

Item No. 8: Realization Of Capital Gains From Investment in ETF (EPF Scheme).

1. EPFO started to invest in Equity (ETF) from August 2015 and only dividend earnings from that investment were accounted as earnings in the interest account for declaration of rate of interest for FY 2016-17. Till previous year the amount of investment in ETF was not very significant to impact the overall earnings, but by the end of 2017-18 the expected overall investment in ETF at cost price would be approximately ₹44,000 crores. Moreover since the performance of equity market has been good in the past year the capital gains are substantial.
2. Further the rate of interest rate on the debt securities has fallen in the last few years. As a result, new investments have happened at a lower rate and at the same time debt securities purchased in the past at higher coupon is also getting matured. This has resulted in decline in the earnings from the overall EPFO portfolio which is evident from rate of interest being declared for the EPF subscribers which is on a declining trend as shown in the table appended below:

Year	Rate of Interest
2015-16	8.80%
2016-17	8.65%

3. Further in the 219th meeting of the Central Board, an agenda item on “Accounting policy for ETF (equity and related instruments) for EPF scheme” has been approved whereby investment in equity (ETF) would be unitized. However for the period prior to the implementation of this policy, the investments in equity (ETF) would remain as part of EPF holding and would have to be periodically redeemed to realize gains from the capital appreciation.
4. By redemption of some portion of the ETF holding, the benefits of capital appreciation can be realized and that can be passed on to the existing members on an annual basis by including the realized profits from ETF investment in the interest account with part of the income be used for hedging against market volatility.
5. Accordingly, the following proposal was formulated for redemption of some portion of the ETF holding and was approved by the Hon’ble chairman Central Board.
 - a) EPFO should liquidate some portion of its ETF holding to be distributed to the members of the EPF Scheme mainly on account of following reasons i) Investment made in ETF since Aug 2015 till the date of implementation of unitization policy will not form part of the unitization and therefore needs to be periodically redeemed ii) Gains from capital appreciation from investment in ETF has not been distributed to members till date and iii) Nifty and sensex are at their all time high.
 - b) ETFs with over one year holding period may be considered for redemption. Further since first in first out (FIFO) method is the most universally resorted for redemption, the first purchased ETF units i.e. those purchased in the year 2015 may be redeemed. On redemption the capital appreciation portion would be treated as profits and can be credited to interest account and transferred to EPF members account by means of interest rate to be declared for the FY’ 2017 -18.
6. In order to carry out the redemption process the following policy was formulated and adhered.

- a. Arrive at last 7 days average NAV for both SBI Nifty 50 ETF and Sensex ETF (7 days counted from the *day of approval of the proposal i.e. 16.01.2018*) and allow redemption only on days when the current market NAV on the day of transaction is not below 5% from the average (as per table appended below). This was done to protect downside risk if market falls during the selling phase. However there was no upper price band.

	95%	95%
Date	NAV SBI Nifty 50	NAV SBI Sensex
1/15/2018	108.980	367.620
1/12/2018	108.370	364.970
1/11/2018	108.060	364.040
1/10/2018	107.870	363.300
1/9/2018	107.920	363.400
1/8/2018	107.780	362.450
1/5/2018	107.130	360.360
Average NAV	108.016	363.734
Lower NAV Cap	102.615	345.548

- b. Total units redeemed (details appended below) was daily equated and redeemed over 15 transaction days period. This was done to minimize the impact cost for such transaction.

Scheme	Total number of units purchased in 2015	Basket size (No of units)	No of basket	Daily redemption (no of basket)
SBI Nifty 50 ETF	253,500,000	50000	5070	338*15 days
SBI Sensex ETF	24,096,000	2000	12048	803*14 days, 806*1 day

7. The transactions for redemption of the ETF units of SBI Nifty 50 and SBI Sensex ETF started on **17/01/2018** got completed on **07/02/2018**.
8. The details of total profit realized is placed as under:-

	SBI NIFTY 50 ETF (in crores)	SBI SENSEX ETF (in crores)
Cost of investment	2,026.05	660.46
Market Value	2,796.90	901.43
Capital Gain	770.85	240.97
Dividend Earned	31.69	10.24
Total Return	802.53	251.22
Absolute Return	39.61%	38.04%
Annualised Return	16.04%	15.42%

9. The total capital gains realized by the redemption process was **₹1,011.82 crores**. Dividend earning on the redeemed units was **₹41.93 crores** which accrued in the previous financial year. Therefore the total profit is **₹1,053.75 crores**.

10. The item was placed before the FIAC and the members recommended to be placed before the Central Board

Proposal: The item is placed before Central Board for its consideration and approval.