kashyap.Barot@crisil.com>

Dear Sir,

As per CRISIL default study (as attached), please find below the one, two and three year average default rates (1988-2016) for long-term ratings for corporate issuers.

Rating category	Issuer-months	One-year	Two-Year	Three-year
CRISIL AAA	17815	0.00%	0.00%	0.00%
CRISIL AA	39729	0.04%	0.29%	0.75%
CRISIL A	54216	0.51%	2.07%	4.25%
CRISIL BBB	123326	1.01%	2.70%	5.07%
CRISIL BB	190468	3.95%	8.17%	12.27%
CRISIL B	171206	8.02%	15.90%	21.90%
CRISIL C	7878	20.92%	33.12%	40.84%

Regards,

Vikram Shastry

Manager

Funds and Fixed Income Research



कर्मचारी भविष्य निधि संगठन
(श्रम एवं रोजगार मंत्रालय भारत सरकार)



Employees' Provident Fund Organisation
(Ministry of Labour & Employment, Govt. Of India)

मुख्य कार्यालय / Head Office
भविष्य निधि भवन, 14-भीकाजी कामा प्लेस, नई दिल्ली-110066
Bhavishya Nidhi Bhawan, 14- Bhikaiji Place, New Delhi – 110066

File no. HO/IMC/132/Pattern 2015

Date: 26.10.2017

To

27 OCT 2017

The Secretary to the Govt. of India
Ministry of Labour & Employment
Sharam Shakti Bhawan, New Delhi
(By Name to: Shri Naveen Kapoor, US (Finance-II))

Subject: Follow up of the Hon'ble PM's interaction with Young CEO's Start-ups and entrepreneurs. – Reg.

Sir,

Please refer to the letter no. A-11019/01/2016-Fin.II dated 17th October, 2017 enclosing therewith letter no. 5(4)-B(PD)/2007(Pt.) dated 10th October, 2017 of Department of Economic Affairs (DEA), Ministry of Finance to furnish comments on SI no.1 of the deliberations held under the chairmanship of Secretary (Economic Affairs) on 30.09.2017.

2. The Matter has been examined in consultation with M/s. CRISIL Ltd and it has been decided that it may not be appropriate for EPFO to invest in 'A' rated instruments, as the risk involved in such investments is associated with significant average default rates. Moreover, the Central Board has decided to make prudent investment decisions as the hard earned money belong to the poor subscribers. Further, it is informed that Central Board has recently approved investment in AA+ rated Private Sector Companies.

[This issues with the approval of CPFC]

Yours faithfully,

Udita

(Udita Chowdhary)
Addl. Central P.F. Commissioner (IMC)

जारी किया
ISSUED