CIRCULAR

PFRDA/2014/02/PFM/1 Date: 29-Jan-2014

Sub: Revision of Investment Guidelines for NPS Schemes

As a measure to optimise returns of the subscribers and with a view to ensure quality investments in the interest of subscribers, it has been decided to amend the investment guidelines applicable to NPS schemes. These are as follows:

2. Investment guidelines for Government Sector NPS Schemes (Applicable to Government Sector, Corporate CG and NPS Lite schemes of NPS):

S. no	Category	Investment Guidelines
(i)	Government Securities (upto 55%)	(a) Government securities. (b) Other securities, the principal whereof and interest whereon is fully and unconditionally guaranteed by the Central Government or any State Government except those covered under (ii) (a) below. (c) units of mutual funds set up as dedicated funds for investment in Government securities and regulated by the Securities & Exchange Board of India. Provided that the exposure to a mutual fund shall not be more than 5% of the total portfolio of G Secs in the concerned NPS Scheme at any point of time.
(ii)	Debt securities (upto 40%)	(a) Debt securities having a minimum residual maturity period of three years from the date of investment by the Pension Fund issued by Bodies Corporate including banks and public financial institutions; Provided that the investment in this category is made in instruments having an investment grade rating from at least one credit rating agency. Apart from rating by an agency, PFMs shall undertake their own due diligence for assessment of risks associated with the securities before investments. (b) Term deposit Receipts of not less than one year duration issued by scheduled commercial banks. Provided that the scheduled commercial banks must meet conditions of

		(i) continuous profitability for immediately preceding three years; (ii) maintaining a minimum Capital to Risk Weighted Assets Ratio of 9%; (iii) having net non-performing assets of not more than 2% of the net advances; (iv) having a minimum net worth of not less than Rs. 200 crores. (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 the Asian Development Bank, Rated IDFs (Infrastructure Debt funds), Rated ABS (Asset Backed Securities) with the conditions applicable to debt securities in (ii) (a) above. (d) Debt Mutual Funds as regulated by SEBI.
iii)	Money Market Instrument (upto5%)	Money market instruments including units of money market mutual funds
iv)	Equity (upto 15%)	Shares of companies on which derivatives are available in Bombay Stock Exchange or National Stock Exchange or equity linked schemes of mutual funds or Exchange Traded Funds regulated by the Securities and Exchange Board of India.

3. **Investment Guidelines for Private Sector NPS {applicable to E (Tier- I & II), C (Tier I & II), and G (Tier – I & II)}**

Asset Class	Investment Guidelines
E	Index funds/ Exchange Traded Funds that replicate the portfolio of either BSE Sensex index or NSE Nifty 50 index. Index Fund Schemes invest in securities in the same weightage comprising of an index. The PF will have to choose which index they intend to track in advance on an yearly basis.
C	(i) Fixed Deposits of scheduled commercial banks with the following filters : (a) Net worth of at least Rs. 500 crores and a track record of profitability in the last three years (b) Capital adequacy ratio of not less than 9% in the last three years. Net NPA of under 5% as a percentage of net advances in the last year (c) List to be reviewed half yearly (ii) Credit rated debt securities with residual maturity of not less than three years from the date of investment, issued by Bodies Corporate including scheduled commercial banks and public financial institutions [as defined in Section 4A of the Companies Act] 1956, provided that the instrument has an investment grade rating from at least one rating agency. PFM has to do his

	own due diligence too (iii) Credit Rated Public Financial Institutions/PSU Bonds (iv) Rated asset backed securities /Credit Rated Municipal Bonds/Infrastructure Bonds/Rated Infrastructure Debt Funds with the conditions given in (ii) (a). (v) Debt Mutual Funds as regulated by SEBI.
G	(i) Government of India Bonds (ii) State Government Bonds
E/C/G	Pending deployment as per investment objective, the moneys under the respective Schemes may be invested in short-term deposits of Scheduled Commercial Banks as eligible under para (i) (a),(b) and (c) above or in call deposits or in short-term money market instruments or other liquid instruments or Liquid Funds of AMCs regulated by SEBI with the following filters: • AMCs are SEBI regulated, with Average total assets under management (AUM) for the most recent six-month period of, at least, Rs.5000 crore. All assets that are permitted for investment into liquid funds by SEBI or both not exceeding a limit of 10% of scheme corpus on temporary basis only.

4. Following restrictions/filters are being imposed for both Government & Private Sector NPS schemes to reduce concentration risks in the NPS investment of the subscribers:

a) NPS investments have been restricted to 5% of the ‘paid up equity capital’* of all the sponsor group companies or 5% of the total AUM under Equity exposure whichever is lower, in each respective scheme and 10% in the paid up equity capital of all the non-sponsor group companies or 10% of the total AUM under Equity exposure whichever is lower, in each respective scheme.

*‘Paid up share capital’: Paid up share capital means market value of paid up and subscribed equity capital.

b) NPS investments have been restricted to 5% of the ‘net-worth’# of all the sponsor group companies or 5% of the total AUM in debt securities (excluding Govt. securities) whichever is lower in each respective scheme and 10% of the net-worth of all the non-sponsor group companies or 10% of the total AUM in debt securities (excluding Govt. securities) whichever is lower, in each respective scheme.

#Net Worth: Net worth would comprise of Paid-up capital plus Free Reserves including Share Premium but excluding Revaluation Reserves, plus Investment Fluctuation Reserve and credit balance in Profit & Loss account, less debit balance in Profit and Loss account, Accumulated Losses and Intangible Assets.

c) Investment exposure to a single Industry has been restricted to 15% under all NPS Schemes by each Pension Fund Manager as per Level-5 of NIC classification. Investment in scheduled commercial bank FDs would be exempted from exposure to Banking Sector.

d) State Government Bonds restricted to 10% of the AUM of Government Securities of each respective scheme and to 5% to any individual state government of the AUM of Govt. schemes of respective scheme.

e) In respect of NPS Scheme (Government pattern of investment),and Schemes E and C (Tier I & II), the Industry Concentration limits of 15% and Issuer Concentration limits for Sponsor / Non – sponsor group will not apply in cases where the aforesaid schemes invest in or mirror the Equity Index Funds/ETF and /or Debt Mutual Funds. However, if the PF makes investments in Equity/Debt instruments, in addition to the investments in Index funds/ETF/Debt MF, the exposure limits under such Index funds/ETF/Debt MF should be considered for compliance of the prescribed the Industry Concentration , Sponsor/ Non Sponsor group norms. (For example, if on account of investment in Index Funds/ ETFs/Debt MFs , if any of the concentration limits are being breached than further investment should not be made in the relative Industry /Company).

f) PFs should invest in MFs/ETFs/Index Funds directly (through in- house replication) such that the double incidence of cost is avoided (No payment to be made to Asset Management Company).

g) The investment guidelines for both Government and Private sector allow derivative instruments to be used only for the purpose of hedging and portfolio rebalancing, in accordance with the guidelines issued by PFRDA/SEBI/RBI. Credit Default Swaps (CDS) with the above provisos may be treated as eligible derivative instruments.

5**.** Pension Funds to ensure that the interest of the subscribers is safeguarded and that they should not incur any loss while exiting the existing investments to comply with the revised guidelines. However, all future investments should be made strictly in compliance with the above guidelines.

6. The above guidelines shall take immediate effect and portfolios under all NPS schemes are sought to be regularized as on 1st April 2014 in line with the revised guidelines.

7. These instructions supersede all earlier circulars/clarifications related to investments issued in this regard by PFRDA , and for compliance , should be read in conjunction with Schedule-II of the Investment Management Agreement.

Mamta Rohit

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