Standing Committee Report Summary

Guidelines, Monitoring, Rating and Regulatory System, Status of Investment in Bonds and such Instruments - Example of IL&FS by PF Funds, Pension Funds

- The Standing Committee on Labour (Chair: Mr. Kirit Somaiya) submitted its 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]' on February 13, 2019. Key observations and recommendations of the Committee include:
- The Committee noted that the inherent principle of EPF is social security for the vulnerable working class of society. As its basic objective is social security rather than returns on investments, the Committee noted that ideally the amounts should not be deployed in risky investments. The Committee observed that the EPF Organisation (EPFO) is the custodian of the EPF and is required to ensure a balance between security of this fund and returns on investment.
- **Monitoring Mechanism**: The Committee stressed on the need to ensure that the employees' PF contributions in the EPF are insulated from any bad investments. Towards this, the Committee recommended strengthening the monitoring mechanisms by exercising tighter control over their designated portfolio managers and ensuring impartial external concurrent audit of the investments. It further observed that as per EPF Scheme, any losses on investment are made good from the reserves. However, the Committee stated that the 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 wished to be apprised of the progress achieved by the Ministry in this regard.
- **Credit Rating Agencies**: The Committee noted that the EPFO makes investments as per the pattern of investment notified by the Ministry of Labour and Employment. As per the current guidelines, investments in corporate bonds is limited to 'AA' in case of PSU bonds and 'AA+' bonds in case of private sector bonds. These bonds are rated by Credit Rating Agencies (CRAs). CRAs are registered with and regulated by the Securities and Exchange Board of India (SEBI). Further, the CRAs are accredited by RBI as 'External Credit Assessment Institutions' for rating banks loans.
- The Committee examined the process adopted by Credit Rating Agencies (CRAs) for determining the credit rating of any financial institution. The Committee was of the view that CRAs are not discharging their functions adequately and in a transparent manner. It attributed this to a weak monitoring mechanism by the Ministry of Finance, SEBI, and RBI. The Committee emphasised the need for a healthy monitoring mechanism, rating mechanism and a forewarning system in case of falling credit rating. It further stressed 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 issued by CRAs are transparent. This will ensure that the provident fund of the employee is secure while ensuring an adequate return on investment.

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