



CIRCULAR

PFRDA/2015/16/PFM/7

Date: 03rd June, 2015

Sub: Investment guidelines for NPS Schemes (Applicable to Scheme CG, Scheme SG, Corporate CG and NPS Lite schemes of NPS and Atal Pension Yojana) w.e.f. 10th June, 2015.

Category	Investment Pattern	Percentage amount to be invested
(i)	<p>Government Securities and Related Investments</p> <p>(a) Government Securities, (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 G-Sec in the concerned NPS Scheme of the pension fund at any point of time.</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: Provided that the portfolio invested in such mutual funds shall not be more than 5% of the of the G-Sec in the concerned NPS Scheme of the pension fund at any point of time and fresh investments made in them shall not exceed 5% of the fresh accretions in the year.</p>	Upto 50%
(ii)	<p>Debt Instruments and Related Investments</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) Basel III Tier-1 bonds issued by scheduled commercial banks under RBI Guidelines: 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>	Upto 45%

	<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.</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"> (i) having declared profit in the immediately preceding three financial years; (ii) maintaining a minimum Capital to Risk Weighted Assets Ratio of 9%, or mandated by prevailing RBI norms, whichever is higher; (iii) having net non-performing assets of not more than 4% of the net advances; (iv) having a minimum net worth of not less than Rs. 200 crores. <p>(e) Units of Debt Mutual Funds as regulated by Securities and Exchange Board of India:</p> <p>(f) The following infrastructure related debt instruments:</p> <ul style="list-style-type: none"> (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>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>	
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	<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> <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 subcategory (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>Short-term Debt Instruments and Related Investments</p> <p>Money market instruments:</p> <p>Provided that investment in commercial paper issued by body corporates shall be made only in such instruments which have</p>	Upto 5%

	<p>minimum rating of A 1 + 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 with the condition that the average total asset under management of AMC for the most recent six month period of atleast Rs. 5000/- crores</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>Equities and Related Investments</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>(c) Exchange Traded Funds (ETFs)/Index Funds regulated by the Securities and Exchange Board of India that replicate the portfolio 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>	Upto 15%
(v)	<p>Asset Backed, Trust Structured and Miscellaneous Investments</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</p>	Upto 5%

	<p>Securities and Exchange Board of India. (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. 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 be considered.</p>	
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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. 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.
6. 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.

7. The prudent investment of the funds within the prescribed pattern is the fiduciary responsibility of the Pension Funds and Trust and needs to be exercised with appropriate due diligence. The Trust and Pension Fund would accordingly be responsible for investment decisions taken to invest the funds
8. The Pension Funds and trust will take suitable steps to control and optimize the cost of management of the fund.
9.
 - i. The trust and Pension Funds will ensure that the process of investment is accountable and transparent.
 - ii. 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
10. 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 charged, in particular.

11. Following restrictions/filters are being imposed for Government NPS schemes (Applicable to Government Sector, Corporate CG and NPS Lite schemes of NPS and Atal Pension Yojana) 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) 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).

12. These instructions supersede only part of Investment Guidelines for NPS Schemes Applicable to Government Sector, Corporate CG and NPS Lite schemes of NPS prescribed by PFRDA vide Circular No. PFRDA/2014/02/PFM/1 dated 29.01.2014 and will be effective from 10th June 2015.

13. Investment Guidelines for NPS Private Sector {applicable to E(Tier-I & II), C (Tier-I & II) and G (Tier-I & II)} will be unchanged until further orders..



(Sumeet Kaur Kapoor)
General Manager

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