

## PRESS RELEASE

### **Recommendations of the Expert Group constituted for Recommending investment norms for the New Pension System**

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PFRDA had constituted an Expert Group chaired by Shri Deepak Parekh to consider and recommend investment norms for the New Pension System to be launched from April 1, 2009 for all citizens of the country. Other members of the Group were Shri Bakul Dholakia, Shri Ravi Narain, Shri Prithvi Haldea, Ms Susan Thomas and Shri Gyan Bhushan, CGM, PFRDA.

The Expert Group has recommended a simple structure of “E”, “G”, “C” investment choices on the consideration that it lowers the cost to the contributor, the regulator as well as the Central Recordkeeping Agency. The Expert Group has suggested that equity participation be done through a standardized portfolio, implemented through an index fund only. The index fund recommended is Nifty 50. The Group has, however, advised that as regulatory experience with NPS increases, equity funds may even be allowed to be actively managed.

The following securities have been included under Asset Class “G” investments:

- All Central Government Securities.
- Liquid funds of mutual funds companies, where the AMCs satisfy the following criteria:
  - AMCs which are SEBI regulated.
  - 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.
- Fixed deposits (FD) of certain specified banks, where the banks must satisfy certain criteria.
- In addition, NPS funds invested by any PFM in a liquid fund or FD of a bank should be under 10% of the total “G” funds held by the PFM.
- Lastly, the total NPS funds invested in any single Asset Management Company AMC) ought to be under 5% of the total AUM of the AMC.

In so far as category “C” is concerned, the following has been recommended:

- All State Government bonds that are explicitly guaranteed by the State Government.
- All State Government bonds that are rated by a credit rating agency.

- All credit rated bonds/securities of (i) Public Financial Institutions as specified under section 4(A) of the Companies Act and (ii) Public Sector Companies as defined in section 2(36-A) of the Income Tax Act, 1961; the principal whereof and interest wherein is fully and unconditionally guaranteed by the Central Government.
- All municipal bodies/infrastructure funds bonds that are rated by a credit rating agency.
- Bonds be permitted for NPS investment of all firms(including PSU/PSE) that:
  1. Have shares listed on a stock exchange,
  2. Have a market capitalization of over Rs. 5000 crore(as on 31<sup>st</sup> March),
  3. Which has been traded for at least three years, and
  4. Whose shares have an average trading frequency of at least 95% for a period of last one year on the exchange,
  5. Whose top management as well as the Board of directors for the company have no legal/regulatory charges against them.
- In addition, exposure to any single bond issued by an entity should not exceed more than 5% of the total funds invested by the PFM in Asset Class “C”.
- The total exposure to bonds issued by any single entity should not exceed more than 10% of the total funds invested by the PFM in Asset Class “C”.
- The total credit exposure of all the NPS funds invested in the debt of any permitted entity should be limited to a concentration of less than 5% of the total debt of that company.
- Contributors making active choices (Class “A” contributors) can choose how much they wish to invest in “E”, “G”, “C” asset classes. These contributors have no limits on what fraction of their investment can go into any of the asset choices. The sum of their active investments must add to 100% of their contribution. They have to choose their PFM as well.

Those who do not make an active choice, they will be assigned a option titled “auto choice”, where investment will be made in a life-cycle fund. Here, the fraction of funds invested across three asset classes will be determined by a pre-defined portfolio. At the lowest age entry, the auto choice will start at 65% in “E” Class, 10% in “G” Class and 25% in “C” class. It has also been recommended that these rates of investment will remain fixed for all contributions until the participant reaches the age of 36. From 36 onwards, the weight in “E” and “C” asset class will decrease annually and the weight in “G” class will increase annually till it reaches 10% in “E”, 10% in “C” and 80% in “G” class.

The auto choice funds, it has been recommended, will be split equally among all PFMs who offer to manage these funds at the cost quoted by the lowest bidder in the PFM auction.

The investment norms suggested by the Expert Group will be reviewed after three years by an Expert Group.

PFRDA Board meeting is scheduled to be held on February 19, 2009 to discuss the recommendations of the Expert Group and take the views of the NPS Trust into account before taking final decisions. PFRDA will announce the investment norms before the end of this month, which will be applicable to all citizens, other than government employees.

PFRDA has already short-listed six entities for managing these NPS funds. In addition, LIC will continue to manage the NPS contributions of the Government employees.

PFRDA has also short-listed 23 entities for operating as Points of Presence which will function as the front office of the NPS System.

The NPS system for private citizens will be launched, as per schedule on April 1, 2009.

FEBRUARY 17, 2009.