

**STANDING COMMITTEE ON LABOUR**

**(2018-19)**

**(SIXTEENTH LOK SABHA)**

**MINISTRY OF LABOUR & EMPLOYMENT**

**[GUIDELINES, MONITORING, RATING AND REGULATORY SYSTEM,  
STATUS OF INVESTMENT IN BONDS AND SUCH INSTRUMENTS -  
(EXAMPLE OF INFRASTRUCTURE LEASING & FINANCIAL SERVICES  
(IL&FS) BY PF FUNDS, PENSION FUNDS]**

**FIFTY-SEVENTH REPORT**



**LOK SABHA SECRETARIAT**

**NEW DELHI**

**February, 2018/Magha, 1940 (Saka)**

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(EXAMPLE OF INFRASTRUCTURE LEASING & FINANCIAL SERVICES  
(IL&FS) BY PF FUNDS, PENSION FUNDS]**

***Presented to Lok Sabha on 13.02.2019***

***Laid in Rajya Sabha on 13.02.2019***



**LOK SABHA SECRETARIAT**

**NEW DELHI**

**February, 2018/Magha, 1940 (Saka)**

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**COMPOSITION OF THE STANDING COMMITTEE ON LABOUR**  
**(2018-19)**

**DR. KIRIT SOMAIYA - CHAIRPERSON**

**MEMBERS**

**Lok Sabha**

2. Shri Udayanraje Pratapsingh Bhonsle
3. Shri Rajesh Diwakar
4. Shri Ashok Kumar Dohrey
5. Shri Satish Chandra Dubey
6. Shri Devajibhai Fatepara
7. Shri Satish Kumar Gautam
8. Dr. Boora Narsaiah Goud
9. Shri Rama Chandra Hansdah
10. Shri C. N. Jayadevan
11. Shri Bahadur Singh Koli
12. Dr. Arun Kumar
13. Shri Kaushalendra Kumar
14. Shri Hari Manjhi
15. Shri R. Parthipan
16. Shri Dayakar Pasunoori
17. Shri Hariom Singh Rathore
18. Shri Naba Kumar Sarania (Hira)
19. Shri Kodikunnil Suresh
20. Shri Mulayam Singh Yadav
21. Vacant

**Rajya Sabha**

22. Dr. Banda Prakash
23. Shri Ram Narain Dudi
24. Shri N. Gokulkrishnan
25. Shri Nazir Ahmed Laway
26. Shri P.L. Punia
27. Shri Rajaram
28. Shri Amar Shankar Sable
29. Ms. Dola Sen
30. Shri Akhilesh Prasad Singh
31. Shri Madanlal Saini

**SECRETARIAT**

1. Ms. Rimjhim Prasad	-	Joint Secretary
2. Shri P.C. Choulda	-	Director
3. Shri C. Vanlaluata	-	Additional Director
4. Shri Mohinder Paul Rana	-	Executive Assistant

## **INTRODUCTION**

I, the Chairperson, Standing Committee on Labour (2018-19) having been authorized by the Committee to present on their behalf this Fifty-Seventh Report on 'Guidelines, Monitoring, Rating and Regulatory System, Status of Investment in Bonds and such Instruments-[Example of Infrastructure Leasing and Financial Services (IL&FS) by PF Funds, Pension Funds pertaining to the Ministry of Labour & Employment.

2. The Committee had interaction about the norms, guidelines, monitoring and regulatory system for the investment made by Provident Fund Trusts, Organizations and EPFO in various non-government securities. The recent fiasco of IL&FS is discussed in depth. Sudden change in rating by the rating agencies has put a question mark over the Rs.9,700/- crore worth investment in IL&FS, of which, the investment by EPFO is worth Rs. 574.73 crore.

3. The Committee took oral evidence of the representatives of the Ministry of Labour & Employment along with the representatives of the Ministry of Finance (Department of Economic Affairs), Ministry of Corporate Affairs, Employees Provident Fund Organization (EPFO) and Securities and Exchange Board of India (SEBI) on 31<sup>st</sup> January, 2019. During the course of oral evidence, the Committee observed that there is a pressing need to review the investment guidelines, patterns and monitoring mechanism. The Committee feel the concerned Ministries must take initiative, have further discussion and review the extant guidelines for investment in non-government securities. The Committee feel that the monitoring mechanism needs to be overhauled.

4. The Committee considered and adopted the Draft Report at their Sitting held on 11<sup>th</sup> February, 2019.

5. The Committee wish to express their thanks to the officers of the Ministry of Labour & Employment and Ministry of Finance (Department of Economic Affairs), Ministry of Corporate Affairs, Employees Provident Fund Organization (EPFO) and Securities and Exchange Board of India (SEBI) for tendering oral evidence and placing before them the detailed written notes and post evidence information as desired by the Committee.

6. The Committee would like to place on record their deep sense of appreciation for the commitment, dedication and valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

7. For ease of reference, the Observations and Recommendations of the Committee have been printed in thick type in the body of the Report.

**New Delhi;**  
**12<sup>th</sup> February, 2019**  
**23<sup>rd</sup> Magha, 1940 (Saka)**

**DR. KIRIT SOMAIYA**  
**CHAIRPERSON,**  
**STANDING COMMITTEE ON LABOUR**

## REPORT

### CHAPTER-I

#### INTRODUCTORY

With the industrial growth some of the big employers had introduced schemes of provident funds for the welfare of their workers. But all these schemes were private and voluntary. Workers of the small employers remained deprived of the benefits which were provided by the big employers.

2. The question of making some provision for the future of the industrial worker after he retires or for his dependents in case of his early death, has been under consideration for some years. The ideal way would have been provisions through old age and survivors' pensions as has been done in the industrially advanced countries. Taking into account the various difficulties, financial and administrative, the most appropriate course appears to be the institution of compulsorily contributory provident funds in which both the worker and the employer would contribute. Apart from other advantages, there is the obvious one of cultivating among the workers a spirit of saving something regularly. The institution of a provident fund of this type would also encourage the establishment of a steady labour force in industrial centres.

3. The Provident Funds exist in private industry, contributions are usually a percentage of the basic wage. Unlike Government Departments, wages in private industry have not, however, been rationalised and there are very great variations in the level of basic wages in private industry, even in different units in the same industry. If contributions are reckoned on the basis of basic wage only, there will, therefore, be wide changes in the degree of benefit received. This will be unfair to the workers and may also penalise those employers who have brought the level of basic wages more in accord with current requirements. It is seen that Government appreciates that dearness allowance is a variable factor depending on the cost of living. Nevertheless, for the reasons explained, it is satisfied that contributions to the Provident Fund should be on the basis of basic pay plus dearness allowance, though in no way implying that dearness allowances on the existing rates are to be recognised as a permanent measure.

4. Most of the details relating to the fund will be settled in accordance with a Scheme which, in the interest of uniformity, will be framed by the Central Government. The administration will, to a large extent, be decentralised in regard to undertakings falling within the sphere of State Governments.

5. The EPFO is vested with the responsibility of administering responsibility of administering and investing the PF contributions and investing the PF

contributions as received in the EPF. To reassure itself that the hard earned money of the workers, which is pooled in this fund is diligently invested, the Committee decided to study the subject 'Guidelines, Monitoring, Rating and Regulatory System, Status of Investment in Bonds and such Instruments – (example of Infrastructure Leasing and Financial Services (IL&FS) by PF Funds, Pension Funds'.

## **II. COLLECTION AND INVESTMENT OF PROVIDENT FUND BY EPFO**

6. The Committee desired to know as to how the Provident Fund has been collected by the Employees Provident Fund Organization and whether there have been any statutory provisions in place as to how this fund is to be handled. In their written reply, the Ministry of Labour & Employment submitted as under:

"Funds are collected in the form of contributions towards EPF, EPS, and EDLI schemes from the employers through the mechanism of an Electronic challan cum Return (ECR), which is the online payment system of EPFO. The funds are deposited in the EPFO's account as per the provisions under Para 48 & 52 of the EPF Scheme 1952 (**Annexure-'I'**)."

7. When asked about the guidelines under which the EPFO invests PF fund, the Ministry replied as under:

"The provisions for investment of Funds are enshrined under Para 52 of the EPF Scheme 1952. The investment is made as per the pattern of investment notified by the Ministry of Finance, which is adopted and further notified by the Ministry of Labour & Employment, Government of India (**Annexure II**)."

The Central Board of Trustees, EPF has framed additional guidelines regarding investments to ensure safety and security of investments (**Annexure-III**)."

8. When the Committee queried whether any guidelines for investment are enshrined in the Employees Provident Funds and Miscellaneous Provision Act, 1952 and if so, to furnish the relevant Section and if not, to furnish details of the relevant Act passed by Parliament for the same, the Ministry of Labour & Employment submitted as under:

"Section 5 of the EPF & MP Act 1952 provides for framing of the EPF Scheme and a Fund. Accordingly the Government of India has notified the EPF Scheme 1952 and the provisions for investment of funds are provided under Para 52 of the EPF Scheme 1952."

9. On being asked by the Committee to furnish details of the decision making authority regarding the mode of investment and on what basis, the Ministry replied as under:

"EPFO has appointed fund managers approved by the Central Board, who are investing the funds as per the notified pattern of investment issued & notified by the Ministry of Finance & Ministry of Labour & Employment."

10. The Committee observed that the main concept of the EPF is to cultivate among the workers a spirit of saving something regularly which would encourage the stabilization of a steady labour force in industrial centers, and the EPFO is the custodian of this fund and queried if the EPFO accord more weight age to the Security Aspect or the Returns Aspect while investing the EPF of workers. The Ministry of Labour and Employment in their written reply submitted as under:

EPFO's primary concern is to ensure the safety and security of the Funds. The notified pattern of the Government of India (MoF & MoLE), which is adopted by the Central Board provides for, up to 65% of the investments to be made in Central Government Securities. The investments in other categories of the notified pattern are also as per the pattern of investment which are made primarily considering the security aspect only.

11. On being asked to furnish a detailed note on the preferred investment stock by EPFO i.e. Government or Private, the Ministry of Labour & Employment submitted as under:

The pattern of investment notified by MoL&E provides for 45% to 65% investments in the Government Securities. Accordingly majority of the EPFO's investment corpus comprises of Government Securities, Special Deposit Account of the Government of India and the Public Account of the Government of India. As on 31.03.18, 68% of the total investments are invested in the above mentioned Instruments/Accounts.

12. The Committee desired to be apprised of the details of quantum of funds invested by EPFO during the last 10 years, number of investments that have matured till today i.e. income and interest generated therein (including in percentage wise) and also to furnish list of present Portfolios of investments made by EPFO including in Securities/bonds its performance etc. in PSU Bonds/Private Sector Corporate Bonds/Private Sector Banks. The Ministry of Labour & Employment responded as under:

The details of the investments made during the last 10 years and the income generated are enclosed as per **Annexure-IV**. The details of the retuns generated on EPFO's investments are as per **Annexure-'V'**.

13. The Committee asked about the norms being followed to select the Investment companies for investments, the Ministry of Labour & Employment replied as under:

The investments in corporate bonds are made as per the guidelines mentioned in the Pattern of Investments (**Annexure II**) as well as additional guidelines approved by the Central Board of Trustees, EPF (**Annexure III**).

14. The Committee noted that EPFO has stated that regular performance analysis of investments is carried out through the help of a Consultant company and the audit of investment transaction is carried out by an External Concurrent Auditor. The Committee desired to know whether any alarm signals were sounded to EPFO by the Consultant Company or External Concurrent Auditor in context of fall in ratings/value etc as happened in case of IL&FS. In their written reply, the Ministry of Labour & Employment stated as under:

"The downgrade of ratings were informed during the month of September'18 by the External Concurrent Auditor and the Portfolio Managers and accordingly necessary action was initiated in consultation with the Portfolio Managers, Consultant and the Legal Counsel. It is pertinent to mention that EPFO has received all interest due till December, 2018."

**15. The Committee note that as per Section 5 of the EPF and MP Act, 1952, the Central Government may by notification in the Official Gazette frame a scheme to be called the Employees Provident Fund Scheme for the establishment of Provident Fund, which shall vest and be administered by the Central Board. Accordingly, the Government with the specific provision in Para 52 thereof regarding investment of monies belonging to EPF notified the Employees Provident Fund Scheme, 1952. They further note that the main concept of EPF is to cultivate among the workers a spirit of saving something regularly which would encourage the stabilization of a steady work force in industrial centres and EPFO is the custodian of this fund. The Committee are of the considered view that the inherent principle of EPF is social security for the vulnerable working class of our society. As its basic objective is social security rather than Returns on Investments and it flows thereof that when it's a social security measure, then ideally there should be no risky investment. They therefore, observe that the EPFO in their capacity of being the custodian of the EPF has the onerous task of safeguarding as well as ensuring viable**

**investment of this fund and should exercise due diligence and extreme caution, so as to ensure a fine balance between safety and security of this fund alongwith returns on investment.**

**16. The Committee have been informed that Central Board of the EPFO has adopted the notified pattern of the Government of India i.e. Ministry of Finance and the Ministry of Labour & Employment, which provides for upto 65% of the investments to be made in Central Government Securities and investments in other categories of the notified pattern which are made primarily considering the security aspect only. Consequently, as on 31st March, 2018, 68% of the total investments are in Government Securities, Special Deposit Account of Government of India and Public Account of Government of India. Expressing their satisfaction on noting that 68% of total investments of EPF are invested in Government Sector as informed by EPFO, the Committee express confidence that the remaining portion of the EPF would have been invested after a thorough deliberation process giving due weightage to the social security aspect. The Committee also hope that the Government will repose the trust placed by the Parliament in EPFO for proper investment of the hard earned money of the worker.**

### **III. MONITORING MECHANISM OF PROVIDENT FUND BY EPFO**

**17. The Committee further desired to know as to how the EPFO plan to strengthen their audit and monitoring mechanism, post IL&FS episode. In response, the Ministry submitted as under:**

"EPFO would undertake stringent checks to ensure investments are made as per the notified pattern of the Government of India and the guidelines approved by the Central Board of Trustees, EPF. Regular review mechanism and Concurrent

Audit of investments would be further strengthened so that all investments are safe and secured."

18. The Committee desired to know if the beneficiary/worker would be put to any disadvantage in case of any undue losses and as to how the loss is made good off. The Ministry replied as under:

"In case of any undue losses, the beneficiary/worker is not put to any losses of any principal amount or interest. The losses if any are made good from the reserves."

19. The Committee asked to be furnished the details of monitoring and review mechanism being followed to oversee the viabilities of such investments, in reply the Ministry stated as under:

"EPFO conducts regular review and monitoring of its investments. A consultant has been appointed to assist in the review process. Details of the performance review are submitted to the Finance Investments & Audit sub Committee of the Central Board as well as to the Central Board. An External Concurrent Auditor has also been appointed to conduct regular concurrent audit of all transactions as well as monitor the investments made."

**20. Being concerned over the need for a healthy monitoring mechanism to oversee the investments of the workers hard earned money put in EPF to insulate the fund from any bad investments, the Committee opine that the first step in the right direction would be to strengthen this monitoring mechanism by exercising tighter control over their designated portfolio managers and ensuring impartial external concurrent audit. The Committee further observe that as per Para 52 of the Scheme, losses if any are made good from the reserves. However, the Committee are of the view that such a need to delve into the reserves would not arise if a stringent monitoring mechanism for making and reviewing the investments is in place. The Committee are however satisfied to note that the Ministry of Labour & Employment have also expressed willingness to initiate remedial measures and undertake stringent checks before investing EPF. They further desire to be apprised of the progress achieved in this regard.**

## CHAPTER-II

### **REGULATING THE FUNCTIONING OF CREDIT RATING AGENCIES (CRAs)**

21. The Committee have been informed that EPFO makes investments as per the pattern of Investment notified by Ministry of Labour & Employment. The current pattern was notified on 23 April, 2015. The Central Board of Trustees, EPF has notified additional guidelines to regulate and safe guard investments by EPFO. As per current guidelines investment in corporate bonds category is limited to dual 'AA' in case of PSU bonds and dual 'AA+' in case of Private Sector corporate bonds and Private Sector banks. The investments are made by the Portfolio Managers of EPFO. Regular performance analysis of investments is carried out through the help of a Consultant company and the Audit of the investment transaction is carried out by an External Concurrent Auditor.

22. The Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999 ("CRA Regulations") empower SEBI to regulate Credit Rating Agencies (CRAs) operating in India. As per the CRA Regulations, a "credit rating agency" is defined as "a body corporate which is engaged in, or proposes to be engaged in, the business of rating of securities offered by way of public or rights issue". However, CRAs also undertake other rating activities, such as rating of bank loans, commercial papers, fixed deposits, etc., based on mandates provided by other Regulators/ government agencies and are regulated by the concerned Regulators for the respective activities. SEBI Regulations provide for a disclosure-based regulatory regime for CRAs, wherein CRAs are required to disclose their rating criteria, methodology, default recognition policy, guidelines on dealing with conflict of interest, etc. on their respective websites. SEBI is among the few regulators globally to mandate public disclosure of rating criteria and methodology by CRAs. Currently, there are 7 CRAs registered with SEBI out of which 3 are listed. These CRAs are also accredited by RBI as External Credit Assessment Institutions (ECAIs) for rating bank loan/ facilities that are used by banks for capital provisioning under Basel norms and for rating of CPs.

23. When asked by the Committee to furnish disclosure norms put in place for Credit Rating agencies (CRAs) to determine deteriorating credit profile and ensuring timely action by investigating agencies, the Ministry of Finance (Department of Economic Affairs) in their written reply submitted as under:

"SEBI has prescribed the following disclosure norms for CRAs to determine deteriorating credit profile:

- i. A CRA shall disclose to the concerned stock exchange through press release and websites for general investors, the rating assigned to the securities of a client, after periodic review, including changes in rating, if any.
- ii. A CRA shall formulate and disclose its policies, methodology and procedures in detail on its website.
- iii. A CRA shall make the following periodic disclosures on its website:
  - a. Movement of credit rating of all outstanding securities on half-yearly basis (March/ September):
    - Movement of each credit rating.
    - Movement of each credit rating from investment grade to noninvestment grade and vice versa.
    - Movement of each credit rating that has moved by more than one notch.
  - b. The history of credit rating of all outstanding securities.
  - c. On an annual basis, the list of defaults separately for each rating category (e.g. AAA, AA, A, BBB, BB, B, C). This shall include the initial credit rating assigned by the CRA, month and year of initial rating, month and year of default, last credit rating assigned by the CRA before the issuer defaulted, comments of CRAs, if any.
  - d. On an annual basis, the average one-year and three-year cumulative default rates (based on weighted average), for the last 5 years, separately for each following category:
    - Each credit rating category (e.g. AAA, AA, A, BBB, BB, B, C), separately.
    - Structured instruments and non-structured instruments, separately.
  - e. CRAs shall publish their average one-year rating transition rate (movements/ transitions from each rating category to another, as at the end of the financial year) over a 5-year period, on their respective websites.
  - f. Each CRA shall furnish data on sharp rating actions in investment grade rating category to Stock Exchanges and Depositories for disclosure on website on half-yearly basis, within 15 days from the end of the half-year, i.e. 31<sup>st</sup> March/ 30<sup>th</sup> September. (Requirement applicable from March 31, 2019)
- iv. A CRA shall make continuous disclosures on its website with regard to the rating history, Press Releases and Rating Reports, including those ratings which have been withdrawn, shall be available on the CRA's website.
- v. Upon the occurrence of or announcement/ news of any material event(s), CRAs shall publish on their website press release regarding the rating action (including reiteration of existing rating), if warranted, immediately, but not later than 7 days of occurrence of the said event.
- vi. In order to enable timely recognition of default by the CRA, the CRA shall seek a 'No Default Statement (NDS)' from the Issuer at the end of each month, which shall be provided to the CRA by the Issuer on the first working day of the next month. The NDS shall require the Issuer to explicitly confirm to the CRA that it has not delayed on any payment of interest/ principal in the previous month. In case there have been delays in the payment of interest/ principal by the Issuer, the Issuers shall state the same in this statement and the CRA shall promptly conduct a rating review and disseminate the rating action through Press Release within 2 days of receipt of such statement.

Disclosures by CRAs have been prescribed to keep investors informed regarding the creditworthiness of the issuer, so that investors can make timely investment decisions."

24. On being asked about initiation of adjudication proceeding initiated by SEBI against the 3 CRAs and details of the observations provided by RBI in this regard, the Ministry of Finance (Department of Economic Affairs) in their written reply stated as under:

"The Commercial Papers of IL&FS Financial Services Limited (IFIN) were rated by 2 CRAs, viz. ICRA Limited and CARE Ratings Limited. Accordingly, RBI examined the matter and the major observations, provided by RBI vide their letter dated November 22, 2018, to SEBI are as under:

- a. *The CRAs had derived comfort from the institutional parentage of IFIN. An independent assessment of IFIN by the CRAs as a standalone entity with specific focus on the effectiveness of the prevailing governance systems and executive capability is not evidenced from the clarifications furnished. Further, there is a clear gap in identifying the ultimate major shareholders in case of such diversified ownerships, who might take a call on critical issues during such adverse situations.*
- b. *IFIN derived financial flexibility and resource raising ability solely by virtue of IL&FS parentage. Besides these, the treasury and risk management function was shared by IFIN with the parent entity. The CRAs could have also evaluated the structure of IFIN on a standalone basis to gauge the finer aspects of degree of reliance on group entities and vice versa. Further, sharing of core business functions like treasure and risk management by group entities may be a desirable set-up, as the same may have adverse externalities during a system-wide contagious event. The group risk aspects were not examined by the CRAs.*
- c. *The CRAs derived comfort from the liquidity profile of IFIN for positions as on March 31, 2017 and March 31, 2018 which generally reflected positive cumulative mismatches across time buckets for the short and medium term time horizons except for a cumulative mismatch of Rs. 482 crores in the 1-2 months bucket as on March 31, 2018. In addition to this, unutilized working capital limits and undrawn bank lines aggregating to Rs. 1151 crores and Rs. 812 crores as on March 31, 2017 and March 31, 2018 respectively facilitated a better perception of the liquidity position of the entity amongst the CRAs. However, the expansion in exposure of IFIN to group entities during FY 2017-18 (by 33.14%) through transitory loans extended in order to accommodate the delay in disbursements from banks/ FIs were not examined by the CRAs from the perspective of repayment capability.*
- d. *On account of mere initiation of a few measures by IFIN's management, the rating downgrade was effected by only one notch from AAA to AA+ by CARE on August 16, 2018 despite several critical issues. Further, relying on the reasons stated by IFIN for delay as technical in nature, no downgrade was initially effected by ICRA on the rating assigned to Commercial papers (CPs). Subsequently, even though the same was recognized as a material event, the rating was not downgraded and continued to be A1+ as on September 3, 2018.*
- e. *Most of the loans extended by IFIN were in respect of high ticket promoter funding and infrastructure loans with long gestation periods. Although the top 15 individual borrowers constituted around 30% of the total credit exposure of IFIN, the same was not examined by the CRAs from the perspective of concentration risk.*

f. The CRAs had relied on the support from group entities in favour of IFIN without evaluating such support in terms of irrevocability, enforceability and also the financial strength of the supporting entity.

SEBI also examined the rating assigned to the Nonconvertible debentures (NCDs) of IL&FS by the CRAs and observed some procedural lapses in due diligence by CRAs, including over-reliance on Management submissions, in the absence of disclosures by the Company on the stock exchange, and comfort from institutional parentage of IL&FS. It was also observed that CRAs maintained the Rating Outlook as "Stable" inspite of stating in their press releases about multi-notch downgrade in the event of significant deviation from the Management's deleveraging plan.

Based on the above findings of RBI and SEBI, adjudication proceedings against the 3 CRAs, viz. ICRA Limited, CARE Ratings Limited and India Ratings and Research Private Limited, have been initiated under Section 15HB of SEBI Act, 1992, for failure to exercise proper skill, care and due diligence while rating the securities of IL&FS, which is in violation of Regulation 24(7) and Clauses 4 and 8 of Code of Conduct for CRAs read with Regulation 13 of SEBI (Credit Rating Agencies) Regulations, 1999."

**25. During the course of the examination of the Subject, the Committee apprised themselves of the process adopted by Credit Rating Agencies (CRAs) for determining the credit rating of any financial institution and based on its performance subsequently upgrading/ downgrading its credit rating and also having heard the views of the representatives of the Ministry of Finance and others, the Committee are of the view that much needs to be done for the CRAs performing their task with the due focus, sincerity and zeal with which they are expected to do so. The Committee are of the firm opinion this laxity of CRAs in carrying out their mandated task in letter and spirit is among other things due to a weak monitoring mechanism for which Ministry of Finance, Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI), etc. are also accountable. If the Ministry of Finance had put in place a system of keeping a stricter watch over the CRAs, they could have carried out the process of credit rating scrupulously, leaving no room for default. Severely deprecating this**

**sordid state of affairs, the Committee strongly recommend the need for not only a healthy monitoring mechanism, but also the need for a healthy rating mechanism and a forewarning system in case of falling credit rating. The Committee expect that the Ministry of Labour & Employment voice the concern of the Committee with the Ministry of Finance and other concerned agencies to ensure that credit rating as issued by CRAs are transparent so that it reflects the true picture, so that EPFO can go for investment of EPF knowing that their investment i.e. the provident fund of the employee is safe and secure whilst ensuring a decent Return on Investment (RoI) and the trust of the investor is always reposed till the maturity of an investment.**

**New Delhi;  
11<sup>th</sup>February, 2019  
22<sup>nd</sup> Magha, 1940 (Saka)**

**DR. KIRIT SOMAIYA  
CHAIRPERSON,  
STANDING COMMITTEE ON LABOUR**

**Provisions in EPF Act 1952**

Section 5. *Employees' Provident Funds Scheme*,- <sup>1</sup> [(1)] The Central Government may, by notification in the Official Gazette, frame a scheme to be called the Employees' Provident Fund Scheme for the establishment of provident funds under this Act for employees or for any class of employees' and specify the <sup>2</sup>[establishments] or class of <sup>2</sup>[ establishments ] to which the said Scheme shall apply <sup>3</sup> [and there shall be established, as soon as may be after the framing of any Scheme, a Fund in accordance with the provisions of this Act and the Scheme].

<sup>4</sup>[(1A) The Fund shall vest in, and be administered by, the Central Board constituted under section 5A.

(1B) Subject to the provisions of this Act, a Scheme framed under sub-section (1) may provide for all or any of the matters specified in Schedule II.]

<sup>3</sup>((2) A Scheme framed under sub-section (1) may provide that any of its provisions shall take effect either prospectively or retrospectively on such date as may be specified in this behalf in the Scheme.]

**Provisions in EPF Scheme 1952**

Para 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 Nationalised Bank <sup>4</sup> [ or through PayGov platform] <sup>5</sup>[ or through scheduled banks in India including private sector banks] in the Current Account of the Fund.]

Para 52. *Investment of moneys belonging to Employee's Provident Fund*,- (1) All moneys belonging to the Fund shall be deposited in the Reserve Bank or the <sup>2</sup>[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 <sup>3</sup>[section 20 of the Indian Trusts Act, 1882 (2 of 1882)]:

Provided that such securities are payable both in respect of capital and in respect of interest in India.

(2) All expenses incurred in respect of, and loss, if any arising from, any investment shall be charged to the Fund.

## MINISTRY OF LABOUR AND EMPLOYMENT

## NOTIFICATION

New Delhi, the 23<sup>rd</sup> April, 2015

S. O. 1071 (E). - In exercise of the powers conferred by sub-paragraph (1) of paragraph 52 of the Employees' Provident Funds Scheme, 1952 and in supersession of the notification of the Government of India in the Ministry of Labour No. S.O. 3450(E).- dated the 21st Nov 2013 the Central Government hereby directs that all incremental accretions belonging to the Fund shall be invested in accordance with the following pattern namely-

Category	INVESTMENT PATTERN	Percentage amount to be invested
(i)	<p><b>Government Securities and Related Investments</b></p> <p>(a) Government Securities,</p> <p>(b) Other Securities ('Securities' as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956) the principal whereof and interest whereon is fully and unconditionally guaranteed by the Central Government or any State Government.</p> <p>The portfolio invested under this sub-category of securities shall not be in excess of 10% of the total portfolio of the fund.</p> <p>(c) Units of Mutual Funds set up as dedicated funds for investment in Govt. securities and regulated by the Securities and Exchange Board of India:</p> <p>Provided that the portfolio invested in such mutual funds shall not be more than 5% of the total portfolio at any point of time and fresh investments made in them shall not exceed 5% of the fresh accretions in the year.</p>	<p><b>Minimum 45% and upto 65%*</b></p> <p><i>* modified vide notification dated 22.09.2015</i></p>
(ii)	<p><b>Debt Instruments and Related Investments</b></p> <p>(a) Listed (or proposed to be listed in case of fresh issue) debt securities issued by bodies corporate, including banks and public financial institutions ('Public Financial Institutions' as defined under Section 2 of the Companies Act, 2013), which have a minimum residual maturity period of three years from the date of investment.</p>	<p><b>Minimum 20% and upto 45%*</b></p> <p><i>modified vide notification dated 20.04.2018</i></p>

Category	INVESTMENT PATTERN	Percentage amount to be invested
	<p>(b) Basel III Tier-I bonds issued by scheduled commercial banks under RBI Guidelines:</p> <p>Provided that in case of initial offering of the bonds the investment shall be made only in such Tier-I bonds which are proposed to be listed.</p> <p>Provided further that investment shall be made in such bonds of a scheduled commercial bank from the secondary market only if such Tier I bonds are listed and regularly traded.</p> <p>Total portfolio invested in this sub-category, at any time, shall not be more than 2% of the total portfolio of the fund.</p> <p>No investment in this sub-category in initial offerings shall exceed 20% of the initial offering. Further, at any point of time, the aggregate value of Tier I bonds of any particular bank held by the fund shall not exceed 20% of such bonds issued by that Bank.</p> <p>(c) Rupee Bonds having an outstanding maturity of at least 3 years issued by institutions of the International Bank for Reconstruction and Development, International Finance Corporation and Asian Development Bank.</p> <p>(d) Term Deposit receipts of not less than one year duration issued by scheduled commercial banks, which satisfy the following conditions on the basis of published annual report(s) for the most recent years, as required to have been published by them under law;</p> <ul style="list-style-type: none"> <li>(i) having declared profit in the immediately preceding three financial years;</li> <li>(ii) maintaining a minimum Capital to Risk Weighted Assets Ratio of 9%, or mandated by prevailing RBI norms, whichever is higher;</li> <li>(iii) having net non-performing assets of not more than 4% of the net advances;</li> <li>(iv) having a minimum net worth of not less than Rs.200 crores;</li> </ul>	

Category	INVESTMENT PATTERN	Percentage amount to be invested
	<p>(e) Units of Debt Mutual Funds as regulated by Securities and Exchange Board of India:</p> <p>Provided that fresh investment in Debt Mutual Funds shall not be more than 5% of the fresh accretions invested in the year and the portfolio invested in them shall not exceed 5% of the total portfolio of the fund at any point in time.</p> <p>(f) The following infrastructure related debt instruments:</p> <p>(i) Listed (or proposed to be listed in case of fresh issue) debt securities issued by body corporates engaged mainly in the business of development or operation and maintenance of infrastructure, or development, construction or finance of low cost housing.</p> <p>Further, this category shall also include securities issued by Indian Railways or any of the body corporates in which it has majority shareholding.</p> <p>This category shall also include securities issued by any Authority of the Government which is not a body corporate and has been formed mainly with the purpose of promoting development of infrastructure.</p> <p>It is further clarified that any structural obligation undertaken or letter of comfort issued by the Central Government, Indian Railways or any Authority of the Central Government, for any security issued by a body corporate engaged in the business of infrastructure, which notwithstanding the terms in the letter of comfort or the obligation undertaken, fails to enable its inclusion as security covered under category (i) (b) above, shall be treated as an eligible security under this sub-category.</p> <p>(ii) Infrastructure and affordable housing Bonds issued by any scheduled commercial bank, which meets the conditions specified in (ii)(d) above.</p> <p>(iii) Listed (or proposed to be listed in case of fresh issue) securities issued by Infrastructure debt funds operating as a Non-Banking Financial Company and regulated by Reserve Bank of India.</p>	

Category	INVESTMENT PATTERN	Percentage amount to be invested
	<p>(iv) Listed (or proposed to be listed in case of fresh issue) units issued by Infrastructure Debt Funds operating as a Mutual Fund and regulated by Securities and Exchange Board of India.</p> <p>It is clarified that, barring exceptions mentioned above, for the purpose of this sub-category (f), a sector shall be treated as part of infrastructure as per Government of India's harmonized master-list of infrastructure sub-sectors.</p> <p>Provided 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.</p> <p>Provided further that if the securities / entities have been rated by more than two rating agencies, the two lowest of all the ratings shall be considered.</p> <p>Provided further that investments under this category requiring a minimum AA rating, as specified above, shall be permissible in securities having investment grade rating below AA in case the risk of default for such securities is fully covered with Credit Default Swaps (CDSs) issued under Guidelines of the Reserve Bank of India and purchased along with the underlying securities. Purchase amount of such Swaps shall be considered to be investment made under this category.</p> <p>For sub-category (c), a single rating of AA or above by a domestic or international rating agency will be acceptable.</p> <p>It is clarified that debt securities covered under category (i) (b) above are excluded from this category (ii).</p>	
(iii)	<p><b>Short-term Debt Instruments and Related Investments</b></p> <p>Money market instruments:</p>	Upto 5%

Category	INVESTMENT PATTERN	Percentage amount to be invested
	<p>Provided that investment in commercial paper issued by body corporates shall be made only in such instruments which have minimum rating of A1+ by at least two credit rating agencies registered with the Securities and Exchange Board of India.</p> <p>Provided further that if commercial paper has been rated by more than two rating agencies, the two lowest of the ratings shall be considered.</p> <p>Provided further that investment in this sub-category in Certificates of Deposit of up to one year duration issued by scheduled commercial banks, will require the bank to satisfy all conditions mentioned in category (ii) (d) above.</p> <p>(b) Units of liquid mutual funds regulated by the Securities and Exchange Board of India.</p> <p>(c) Term Deposit Receipts of up to one year duration issued by such scheduled commercial banks which satisfy all conditions mentioned in category (ii) (d) above.</p>	
(iv)	<p><b>Equities and Related Investments</b></p> <p>Shares of body corporates listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), which have:</p> <p>(i) Market capitalization of not less than Rs. 5000 crore as on the date of investment; and</p> <p>(ii) Derivatives with the shares as underlying, traded in either of the two stock exchanges.</p> <p>(b) Units of mutual funds regulated by the Securities and Exchange Board of India, which have minimum 65% of their investment in shares of body corporates listed on BSE or NSE.</p> <p>Provided that the aggregate portfolio invested in such mutual funds shall not be in excess of 5% of the total portfolio of the fund at any point in time and the fresh investment in such mutual funds shall not be in excess of 5% of the fresh accretions invested in the year.</p> <p>(c) Exchange Traded Funds (ETFs) / Index Funds regulated by the Securities and Exchange Board of India that replicate the portfolio</p>	Minimum 5% and upto 15%

Category	INVESTMENT PATTERN	Percentage amount to be invested
	<p>of either BSE Sensex Index or NSE Nifty 50 Index.</p> <p>(d) ETFs issued by SEBI regulated Mutual Funds constructed specifically for disinvestment of shareholding of the Government of India in body corporates.</p> <p>(e) Exchange traded derivatives regulated by the Securities and Exchange Board of India having the underlying of any permissible listed stock or any of the permissible indices, with the sole purpose of hedging.</p> <p>Provided that the portfolio invested in derivatives in terms of contract value shall not be in excess of 5% of the total portfolio invested in sub-categories (a) to (d) above.</p>	
(v)	<p><b>Asset Backed, Trust Structured and Miscellaneous Investments</b></p> <p>(a) Commercial mortgage based Securities or Residential mortgage based securities.</p> <p>(b) Units issued by Real Estate Investment Trusts regulated by the Securities and Exchange Board of India.</p> <p>(c) Asset Backed Securities regulated by the Securities and Exchange Board of India.</p> <p>(d) Units of Infrastructure Investment Trusts regulated by the Securities and Exchange Board of India.</p> <p>Provided that investment under this category No. (v) shall only be in listed instruments or fresh issues that are proposed to be listed.</p> <p>Provided further that investment under this category shall be made only in such securities which have minimum AA or equivalent rating in the applicable rating scale from at least two credit rating agencies registered by the Securities and Exchange Board of India under Securities and Exchange Board of India (Credit Rating Agency) Regulations, 1999. Provided further that in case of the sub-categories (b) and (d) the ratings shall relate to the rating of the sponsor entity floating the trust.</p> <p>Provided further that if the securities / entities have been rated by more than two rating agencies, the two lowest of the ratings shall</p>	Upto 5%

Category	INVESTMENT PATTERN	Percentage amount to be invested
	be considered.	

2. Fresh accretions to the fund will be invested in the permissible categories specified in this investment pattern in a manner consistent with the above specified maximum permissible percentage amounts to be invested in each such investment category, while also complying with such other restrictions as made applicable for various sub-categories of the permissible investments.

3. Fresh accretions to the funds shall be the sum of un-invested funds from the past and receipts like contributions to the funds, dividend / interest / commission, maturity amounts of earlier investments etc., as reduced by obligatory outgo during the financial year.

4. Proceeds arising out of exercise of put option, tenure or asset switch or trade of any asset before maturity can be invested in any of the permissible categories described above in the manner that at any given point of time the percentage of assets under that category should not exceed the maximum limit prescribed for that category and also should not exceed the maximum limit prescribed for the sub-categories, if any. However, asset switch because of any RBI mandated Government debt switch would not be covered under this restriction.

5. Turnover ratio (the value of securities traded in the year / average value of the portfolio at the beginning of the year and at the end of the year) should not exceed two.

6. If for any of the instruments mentioned above the rating falls below the minimum permissible investment grade prescribed for investment in that instrument when it was purchased, as confirmed by one credit rating agency, the option of exit shall be considered and exercised, as appropriate, in a manner that is in the best interest of the subscribers.

7. On these guidelines coming into effect, the above prescribed investment pattern shall be achieved separately for each successive financial year through timely and appropriate planning.

8. The investment of funds should be at arms length, keeping solely the benefit of the beneficiaries in mind. For instance, investment (aggregated across such companies / organizations described herein) beyond 5% of the fresh accretions in a financial year will not be made in the securities of a company / organization or in the securities of a company / organization in which such a company / organization holds over 10% of the securities issued, by a fund created for the benefit of the employees of the first company / organization, and the total volume of such investments will not exceed 5% of the total portfolio of the fund at any time. The prescribed process of due diligence must be strictly followed in such cases and the securities in question must be permissible investments under these guidelines.

9.

- i. The prudent investment of the Funds of a trust / fund within the prescribed pattern is the fiduciary responsibility of the Trustees and needs to be exercised with appropriate due diligence. The Trustees would accordingly be responsible for investment decisions taken to invest the funds.
- ii. The trustees will take suitable steps to control and optimize the cost of management of the fund.
- iii. The trust will ensure that the process of investment is accountable and transparent.
- iv. It will be ensured that due diligence is carried out to assess risks associated with any particular asset before investment is made by the fund in that particular asset and also during the period over which it is held by the fund. The requirement of ratings as mandated in this notification merely intends to limit the risk associated with investments at a broad and general level. Accordingly, it should not be construed in any manner as an endorsement for investment in any asset satisfying the minimum prescribed rating or a substitute for the due diligence prescribed for being carried out by the fund / trust.
- v. The trust / fund should adopt and implement prudent guidelines to prevent concentration of investment in any one company, corporate group or sector.

10. If the fund has engaged services of professional fund / asset managers for management of its assets, payment to whom is being made on the basis of the value of each transaction, the value of funds invested by them in any mutual funds mentioned in any of the categories or ETFs or Index Funds shall be reduced before computing the payment due to them in order to avoid double incidence of costs. Due caution will be exercised to ensure that the same investments are not churned with a view to enhancing the fee payable. In this regard, commissions for investments in Category III instruments will be carefully regulated, in particular.

[F No.G-20031/1/2007.55-II(Pt.)]

(Manish Kumar Gupta)Jt. Secretary

**Investment Guidelines**

Present Investment Guidelines approved by Central Board of Trustees (CBT, EPF) for investments by EPFO.

**Guidelines for Investment in Public Sector Undertaking (PSU):**

<b>Rating</b>	<b>Tenure</b>	<b>Limits as % of Networth</b>
Dual AAA	Min 3/Max 25	50%
AAA	Min 3/Max 25	40%
AA+	Min 3/Max 15	40%
Dual AA	Min 3/Max 15	40%

**Guidelines for Investment in Public Financial Institute (PFI):**

<b>Rating</b>	<b>Tenure</b>	<b>Limits as % of Networth</b>
Dual AAA	Min 3/Max 25	60% of NW or 10% of capital employed whichever is lower
AAA	Min 3/Max 25	40%
AA+	Min 3/Max 15	40%
Dual AA	Min 3/Max 15	40%

**Guidelines for Investment in Public Sector Bank (PSB):**

<b>Rating</b>	<b>Tenure</b>	<b>Limits as % of Networth</b>
Dual AAA	Min 3/Max 15	I. 50% of NW or II. 60% of NW or 10% of capital employed whichever is lower in excess of limits beyond 50% of NW
Dual AA	Min 3/Max 15	50%

**Guidelines for Investment in Private Sector Bank (Pvt Bank):**

<b>Rating</b>	<b>Tenure</b>	<b>Limits as % of Networth</b>
Dual AAA	15	30%
Dual AA+	10	20%

## ANNEXURE - IV

CONSOLIDATED EPFO INVESTMENT HOLDINGS (FV - DEBT) as on 31-MAR-2018			
Sl. No.	Category wise EPFO Holdings - Debt (as on 31 Mar 2018)	Amount (in. Rs. Crores)	% age of Total Debt Holding
1	CTG	1,84,565.56	18.87%
2	SDL	3,04,568.55	31.13%
3	SDS	54,403.99	5.56%
4	STG	19,084.45	1.95%
5	PSU	2,21,588.62	22.66%
6	PVT	59,105.16	7.06%
7	Public Account	1,22,723.26	12.55%
8	CBLOs In Hand (CP)	2,083.06	0.21%
9	T.Bills In Hand (FV)	1 .. ..	0.00%
10	Grand Total - Debt Corpus	9,78,222.75	100.00%

## Abbr.

CTG:	Central Govt. Securities
SDL:	State Development Loans
SDS:	Special Deposit Scheme
STG:	State Guaranteed Investments
PSU:	Public Sector Undertakings
PVT:	Private sector Investments
CBLO:	Collateralized Borrowing and Lending Obligation
T.Bills:	Treasury Bills
FV:	Face Value
CP:	Cost Price

Consolidated EPFO amount Invested, amount Matured and Income generated in the last 10 Financial Years			
F.Y.	Amount invested (at CP - In Rs. Crores)	Maturity (Rs. Crores)	Net Interest earned (Rs. Crores)
2008-09	89,652.27	57,973.10	19,695.55
2009-10	55,594.41	20,045.23	21,915.05
2010-11	54,474.59	9,308.08	25,690.55
2011-12	68,791.78	17,125.27	31,915.19
2012-13	73,331.26	17,815.56	36,390.53
2013-14	93,489.24	30,537.45	42,509.76
2014-15	1,02,999.54	24,675.85	50,892.00
2015-16	1,33,253.37	31,907.12	57,861.29
2016-17	1,47,172.97	28,652.26	66,502.49
2017-18	1,95,350.94	47,840.18	76,595.74

Return on investments of EPFO

Financial Year	Return on debt portfolio
2015 (July) – 2016	8.45%
2016-17	7.74%
2017- 2018	7.87%
2018-19 (upto December)	8.61%

Return on ETF investments upto 31<sup>st</sup> December, 2018 is 11.04%

**STANDING COMMITTEE ON LABOUR**  
**(2018-19)**

**Minutes of the Ninth Sitting of the Committee**

The Committee sat on 31<sup>st</sup> January, 2019 from 1500 hrs. to 1600 hrs. in Committee Room 'B', Parliament House Annex, New Delhi.

**PRESENT**

**Dr. Kirit Somaiya – Chairperson**

**MEMBERS  
LOK SABHA**

2. Shri Rajesh Kumar Diwakar, MP
3. Shri Ashok Dohare, MP
4. Shri Satish Chandra Dubey, MP
5. Shri Rama Chandra Hansdah, MP
6. Shri Kaushalendra Kumar, MP
7. Shri Hari Manjhi, MP
8. Shri Hariom Singh Rathore, MP

**RAJYA SABHA**

9. Shri Nazir Ahmed Laway, MP
10. Shri P.L. Punia, MP
11. Shri Madan Lal Saini, MP
12. Dr. Banda Prakash, MP

**SECRETARIAT**

1.	Ms. Rimjhim Prasad	-	Joint Secretary
2.	Shri P.C. Choulda	-	Director
3.	Shri C. Vanlalruata	-	Additional Director
4.	Shri Kulvinder Singh	-	Under Secretary

## WITNESSES

### **REPRESENTATIVES OF MINISTRY OF LABOUR & EMPLOYMENT**

<b>Sl. No.</b>	<b>Name</b>	<b>Designation</b>
1.	<b>Ms. Anuradha Prasad</b>	<b>Additional Secretary</b>
2.	<b>Shri Sunil Barthwal</b>	<b>Central P.F. Commissioner</b>
3.	<b>Smt. Sibani Swain</b>	<b>Additional Secretary &amp; FA</b>
4.	<b>Shri R.K. Gupta</b>	<b>Joint Secretary</b>
5.	<b>Shri N.K. Santoshi</b>	<b>Deputy Director General</b>

### **REPRESENTATIVES OF MINISTRY OF FINANCE (DEPARTMENT OF ECONOMIC AFFAIRS)**

<b>Sl. No.</b>	<b>Name</b>	<b>Designation</b>
1.	<b>Shri Anand Mohan Bajaj</b>	<b>Joint Secretary</b>
2.	<b>Shri Nagengdra Parakh</b>	<b>ED</b>
3.	<b>Shri Parag Basu</b>	<b>CGM</b>
4.	<b>Smt. Surabhi Gupta</b>	<b>DGM</b>

### **REPRESENTATIVE OF MINISTRY OF FINANCE (DEPARTMENT OF FINANCIAL SERVICES)**

<b>Sl. No.</b>	<b>Name</b>	<b>Designation</b>
1.	<b>Shri Pankaj Jain</b>	<b>Joint Secretary</b>

### **REPRESENTATIVES OF MINISTRY OF CORPORATE AFFAIRS**

<b>Sl. No.</b>	<b>Name</b>	<b>Designation</b>
1.	<b>Shri K.V.R. Murty</b>	<b>Joint Secretary, MCA</b>
2.	<b>Shri N.K. Dua</b>	<b>Joint Director, MCA</b>

2. At the outset, the Hon'ble Chairperson welcomed the members and informed them about the investment of PF Funds in Government and Private Sector, serious concern over the social security contribution of workers, no security of money return, no provisions for investment in The Employees' Provident Funds and Miscellaneous Provisions Act, 1952, no clear guidelines issued by the Ministry of Finance and Department of Economic Affairs. Responsibilities has to be fixed for sure return on amount invested.

3. Thereafter, the Chairperson welcomed the representatives of the Ministry of Labour & Employment, the Ministry of Finance, Department of Economic Affairs, Department of Financial Services, Ministry of Corporate Affairs and SEBI to the sitting of the Committee, convened to have briefing on the subject "Guidelines, Monitoring, Rating and Regulatory System, Status of Investment in Bonds and such Instruments (Example of Infrastructure Leasing & Financial Services (IL&FS) by PF Funds, Pension Funds". The Chairperson then drew the attention of the representatives to Direction 55(1) of the 'Directions by the Speaker' regarding confidentiality of the proceedings of the Committee during deposition before the Parliamentary Committees.

4. The Committee then desired to know about the investment pattern followed by the Ministry of Labour & Employment, EPFO for investing the EPF. The representative of the EPFO informed that EPFO makes investments as per the pattern of Investment notified by Ministry of Labour & Employment. The Central Board of Trustees, EPF has notified additional guidelines to regulate and safe guard investments by EPFO. As per current guidelines investment in corporate bonds category is limited to dual 'AA' in case of PSU bonds and dual 'AA+' in case of Private Sector corporate bonds and Private Sector banks. The representatives of EPFO further submitted that the Fund shall be vested and administered by the Central Board of Trustees constituted under Section 5A subject to the provisions of this Act a Scheme framed under Sub-Section provided for all the matters specified in Schedule 2 of EPF Act, 1952.

5. As regard to the 100% guarantee of the social security money of workers, the representative of the Ministry of Labour & Employment informed that the investments are made by our Portfolio Managers. Regular performance analysis of investments is carried out through the help of a Consultant Company and the Audit of the investment transaction is carried out by an External Concurrent Auditor. As on date there is no default in either payment of interest or maturity on these investments.

6. The Committee then desired to hear the views of the SEBI on the Subject and to know the procedure of Rating System and the modus operandi of Credit

Rating Agencies (CRA) The representative of the SEBI submitted that the Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999 (CRA Regulations) empower SEBI to regulate Credit Rating Agencies (CRAs) operating in India. As per the CRA Regulations, a “credit rating agency” is defined as “a body corporate which is engaged in , or proposes to be engaged in, the business of rating of securities offered by way of public or rights issue”. The SEBI has the powers to suspend the rating agencies who have defaulted in their due diligence in their compliance and in the process and methodology of rating that certainly is a matter of concern and SEBI wil start adjudication proceedings against all the rating agencies. The representative further submitted that if the rating agencies have connived or if there is a criminal negligence the SEBI has the powers to cancel their registration.

7. The Chairperson then thanked the witnesses for appearing before the Committee and briefing them on the subject as well as responding to the queries raised. The Chairperson directed the representatives to furnish written replies within 3 days in respect of those queries, for which information was not readily available with them during the meeting as well as which required detailed and statistical information.

**The Committee then adjourned.**

[A copy of the verbatim proceedings was kept on record]

**STANDING COMMITTEE ON LABOUR**

**(2018-19)**

**Minutes of the Thirteenth Sitting of the Committee**

The Committee sat on Monday, the 11<sup>th</sup> February, 2019 from 1030 hrs. to 1100 hrs. in Room No. 95-A, Chairperson's Chamber, Parliament House, New Delhi.

**PRESENT**

**Dr. Kirit Somaiya – CHAIRPERSON**

**MEMBERS**

**LOK SABHA**

2. Shri Devajibhai Govindbhai Fatepara
3. Shri Kaushalendra Kumar, MP
4. Shri Hariom Singh Rathore, MP
5. Shri Naba Kumar Sarania, MP
6. Dr. Arun Kumar, MP
7. Shri C.N. Jayadevan, MP

**RAJYA SABHA**

8. Shri Ram Narain Dudi, MP
9. Shri N. Gokulakrishnan, MP
10. Shri Madanlal Saini, MP
11. Dr. Banda Prakash, MP

**SECRETARIAT**

1.	Ms. Rimjhim Prasad	-	Joint Secretary
2.	Shri P.C. Chouda	-	Director
3.	Shri C. Vanlalruata	-	Additional Director
4.	Shri Kulvinder Singh	-	Under Secretary

2. At the outset, the Chairperson welcomed the Members to the sitting of the Committee, convened for consideration and adoption of the following draft Reports:

(i)	XX	XX	XX	XX
(ii)	XX	XX	XX	XX
(iii)	XX	XX	XX	XX
(iv)	XX	XX	XX	XX
(v)	Draft Report on 'Guidelines, Monitoring, Rating and Regulatory System, Status of Investment in Bonds and such Instruments - (Example of Infrastructure Leasing & Financial Services (IL&FS) by PF Funds, Pension Funds' pertaining to the Ministry of Labour & Employment. The draft Report was circulated to the Members for their perusal at the Sitting itself.			

3. The Committee took up the Draft Reports one by one for consideration/ adoption and adopted the same without any addition/ modification.

4. The Committee then authorized the Chairperson to finalise the Reports in the light of consequential changes that might arise out of factual verification of the draft Report on 'Guidelines, Monitoring, Rating and Regulatory System, Status of Investment in Bonds and such Instruments - (Example of Infrastructure Leasing & Financial Services (IL&FS) by PF Funds, Pension Funds' and present the same to both the Houses.

**The Committee then adjourned.**

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XX Does not pertain to this Report.