Retirement Solutions

Investment Policy

Of

UTI Retirement Solutions Limited

[A wholly-owned subsidiary of UTI Asset Management Company Limited,

Incorporated under the Companies Act, 1956]

Edition – XXVIII

(Updated in the Board Meeting held on 19th April, 2022)

Index

Preamble

UTI Retirement Solutions Ltd. (UTI RSL), a 100% subsidiary of UTI Asset Management Company Ltd. was incorporated on 14th December, 2007.

UTI RSL has been set up to carry out the operations as Pension Fund directed by the Board of Trustees of the New Pension System Trust, set up under the Indian Trust Act, 1882, and to undertake asset management as prescribed by the Government or Pension Fund Regulatory and Development Authority (PFRDA).

UTI Retirement Solutions Ltd. (UTI RSL) would be governed by PFRDA Guidelines and Regulations. In addition to the Regulatory/Statutory Guidelines, UTI RSL has evolved certain additional Prudential Investment Norms for effective management of Pension Funds. These norms aim at risk containment and will contribute significantly to the Risk Management Process. Compliance to the norms would greatly diminish the risk of over exposure to a particular company or to a particular sector, while simultaneously adhering to PFRDA Guidelines on investment restrictions.

This Investment Manual is framed in order to formalize the internal processes and to guide the Fund Manager.

This document has been reviewed and updated in the Board Meeting held on 19th April, 2022.

1. JOB RESPONSIBILITIES OF FUND MANAGEMENT AND OTHER SUPPORT FUNCTIONS

1.1.1 Responsibilities of CIO:

i) CIO is responsible for the performance of the funds managed and ensure that all funds are managed as per the applicable regulatory provisions and internal norms approved by the Board from time to time. The CIO would also abide by the guidance and directions given by the Investment Management Committee and Risk Management Committee constituted by the Board of UTI-RSL.

ii) CIO shall be guided by the strategy, policy reports and other guidelines given by the Investment Committee and the Board from time to time. The actual performance and deviation, if any, from the strategy shall be reported to the Investment Committee.

iii) CIO continuously monitors the portfolio, including cash liquidity for the UTI-RSL as a whole.

iv) CIO will be responsible for every investment recommendation / decision for that Fund, be it ‘buy’ or ‘sell’ either through the primary market or the secondary market.

v) CIO should track corporate action in respect of the scrips held by the funds and coordinate with other departments to obtain requisite information regularly.

vi) CIO should Collect data from back-office and objectively check for data integrity & material discrepancies and follow-up for corrective measures.

vii) CIO should prepare & present investment performance & compliance related reports to the management, Board of UTI Retirement Solutions Ltd. and Pension Fund Regulatory Development Authority (PFRDA).

viii) CIO should adhere / reply to all reports from Internal / Statutory Audits, & Compliance Cell on all investment related issues.

ix) CIO Handles such other activities that are required to be attended to assigned from time to time with regard to Funds Management.

1.2 Responsibilities for Secondary Market Transactions

i) Dealer handles activities relating to the secondary market operations through approved empanelled brokers of UTI RSL and tries to obtain the best possible prices for the purchase/sale of securities. The list of empanelled brokers is approved by Chairman of the Board of UTI-RSL and is reviewed on yearly basis.

ii) Dealer ensures adherence to statutory guidelines and internal guidelines on distribution of business to various approved empanelled brokers.

iii) Dealer provides feed back to CIO on market information during and beyond dealing hours.

iv) Dealer receives bids/offers from brokers during dealing hours and accordingly informs the fund managers.

v) Dealer handles such other activities that are required to be attended / assigned from time to time by senior management with regard to Secondary market equity dealing

vi) These authorised 'officers' will do the dealing and conclude all the deals only from the dealing room (the record lines).

1.3 Responsibilities for Primary Market Transactions

i) Dealer receives primary market proposals from the companies/ Intermediaries / CIO.

ii) Dealer obtains approval of investment as per delegated Powers and issue disbursement advice/s to back office and upkeep of files and approvals.

iii) Dealer ensures that pre-investment /Disbursement conditions are met and adhered to.

iv) Dealer ensures adherence to the regulatory / Internal guidelines on exposure by UTI-RSL as a whole.

v) Dealer follows-up with CIO for their options on warrant conversion dates.

vi) Dealer receives warrant conversion details and processes as per fund managers' decision.

vii) Dealer maintains all records, approvals, notes and backup files in respect of all primary market investments / divestments made by all the funds of UTI RSL.

1.4 Settlement & Fund Accounts

1.4.1 Front Office Automation / Decision Support System:

The team in back office undertakes all software requirements, system administration, system co-ordination and management of front office automation activities. The activities undertaken are

- Software maintenance – integrity checks, bug identification and rectification
- Software enhancements for future requirements e.g. options dealing and accounting, Interest Rate Swaps, Securitisation of Debt, Multi Currency Dealing and accounting.
- Software vendor co-ordination
- Support Module maintenance work.
- Relevant Master updates
- Approval / Delegation Limit updates
- Submitting relevant reports to management
- Price Band updates
- Manual Delegation
- Holiday Maintenance
- Updating Investment checklists
- Changing users / user groups and team set up.

2. INVESTMENT DECISION MAKING PROCESS, RECORDING, RESEARCH METHODOLOGY AND REPORT FORMAT

2.1 The CIO will record the justification for investment decisions/ recommendations in the respective short note / detailed note initiated for the investment. The CIO shall finalise investment decision after ensuring approval of the appropriate authority as per the Delegation of Powers.

2.2 Total exposure of UTI RSL at a consolidated level would be monitored *vis-à-vis* internal guidelines as well as regulatory guidelines on prudential norms.

2.3 The Fund Manager shall submit a comprehensive report on Fund activities and performance to the Chairman of the Board quarterly.

2.4 In absence of CIO, CEO will take decision in consultation with Fund Manager / Dealer (Debt) in case of Debt / G-Sec securities and in consultation with Fund Manager / Assistant Fund Manager / Dealer (Equity) in case of Equity.

2.5 The Board of UTI-RSL, in its meeting held on 11th April, 2008, has constituted an Investment Committee comprising of three Directors (Mr. S C Bhargava, Mr. A. Krishna Rao, Mr. S. Venkatraman), CEO and CIO. The Investment Committee would primarily look after the following functions:

a) implementation of the investment policy as approved by the Board;

b) review the changes, if any and forward its recommendation to the Board; and

c) providing over all guidance and directions on the management of the Fund in the best interest of the subscribers on various investment related matters, including issues relating to liquidity, prudential norms, exposure limits, stop loss limits in securities trading, management of all investment & market risks, management of assets liabilities mismatch, investment audits and investment statistics, etc. and the provisions of the PFRDA guidelines/directions.

In particular the Investment Committee shall give its guidance and directions, within the over all guidelines of PFRDA, on the following aspects:-

1. Broad Asset classification as to various assets categories such as Central Government Securities, State Government Securities, Units (gilt/Equity linked Schemes) of Mutual Funds, Bonds/ Securities (Public Financial Institutions, Public Sector Companies and Private Sector Companies), Fixed Deposits of Public Sector Banks, CBLO and Equity Shares of the Companies
2. List of Companies available for investment in debt /equity instruments
3. To decide on the Benchmark and Peer group of the Fund to track the performance of the fund
4. the proportion of the portfolio available for active management

5. To consider and approve the investment proposals which do not fall under the delegation powers of CEO.
6. Other matters which may be delegated by the Board from time to time.

The CIO shall adhere to the guidance and directions given by the Investment Committee from time to time.

The Investment Management Committee was reconstituted in the Board Meeting held on 27th March, 2009 comprising of the following:

a) Mr. S. Venkatraman, Chairman
b) Mr. Gautam Bhardwaj, Member,
c) Chief Executive Officer, Member
d) Chief Investment Officer, Member

The Investment Management Committee was reconstituted in the Board Meeting held on 5th September, 2011 comprising of the following:

a) Mr. S. Venkatraman, Chairman
b) Chief Executive Officer, Member
c) Chief Investment Officer, Member

The Investment Management Committee was reconstituted in the Board Meeting held on 15th January, 2014 comprising of the following:

a) Mr. S. Venkatraman, Director
b) Mr. Balram P. Bhagat, Chief Executive Officer & Whole Time Director as Member
c) Ms. Silpita Guha, Chief Investment Officer as Member

The Investment Management Committee was reconstituted in the Board Meeting held on 12th January, 2016 comprising of the following:

a) Mr. S. Venkatraman, Director
b) Mr. P. H. Ravikumar, Director
c) Mr. Balram P. Bhagat, Chief Executive Officer & Whole Time Director as Member
d) Ms. Silpita Guha, Chief Investment Officer as Member

The Investment Management Committee was reconstituted in the Board Meeting held on 12th January, 2016 comprising of the following:

a) Mr. S. Venkatraman, Director
b) Mr. Balram P. Bhagat, Chief Executive Officer & Whole Time Director as Member
c) Ms. Silpita Guha, Chief Investment Officer as Member

The Investment Management Committee was reconstituted by the Board on 18th October, 2019 comprising of the following:

a) Mr. P.H. Ravikumar, Director
b) Mr. Balram P. Bhagat, Chief Executive Officer & Whole Time Director as Member
c) Ms. Silpita Guha, Chief Investment Officer as Member

The Investment Management Committee was reconstituted by the Board on 21st July, 2020 comprising of the following:

a) Mr. P.H. Ravikumar, Director
b) Mr. Puneet Gupta, Director
c) Mr. Balram P. Bhagat, Chief Executive Officer & Whole Time Director as Member
d) Ms. Silpita Guha, Chief Investment Officer as Member

The Investment Management Committee was reconstituted by the Board on 27th October, 2020 comprising of the following:

a) Mr. P.H. Ravikumar, Director
b) Mr. Puneet Gupta, Director
c) Mr. Balram P. Bhagat, Chief Executive Officer & Whole Time Director as Member
d) Ms. Silpita Guha, Chief Investment Officer as Member
e) Mr. Omkar Patwardhan, Chief Risk Officer.

The Investment Management Committee was reconstituted by the Board on 16th July, 2021 comprising of the following:

a) Mr. Puneet Gupta, Independent Director and Chairman
b) Mrs. Sangeeta Sharma, Independent Director
c) Mr. Balram P. Bhagat, Chief Executive Officer & Whole Time Director
d) Mr. Sanjay Dongre, Chief Investment Officer
e) Mr. Omkar Patwardhan, Chief Risk Officer.

The roles and other functions of the Committee remain same.

3. INVESTMENT NORMS AND PRUDENTIAL GUIDELINES

A. Investment guidelines for govt. Sector pension asset (Applicable to Scheme - Central Govt., Scheme - State Govt., Scheme – Corporate CG, Scheme - NPS Lite and Scheme - APY)

Circular No. PFRDA/2021/28/REG-PF/2 dated 20th July, 2021 w.e.f 20th July, 2021 &
Circular No. PFRDA/2021/45/REG-PF/07 dated 30th November 2021 w.e.f. 30th November, 2021

Category	Investment pattern as per PFRDA guidelines	Percentage amount to be invested	Additional internal guidelines
(i)	**Government Securities and related Investments** (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. 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. (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 G-Sec in the concerned NPS Scheme of the Pension Fund at any point of time.	**upto 55%**	The exposure to a Single Mutual Fund Scheme shall not be more than 25% of the Scheme’s AUM at the time of Investment

<table>
<tr>
<td>(ii)</td>
<td>Debt Instruments and related Investments

(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).

Provided that investment in debt securities with minimum residual maturity period of less than three years from the date of investment shall be limited to 10% of the corporate bond portfolio of the Pension Fund.

In case of securities where the principal is to be repaid in a single payout the maturity of the securities shall mean residual maturity.

In case the principal is to be repaid in more than one payout then the maturity of the securities shall be calculated on the basis of weighted average maturity of security.

(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.

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.</td>
<td>upto 45 %</td>
<td>(a) Exposure to one PFI or Public Sector Companies / Body Corporate/ Banks shall not exceed the under noted limits:
<table>
<tr><th>Rating of the Instrument</th><th>% of AUM</th></tr>
<tr><td>AAA / Corresponding Highest short term rating</td><td>15%</td></tr>
<tr><td>AA+, AA, /corresponding short term rating</td><td>10%</td></tr>
</table>

The debt exposure to any unlisted company or SPV shall not exceed 1% of total AUM of the Pension Fund.

All investments in unlisted bonds of NBFCs and real estate companies will be subject to approval of Investment Committee.

The debt exposure to one Private sector company shall not exceed 5% of total AUM of Pension Fund and should not be rated below AA or equivalent.</td>
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	Total portfolio invested in this sub-category, at any time, shall not be more than 2% of the total portfolio of the fund. 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. (c) Rupee Bonds issued by institutions of the International Bank for Reconstruction and Development, International Finance Corporation and Asian Development Bank. Provided that investment in Rupee Bonds with minimum residual maturity period of less than three years from the date of investment shall be limited to 10% of the corporate bond portfolio of the Pension Fund. (d) Term Deposit receipts of not less than one year duration issued by scheduled commercial banks, which meets the regulatory requirement of Net-worth and CRAR as stipulated by Reserve Bank of India and additionally 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: (i) having declared profit in the immediately preceding three financial years; (ii) having net non-performing assets of not more than 4% of the net advances;		(b) Term Deposit Receipt: The exposure in one Public Sector Bank shall not exceed 20% of total AUM and in case of Private Banks 10% of the total AUM of the Pension Fund. Investment in Private Sector Banks would be restricted to HDFC Bank, Axis Bank and ICICI bank only provided all the conditions mentioned in proviso to Clause (ii) (b) are fulfilled. (c) Any investment in NBFCs below AAA would continue to be referred to the Investment Management Committee.

	Provided that Deposits with any one scheduled commercial bank including its subsidiaries should not be more than 10% of the portfolio of the scheme. (e) Units of Debt Schemes of Mutual Funds as regulated by Securities and Exchange Board of India. Provided these schemes shall exclude schemes of mutual funds having investment in short term debt securities with Macaulay Duration of less than 1 year. Provided further that the portfolio invested in such mutual funds shall not be more than 5% of the total portfolio of the Debt investments in the concerned scheme of the Pension Funds at any point of time. (f) Debt securities issued by Real Estate Investment Trusts regulated by the Securities and Exchange Board of India. (g) Debt securities issued by Infrastructure Investment Trusts regulated by the Securities and Exchange Board of India. Provided that investment under category (f) & (g) shall be made only in such securities which are rated as AAA rating or equivalent in the applicable rating scale of the Trust from at least two credit rating agencies registered with SEBI. The rating of sponsor floating the Trust should be AA or equivalent in the applicable rating scale from at least two credit rating agencies registered with SEBI. (h) The following infrastructure related debt instruments:		

	(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 Affordable housing as defined under Government of India's harmonized master-list of infrastructure sub-sectors. Further, this category shall also include securities issued by Indian Railways or any of the body corporates in which it has majority shareholding. 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. 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. (ii) Infrastructure and affordable housing Bonds issued by any scheduled commercial bank, which meets the conditions specified in (ii)(d) above. (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. (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. It is clarified that, barring exceptions mentioned above, for the purpose of this sub-category (h), a sector shall be treated as part of infrastructure as per Government of India's harmonized master-list of infrastructure sub-sectors: (i) Listed or proposed to be listed Credit rated Municipal bonds. Provided that investment under this category shall be made only in such securities which are rated as AAA rating or equivalent in the applicable rating scale from at least two credit rating agencies registered with SEBI. (j) Investment in units of Debt ETFs issued by Government of India specifically meant to invest in bonds issued by Government owned entities such as CPSEs, CPSUs/CPFIs and other Government organizations, etc. provided that the portfolio invested in such Debt ETFs shall not be more than 5% of Asset Under Management of Corporate Bond Portfolio of the respective schemes. Provided that the investment under sub-categories (a), (b) and (h) (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 (h) (iii) the ratings shall relate to the Non-Banking Financial Company and for the sub-category (h) (iv) the ratings shall relate to the investment in eligible securities rated above investment grade of the scheme of the fund. 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. Provided further that Pension Fund can make investment in infrastructure companies rated not less than 'A' along with an Expected Loss Rating of 'EL1'. 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. For sub-category (c), a single rating of AA or above by a domestic or international rating agency will be acceptable. It is clarified that debt securities covered under category (i)(b) above are excluded from this category (ii). The Pension Funds are allowed to invest in corporate bonds/securities		

	which have a minimum of 'A' rating or equivalent in the applicable rating scale subject to the condition that the investment between 'A' and 'AA-' rated bonds is made to the extent of 10% of the overall corporate bond portfolio of the Pension Fund at any point of time.		
(iii)	**Short term debt instruments and Related Investments** (a) Money market instruments: Provided that investment in commercial paper issued by body corporates shall be made only in such instruments which have minimum rating of A 1 + by at least two credit rating agencies registered with the Securities and Exchange Board of India. Provided further that if commercial paper has been rated by more than two rating agencies, the two lowest of the ratings shall be considered. 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. (b) 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. Investments in units of a Debt scheme of a Mutual Fund as regulated by Securities and Exchange Board of India where investment is in short term securities with Macaulay duration of less than 1 year viz.	**Upto 10%**	The exposure to a single Mutual Fund Scheme shall not be more than 25% of the scheme's AUM at the time of investment. Investment is Money Market instruments should be in companies / Banks / Body Corporate etc. with a minimum rating of P1 (or equivalent).

	Overnight fund, Liquid Fund, Ultra Short Duration Fund and Low duration fund with the condition that the average total asset under management of AMC for the most recent six-month period should be at least Rs.5,000/- crores.		
(iv)	**Equities and related Investments** (a) Shares of body corporates listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), which are in top 200 stocks in terms of full market capitalization as on date of investment. (b) Units of Equity Schemes 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. 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. (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. (d) ETFs issued by SEBI regulated Mutual Funds constructed specifically for disinvestment of shareholding of the Government of India in body corporates. (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	**Upto 15%**	a. Shares of body corporates listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), which are in top 200 stocks in terms of full market capitalization as on date of investment as approved and published by NPS Trust on half yearly basis. b. Investments in companies other than above to be done with the approval of Investment Committee. c. Exposure to one company shall not exceed (i) 1.5% of the Fund Size at the time of investment or (ii) 10% of the paid up capital of the investee Company, whichever is lower. d. Exposure in one sector shall not

	hedging. 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. (f) Initial Public Offering (IPO), Follow on Public Offer (FPO) and Offer for Sale (OFS) of companies, approved by SEBI.		exceed the "Sector weight in BSE 200 + 10%".
(v)	**Asset Backed, Trust Structured and Miscellaneous Investments:** (a) Commercial mortgage based Securities or Residential mortgage based securities. (b) Units issued by Real Estate Investment Trusts regulated by the Securities and Exchange Board of India. (c) Asset Backed Securities regulated by the Securities and Exchange Board of India. (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. 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)	**Upto 5%**	

	Regulations, 1999. Provided further that in case of the sub-categories (b) and (d), minimum rating of AAA or equivalent rating in the applicable rating scale of the Trust from at least two credit rating agencies registered by SEBI shall be required and the sponsor entity floating the trust should have minimum rating of AA or equivalent in the applicable rating scale of the Trust from at least two credit rating agencies registered with SEBI. 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.		

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 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. NPS Trust and needs to monitor the investment decisions of the Pension Funds with utmost due diligence.

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 the 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 the fund.

10. Due cautions 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. Investments in Initial Public Offer (IPO), Follow on Public Offer(FPO) and Offer for Sale (OFS) are permitted subject to fulfilment of conditions mentioned under separate guidelines issued in this regard.

12. 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 **Equity** investments have been restricted to 5% of the 'paid up equity capital'* of all the sponsor** group*** companies or 5% of the total AUM managed by the Pension Fund, 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.

**'Sponsor' shall mean an entity described as "Sponsor" under Pension Fund Regulatory and Development Authority (Pension Fund) Regulations, 2015 and subsequent amendments thereto.

***'Group' means two or more individuals, association of individuals, firms, trusts, trustees or bodies corporate, or any combination thereof, which exercises, or is established to be in a position to exercise, significant influence and / or control, directly or indirectly, over any associate as defined in Accounting Standard (AS), body corporate, firm or trust, or use of common brand names, Associated persons, as may be stipulated by the Authority, from time to time, by issuance of guidelines under these Regulations.

Explanation: Use of common brand names in conjunction with other parameters of significant influence and / or control whether direct or indirect shall be reckoned for determination for inclusion as forming part of the group or otherwise.

All Pension Funds shall publish on their respective website a list of their group companies and those of their sponsor.

b) NPS **Debt** 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 Pension Fund 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 shall not be considered for compliance of the prescribed the Industry Concentration, Sponsor/ Non Sponsor group norms under these guidelines.

e) The exposure norms for investment in InvITs/REITs are as under:

i) The cumulative Investments in Units and Debt Instruments of InvITs and REITs shall not exceed 3% of total AUM of the Pension Fund at any point of time.

ii) The Pension Fund shall not invest more than 10% of the Outstanding Debt instruments issued by single InvIT/REIT issue.

iii) The Pension Fund shall not invest more than 5% of the Units issued by a single InvIT/REIT issue.

13. If the Pension 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. However, investments made by Pension Funds in Liquid Mutual Funds would not be excluded for payment of investment management fee. Accordingly, Pension Funds shall be eligible for payment of IMF for investment in liquid mutual funds. Also, investment in the ETFs/Index Funds, for the purpose of disinvestment of shareholding of the Government of India in body corporates, shall be eligible for payment of IMF to Pension Funds. The investment made by Pension Funds in Overnight Funds and all such short duration funds, as may be permitted by SEBI from time to time, shall be eligible for payment of IMF to Pension Funds. Also, investment made by Pension Funds in Bharat Bond ETF/Debt ETF issued by Government of India in respect of bonds issued by CPSEs, CPSUs, CPFIs and other Government Organizations, shall be eligible for payment of IMF to Pension Funds.

14. Pension Funds making investments in fresh issuance of "Govt. of India- Fully Serviced Bonds" issued by PSUs under Extra Budgetary Resources (EBR) shall treat these investments under "Government Securities and Related Investments" instead of investment in "Debt Instruments and Related Investments".

15. Pension Funds making investments in the shares of body corporates listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), which are in top 200 stocks, would be required to adopt the list of stocks prepared by NPS Trust in this regard and NPS Trust would adhere to the following points while preparing the list:

    i. If a stock is listed on more than one recognized stock exchange, an average of full market capitalization of the stock on all such stock exchanges, will be computed;

    ii. In case a stock is listed on only one of the recognized stock exchanges, the full market capitalization of that stock on such an exchange will be considered.

    iii. The list of stocks under (i) and (ii) above, would be circulated by NPS Trust and the same would be updated every six months based on the data as on the end of June and December of each year. The data shall be circulated by NPS Trust within 5 calendar days from the end of the 6 months period.

iv. While preparing the single consolidated list of stocks, average full market capitalization of the previous six month of the stocks shall be considered. Subsequent to any updation in the list, Pension Funds would have to rebalance their portfolios (if required) in line with updated list, within a period of one month. NPS Trust shall monitor the compliance of the above provision and inform PFRDA at regular interval.

16. Transfer of securities within the same scheme or inter scheme are allowed only if such transfers are done at the prevailing market price for quoted instruments on spot basis and the securities so transferred are in conformity with the investment objective of the scheme to which such transfer has been made. Such transfers may be allowed in following scenarios:

    i. To meet liquidity requirement in a scheme in case of unanticipated redemption pressure.

    ii. To adjust securities received through corporate action.

    The inter scheme transfers are allowed only on exceptional basis. The Pension Fund shall inform NPS Trust and Authority upon exercise of this option.

B. Investment Guidelines for Private Sector NPS {applicable to E (Tier- I & II),C (Tier I & II), and G (Tier – I & II), Scheme A (Tier I & II),

Circular No. PFRDA/2021/29/REG-PF/3 dated 20th July, 2021 w.e.f. 20th July, 2021 &

Circular (Revised) No. PFRDA/2021/48/REG-PF/10 dated 2nd December, 2021 w.e.f. 30th November, 2021

1.

Scheme / Asset Class	Category	Investment pattern as per PFRDA guidelines	Additional internal guidelines
G	**(i)**	(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. Provided that the portfolio invested under this subcategory of securities shall not be in excess of 10% of the total portfolio of the G-Sec separately in the concerned NPS Scheme of the Pension Fund at any point of time. (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.	The exposure to a Single Mutual Fund Scheme shall not be more than 25% of the Scheme's AUM at the time of Investment

<table>
<tr>
<td>C</td>
<td>(ii)</td>
<td>(a) Listed (or proposed to be listed in case of fresh issue) debt securities issued by body corporates, including banks and public financial institutions (Public Financial Institutions as defined under Section 2 of the Companies Act, 2013).

Provided that investment in debt securities with minimum residual maturity period of less than three years from the date of investment shall be limited to 10% of the corporate bond portfolio of the Pension Fund.

In case of securities where the principal is to be repaid in a single payout the maturity of the securities shall mean residual maturity.

In case the principal is to be repaid in more than one payout then the maturity of the securities shall be calculated on the basis of weighted average maturity of security.

(b) Rupee Bonds issued by the International Bank for Reconstruction and Development, International Finance Corporation and Asian Development Bank.

Provided that investment in Rupee Bonds with minimum residual maturity period of less than three years from the date of investment shall be limited to 10% of the corporate bond portfolio of the Pension Fund.

(c) Term Deposit receipts of not less than one year duration issued by scheduled commercial banks, which meets the regulatory requirement of Net-worth and CRAR as stipulated by Reserve Bank of India and additionally satisfy the following conditions on the basis of published annual report(s) for the most recent years, as required to have been</td>
<td>(a) Exposure to one PFI or Public Sector Companies / Body Corporate/ Banks shall not exceed the under noted limits:
<table>
<tr><th>Rating of the Instrument</th><th>% of AUM</th></tr>
<tr><td>AAA / Corresponding Highest short term rating</td><td>15%</td></tr>
<tr><td>AA+, AA, /corresponding short term rating</td><td>10%</td></tr>
</table>

The debt exposure to any unlisted company or SPV shall not exceed 1% of total AUM of the Pension Fund.

All investments in unlisted bonds of NBFCs and real estate companies will be subject to approval of Investment Committee.

The debt exposure to one Private sector company shall not exceed 5% of total</td>
</tr>
</table>

		published by them under law: (i) having declared profit in the immediately preceding three financial years; (ii) having net non-performing assets of not more than 4% of the net advances; Provided that Deposits with any one scheduled commercial bank including its subsidiaries should not be more than 10% of the portfolio of the scheme. (d) Units of Debt Schemes of Mutual Funds as regulated by Securities and Exchange Board of India: Provided that these schemes shall exclude schemes of mutual funds having investment in short term debt securities with Macaulay Duration of less than 1 year. Provided further that the portfolio invested in such mutual funds shall not be more than 5% of the total portfolio of the Debt investments in the concerned scheme of the Pension Funds at any point of time. (e) Debt securities issued by Real Estate Investment Trusts regulated by the Securities and Exchange Board of India. (f) Debt securities issued by Infrastructure Investment Trusts regulated by the Securities and Exchange Board of India. Provided that investment under category (e) & (f) shall be made only in such securities which have minimum rating of AA or equivalent rating in	AUM of Pension Fund and should not be rated below AA or equivalent. (b) <u>Term Deposit Receipt:</u> The exposure in one Public Sector Bank shall not exceed 20% of total AUM and in case of Private Banks 10% of the total AUM of the Pension Fund. Investment in Private Sector Banks would be restricted to HDFC Bank, Axis Bank and ICICI bank only provided all the conditions mentioned in proviso to Clause (ii) (b) are fulfilled. (c) Any investment in NBFCs below AAA would continue to be referred to the Investment Management Committee.

		the applicable rating scale of the Trust from at least two credit rating agencies registered by SEBI. (g) The following infrastructure related debt instruments: (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 Affordable housing as defined under Government of India's harmonized master-list of infrastructure sub-sectors. Further, this category shall also include securities issued by Indian Railways or any of the body corporates in which it has majority shareholding. 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. 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. (ii) Infrastructure and affordable housing Bonds issued by any scheduled commercial bank, which meets the conditions specified in (ii)(c) above.	

		(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. (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. It is clarified that, barring exceptions mentioned above, for the purpose of this sub-category (g), a sector shall be treated as part of infrastructure as per Government of India's harmonized master-list of infrastructure subsectors: (h) Listed and proposed to be listed Credit Rated Municipal Bonds. (i) Investment in units of Debt ETFs issued by Government of India specifically meant to invest in bonds issued by Government owned entities such as CPSEs, CPSUs/CPFIs and other Government organizations, etc. provided that the portfolio invested in such Debt ETFs shall not be more than 5% of Asset Under Management of Corporate Bond Portfolio of the respective schemes. Provided that the investment under sub-categories (a), (g) (i) to (iii) and (h) of this category-C (Corporate Bond) 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 (g) (iii) the ratings shall relate to the Non-Banking Financial Company.	

		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. Provided further that Pension Fund can make investment in infrastructure companies rated not less than ‘A’ along with an Expected Loss Rating of ‘EL1’. Provided further that investments under this category-C 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. For sub-category (b) a single rating of AA or above by a domestic or international rating agency will be acceptable. It is clarified that debt securities covered under category (i) (b) above are excluded from this category (ii). The Pension Funds are allowed to invest in corporate bonds/securities which have a minimum of ‘A’ rating or equivalent in the applicable rating scale subject to the condition that the investment between ‘A’ and ‘AA-’ rated bonds is made to the extent of 10% of the overall corporate bond portfolio of the Pension Fund at any point of time.	

E	**(iii)**	**Equities and related Investments** (a) Shares of body corporates listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), which are in top 200 stocks in terms of full market capitalization as on date of investment. (b) Units of Equity Schemes 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. 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. (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. (d) ETFs issued by SEBI regulated Mutual Funds constructed specifically for disinvestment of shareholding of the Government of India in body corporates. (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. 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 of category (iii).	a) Shares of body corporates listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), which are in top 200 stocks in terms of full market capitalization as on date of investment as approved and published by NPS Trust on half yearly basis. b) Investments in companies other than above to be done with the approval of Investment Committee. c) Exposure to one company shall not exceed (i) 9.5% for Benchmark stocks & 5% for Non Benchmark stocks of the total Fund size 10% of the paid up capital of the investee Company, whichever is lower.

		(f) Initial Public Offering (IPO), Follow on Public Offer (FPO) and Offer for Sale (OFS) of companies, approved by SEBI.	d) Exposure in one sector shall not exceed the "Sector weight in BSE 200 + 10%".
A	**(iv)**	**<u>Alternative Asset Class:-</u>** The permissible securities for alternate asset class are as under:– (a) Commercial mortgage based Securities or Residential mortgage based securities. (b) Asset Backed Securities regulated by the Securities and Exchange Board of India. (c) Units issued by Real Estate Investment Trusts regulated by the Securities and Exchange Board of India. (d) Units of Infrastructure Investment Trusts regulated by the Securities and Exchange Board of India. (e) Investment in SEBI Regulated 'Alternative Investment Funds' AIF (Category I and Category II only) as defined under the SEBI (Alternative Investment Fund) Regulations, 2012. (f) Basel III Tier-1 bonds issued by scheduled commercial banks under RBI Guidelines: Provided that investment under this category shall only be in listed instruments or fresh issues that are proposed to be listed except in case of category (a) and (b) above.	Investment in Basel III Tier-1 bonds is restricted to securities issued by State Bank of India and Bank Of Baroda as approved in Board meeting held on 27th January, 2021.

		Provided further that investment under this category **(**from (a) to (d) & (f) above) shall be made only in such securities which have minimum AA equivalent rating in the applicable rating scale from at least two credit rating agencies registered with the Securities and Exchange Board of India (SEBI) under SEBI (Credit Rating Agency) Regulations, 1999 and if the securities/entities have been rated by more than two rating agencies, the lowest two of the ratings shall be considered. Provided further that in case of the sub-categories (c) and (d), minimum rating of AA or equivalent rating in the applicable rating scale of the Trust from at least two credit rating agencies registered by SEBI shall be considered. Further, in case of sub category (a) and (b), rating from only one rating agency will be sufficient. The investments in category (e) (i.e. AIF – Cat. I and Cat. II) is allowed subject to satisfaction of the following conditions:- (i) The permitted funds under category I are Start-up Funds, Infrastructure Funds, SME Funds, Venture Capital Funds and Social Venture Capital Funds as detailed in Alternative Investment Funds Regulations, 2012 by SEBI. (ii) For category II AIF as per Alternative Investment Funds Regulations, 2012 by SEBI, at least 51% of the funds of such AIF shall be invested in either of the Startup entities, infrastructure entities or SMEs or venture capital or social welfare entities.	

		(iii) Pension Fund shall invest only in those AIFs whose corpus is equal to or more than Rs.100 crores. (iv) The exposure to single AIF shall not exceed 10% of the AIF size. (v) Pension Funds to ensure that funds should not be invested in securities of the companies or Funds incorporated and operated outside the India in violation of Section 25 of the PFRDA Act 2013. (vi) The sponsors of the Alternative investment funds should not be the promoter in Pension Fund or the promoter group of the Pension Fund. (vii) The AIFs shall not be managed by Investment manager, who is directly or indirectly controlled or managed by Pension Fund or the promoter group of the Pension Fund. The investments in category (f) of Alternative Asset Class is allowed provided that:- (i) In case of initial offering of the bonds, investment shall be made only in such Tier-I bonds which are proposed to be listed. (ii) Investment shall be made in such bonds of a scheduled commercial bank from the secondary market only if such Tier I bonds are listed. (iii) Total portfolio invested in this sub-category, at any time, shall not be more than 5% of the total portfolio of the fund, i.e. G+C+E+A for both Tier I and Tier II.	

		(iv) 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. **(**v) The investment by Pension Fund in a single issuer shall not exceed 10% of the AUM of the scheme. Clarification received vide mail dated 23rd December 2021 "it is clarified that the above exposure norm shall not be applicable till the Scheme corpus reaches Rs.5 Crores. Further, the exposure norms for sponsor/non-sponsor group shall not be applicable on Scheme A." Pension Funds are required to ensure due diligence in the best interest of subscribers before investing in Asset Class/Scheme A. Pension Funds are advised to consider all the risks such as liquidity risk, integrity risk, operational risk and control issues and conflicts of interest while making a decision to invest in Asset Class/Scheme A and these are to be documented while making such decisions. **Asset Class A shall not be available to NPS subscribers under Tier II account.**	
Short – term investment	**(Applicable to I, ii, iii and iv)**	**Short term debt instruments and Related Investments** **(not exceeding a limit of 10% of the scheme corpus on temporary basis only)** (a) Money market instruments: Provided that investment in commercial paper issued by body corporates shall be made only in such instruments which have minimum rating of A 1	<u>Investment in Term Deposit Receipt: </u>The exposure in one Public Sector Bank shall not exceed 20% of total AUM and in case of Private Banks 10% of the total AUM of the Pension Fund.

		+ by at least two credit rating agencies registered with the Securities and Exchange Board of India. Provided further that if commercial paper has been rated by more than two rating agencies, the two lowest of the ratings shall be considered. 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) (c) above. (b) Investments in Term Deposit Receipts of up to one year maturity issued by such scheduled commercial banks which satisfy all conditions mentioned in category (ii) (c) above. (c) Investments in units of a Debt scheme of a Mutual Fund as regulated by Securities and Exchange Board of India where investment is in short term securities with Macaulay duration of less than 1 year viz. Overnight fund, Liquid Fund, Ultra Short Duration Fund and Low duration fund with the condition that the average total asset under management of AMC for the most recent six-month period should be at least Rs. 5,000/- crores. Provided further that the limit with respect to investment in Money market instruments under Scheme A (under Tier-I), C-II and G-II shall be 10% of the scheme corpus, however, this exposure norm shall not be applicable till the scheme corpus is below Rs. 5 crores.	Investment in Private Sector Banks would be restricted to HDFC Bank, Axis Bank and ICICI bank only provided all the conditions mentioned in proviso to Clause (ii) (b) are fulfilled.

2. 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 the sub – categories, if any. However, asset switch because of any RBI mandate Government debt switch would not be covered under this restriction.

3. 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.

4. The prudent investment of the funds within the prescribed pattern is the fiduciary responsibility of the Pension Funds. NPS Trust and needs to be monitor the investment decisions of the Pension Funds with utmost due diligence.

5. The Pension Funds and Trust will take suitable steps to control and optimize the cost of management of the fund.

6. i. The trust ad 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 these guidelines 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 to be carried out by the fund.

7. Due caution will be exercised to ensure that the same investments are not churned with a view to enhancing the fee payable. In this regards, commissions for investments in Category (iii) instruments under asset class E will be carefully charged, in particular.

8. Investments in an Initial Public Offering (IPO), Follow on Public Offer (FPO) and Offer for Sale (OFS) are permitted subject to fulfilment of conditions mentioned under separate guidelines issued in this regard.

9. The following restrictions / filters / exposure norms would be applicable to reduce concentration risks. It would, however, be not applicable to Tier II Schemes till the scheme corpus reaches Rs. 5 crore in each scheme:

a) NPS **Equity** investments have been restricted to 5% of the 'paid up equity capital'* of all the sponsor** group*** companies or 5% of the total AUM managed by the Pension Fund, whichever is lower, in each respective scheme and 15% in the paid up equity capital of all the non-sponsor group companies or 15% 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.

**'Sponsor' shall mean an entity described as "Sponsor" under Pension Fund Regulatory and Development Authority (Pension Fund) Regulations, 2015 and subsequent amendments thereto.

***'Group' means two or more individuals, association of individuals, firms, trusts, trustees or bodies corporate, or any combination thereof, which exercises, or is established to be in a position to exercise, significant influence and / or control, directly or indirectly, over any associate as defined in Accounting Standard (AS), body corporate, firm or trust, or use of common brand names, Associated persons, as may be stipulated by the Authority, from time to time, by issuance of guidelines under these Regulations.

Explanation: Use of common brand names in conjunction with other parameters of significant influence and / or control whether direct or indirect shall be reckoned for determination for inclusion as forming part of the group or otherwise.

All Pension Funds shall publish on their respective website a list of their group companies and those of their sponsor.

b) NPS **Debt** 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.

d) If the Pension Fund 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 shall not be considered for compliance of the prescribed the Industry Concentration, Sponsor/ Non Sponsor group norms under these guidelines.

e) The exposure norms for investment in InvITs/REITs are as under:

i) The cumulative Investments in Units and Debt Instruments of InvITs and REITs shall not exceed 3% of total AUM of the Pension Fund at any point of time.

ii) The Pension Fund shall not invest more than 10% of the Outstanding Debt instruments issued by single InvIT/REIT issue.

iii) The Pension Fund shall not invest more than 5% of the Units issued by a single InvIT/REIT issue.

10. In the interest of subscribers, in the non-government sector, the Central Recordkeeping Agencies (CRAs) would monitor 'the ceiling of exposure in Asset Class E (Equity), C (Corporate Debt), G (Government Securities) and Asset Class A (For Tier I only) by Private Sector subscribers at 75%, 100%, and 5% respectively' is adhered to.

11. If the Pension 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. However, investments made by Pension Funds in Liquid Mutual Funds would not be excluded for payment of investment management fee. Accordingly, Pension Funds shall be eligible for payment of IMF for investment in liquid mutual funds. Also, investment in the ETFs/Index Funds, for the purpose of disinvestment of shareholding of the Government of India in body corporates, shall be eligible for payment of IMF to Pension Funds. The investment made by Pension Funds in Overnight Funds and all such short duration funds, as may be permitted by SEBI from time to time, shall be eligible for payment of IMF to Pension Funds. Also, investment made by Pension Funds in Bharat Bond ETF/Debt ETF issued by Government of India in respect of bonds issued by CPSEs, CPSUs, CPFIs and other Government Organizations, shall be eligible for payment of IMF to Pension Funds.

12. Pension Funds making investments in fresh issuance of "Govt. of India- Fully Serviced Bonds" issued by PSUs under Extra Budgetary Resources (EBR) shall treat these investments under "Asset Class G" instead of investment in "Asset Class C".

13. Pension Funds making investments in the shares of body corporates listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), which are in top 200 stocks, would be required to adopt the list of stocks prepared by NPS Trust in this regard and NPS Trust would adhere to the following points while preparing the list:

    i. If a stock is listed on more than one recognized stock exchange, an average of full market capitalization of the stock on all such stock exchanges, will be computed;

    ii. In case a stock is listed on only one of the recognized stock exchanges, the full market capitalization of that stock on such an exchange will be considered.

    iii. The list of stocks under (i) and (ii) above, would be circulated by NPS Trust and the same would be updated every six months based on the data as on the end of June and December of each year. The data shall be circulated by NPS Trust within 5 calendar days from the end of the 6 months period.

    iv. While preparing the single consolidated list of stocks, average full market capitalization of the previous six month of the stocks shall be considered. Subsequent to any updation in the list, Pension Funds would have to rebalance their portfolios (if required) in line with updated list, within a period of one month. NPS Trust shall monitor the compliance of the above provision and inform PFRDA at regular interval.

14. Transfer of securities within the same scheme or inter scheme are allowed only if such transfers are done at the prevailing market price for quoted instruments on spot basis and the securities so transferred are in conformity with the investment objective of the scheme to which such transfer has been made. Such transfers may be allowed in following scenarios:

    i. To meet liquidity requirement in a scheme in case of unanticipated redemption pressure.

    ii. To adjust securities received through corporate action.

    The inter scheme transfers are allowed only on exceptional basis. The Pension Fund shall inform NPS Trust and Authority upon exercise of this option.

C) Operational Guidelines for National Pension Scheme Tier II – Tax Saver Scheme, 2020 (NPS-TTS)
Circular No. PFRDA/2021/47/REG-PF/09 dated 30th November, 2021 w.e.f. 30th November, 2021

<table>
<tr><td>Investment Choice & Pattern</td><td>No Investment choice to the subscriber. It will be a Composite Scheme with the following investment limits for the Pension Funds:-
<table>
<tr><th>Asset Class</th><th>Limits</th></tr>
<tr><td>Equity*</td><td>10%-25%</td></tr>
<tr><td>Debt**</td><td>Upto 90%</td></tr>
<tr><td>Cash/Money Market/Liquid MFs</td><td>Upto 10%
(Exposure norm shall not be applicable till the scheme corpus is below Rs. 5 crores.)</td></tr>
</table></td></tr>
</table>

*Investment guidelines as applicable for E-II
** Investment guidelines as applicable for G-II and C-II

4. INITIAL PUBLIC OFFER, FOLLOW ON PUBLIC OFFER & OFFER FOR SALE

I. Investment Guidelines Prescribed by PFRDA

Following investment guidelines were prescribed by PFRDA vide its circular no. PFRDA/2021/32/REG-PF/4 dated July 27, 2021 while making investment in Initial Public Offer (IPO), Follow on Public offer (FPO) and Offer for sale (OFS):

1) Investment shall be made in Equity shares which are proposed to be listed.
2) Investment shall be made in the Equity shares of such companies through IPO where the full float market capitalisation, calculated using the lower band of the issue price of the IPO, is higher than the market capitalisation of the 200th company in the list of top 200 stocks of body corporates listed on BSE or NSE as provided by NPS Trust (last published list).
3) The internal Investment Guidelines of the Pension Fund shall have a detailed policy in respect of investment in IPOs duly approved by the Board and the investment team can take decision on day to day basis subject to compliance of the policy.
4) The investment in Equity Shares through FPO / OFS shall be made in the shares of body corporates listed on BSE/NSE which are in top 200 stocks in terms of full market capitalization. The pension funds would be required to adopt the last published list of stocks prepared by NPS trust in this regard from time to time.
5) The investment in equity shares through IPO/FPO/OFS should comply with prudential and exposure norms as prescribed in the investment guidelines 2021 for Govt. sector schemes and Private sector schemes.
6) The details of all investment in equity shares though IPO/FPO/OFS shall be reported to NPS Trust within 30 days of making such investments.

Additional investment guidelines were provided by PFRDA vide their circular no. PFRDA/2021/39/REG-PF/5 dated September 16, 2021-

1) If pension fund has invested in equity shares of any company through IPO and equity shares do not fulfill the market capitalization condition prescribed under investment guidelines post listing, a time period of maximum one year shall be provided to the PF for making decision on selling / holding such stock. At the time of completion of one year, if no decision to sell such stock was made by the pension fund, the said stock shall be sold by the pension fund if it does not fall in the last list of top 200 stocks published by NPS Trust.
2) Pension Fund who has received allotment in the IPO, can acquire fresh shares of the same company as long as the investment meets the conditions prescribed in the investment guidelines/circulars issued in this regard.

II. Decision making process to be followed for primary market equity investment /divestment would be as follows-

A) Purchase of Equity

Category	Recommendation	Decision making Process	Approving Authority
IPO, FPO, OFS, Rights issue, Warrant conversion, Exercise of call option, etc.	Investment argument note to be prepared by Research analyst.	Fund manager to take investment decisions on the basis of a) Available information from Research analyst, b) Available information from offer document, c) Publicly available information about the company & industry/ sector, d) Information gathered from other sources. While making an investment decision, factors such as regulatory investment restrictions, liquidity needs, stock/sector's existing weightage, overall risk profile are also kept in mind. Reasons if any, other than the investment arguments prepared by Research Analyst, may be indicated.	Chief Investment Officer to forward proposal to Equity EIC for approval

B) Sale of Equity

Category	Recommendation	Decision making Process	Approving Authority
It may cover open offers, buyback through tendering process,etc.	Research analyst to write a short note outlining recent development, earnings updates etc.	Fund manager to take investment decisions on the basis of a) Available information from Research analyst, b) Available information from offer document, c) Publicly available information about the company & industry/ sector, d)Information gathered from other sources. While making an investment decision, factors such as regulatory investment restrictions, liquidity needs, stock/sector's existing weightage, overall risk profile are also kept in mind. Reasons if any, other than ones mentioned in the short note may be indicated.	Chief Investment Officer to forward proposal to Equity EIC for approval

III. Delegation of Power in respect of Primary market Investment / Divestment

Type of Investment category	Delegated authority
**IPO	EIC
FPO/ OFS/Rights issue / warrant conversion / Exercise of call option/ Open offer / Buyback through the process of tendering, etc	As the market price is available, proposed secondary equity market delegation would be applicable for the respective delegated authorities.

**Total application size is defined as summation of amount allocated under Anchor category and amount applied in QIB category.

VI. Eligibility of company for Investment through IPO

Due to volatile nature of equity markets, investment in IPO shall be restricted to such companies where the full float market capitalisation, calculated using the lower band of the issue price is at least 25% higher than the market capitalisation of the 200th company in the list of top 200 stocks of body corporates listed on BSE or NSE as provided by NPS Trust (last published list)

5. DELEGATION OF POWER FOR INVESTMENTS OF PENSION FUNDS

The NPS corpus will be invested in accordance with the below – mentioned delegation of powers as approved by the Board through circular resolution on 3rd February 2022.

UTIRSL to have an Executive Investment Committee (EIC). Members of the committee are CEO, CIO, Equity Co-FM/FM, Debt FM, Chief Risk Officer. Quorum for above mentioned EIC would be presence of three out of Five members and one of the members has to be either CEO or CIO. EIC would authorize CIO to exercise the delegation for the total value approved by EIC for each proposal referred to EIC.

A. Following overall limit applicable across all the NPS Schemes managed by UTIRSL for the transactions during the day based on the Face Value of Debt instruments / Debt Security and last closing price of equity security.

I) G-Sec (Central Govt Securities and SDL) Market

Type of Security / Investment category	**Delegated authority for daily transactions**		
	Co-FM/FM	**CIO**	**EIC**
Primary [Auction in the G – Sec (Central Govt securities and SDL)]	Upto Rs. 100 Crores	Above Rs.100 Crore and upto Rs 500 crores	Above Rs 500 crores
Secondary [Government Securities (Central Govt Sec and SDL) and units of dedicated G-Sec schemes of Mutual funds.]	Upto Rs 100 crores	Above Rs 100 crore and upto Rs. 250 Crores	Above Rs.250 Crores

II) Corporate Bond Market

Type of Security / Investment category (Primary and Secondary market)	**Delegated authority for daily transactions**		
	CO-FM/FM	**CIO**	**EIC**
a) Debt instruments with AAA rating from atleast 2 credit rating agencies. b) Term Deposits with PSU Banks	Upto Rs 50 crore	Above Rs 50 crore and upto Rs. 250 Crore	Above Rs.250 crores

Debt instruments with credit rating of AA+ and AA from at least 2 credit rating agencies.	Nil	Nil	Fully Authorised

III) Primary Equity Market

As per the IPO/FPO/OFS Policy note

Type of Investment category	**Delegated authority**
**IPO	EIC
FPO/ OFS/Rights issue / warrant conversion / Exercise of call option/ Open offer / Buyback through the process of tendering, etc	As the market price is available, proposed secondary equity market delegation would be applicable for the respective delegated authorities.

**Total application size in IPO is defined as summation of amount allocated under Anchor category and amount applied in QIB category.

IV) Secondary Equity Market

Type of Security / Investment category	**Delegated authority for daily transactions**		
	CO-FM /FM	**CIO**	**EIC**
a) Total value transacted by all NPS schemes in one day in one company b) Equity linked mutual fund	Upto Rs 15 crore	Above Rs 15 crores and Upto Rs. 100 Crores	Above Rs. 100 Crores
Total value of transactions by all NPS scheme in one day	Upto Rs 50 crore	Above Rs 50 crores and Upto Rs. 300 Crores	Above Rs. 300 Crores

Above mentioned limit of Rs 300 crores amounts to 1.07% of the equity AUM of Rs 28,147cr as on Sep 30, 2021.

The Above delegation of powers is subject to the following:-

1. The above delegation is calculated on the face value of the investments.
2. Minimum credit rating shall be “AA” by atleast two registered Credit Rating Agencies.
3. If the securities / entities have been rated by more than two rating agencies, the two lowest of all the ratings shall be considered.
4. The investments in the following shall be made only after the prior approval of the Executive Investment Committee (EIC): -

a) Debt instruments of NBFCs rated below AAA; and

b) Investment in debt securities of real estate companies (listed and unlisted) /SPVs shall be made only in AAA rated securities. Any such investment would be reported to the Committee.

B. Delegation of powers to officials in the absence of delegated authority

In the absence of CIO, all the powers of CIO would be exercised by CEO.

C. Formation of Internal Investment Committee (IIC)

Investment Committee (IC) would be formed to review performance and strategy. Members of IC would be CEO, CIO, Chief Risk Officer(CRO). CoFM/FM(equity) and FM(Debt) would be invitee to the meeting. CRO would be also be member secretary to the committee. Meeting of IC would be held every month.

D. Decision making process

I) Corporate Bond

For every primary market issuance, credit analyst will evaluate the credit worthiness of issuer and prepare credit note. Also credit analyst will prepare quarterly earnings update on all issuers of holdings in the portfolio. Fund manager may take investment decisions on the basis of a) Credit note prepared by credit analyst, b) Earnings update prepared by credit analyst c) Available information issue memorandum, d) Publicly available information about the company & industry/ sector, e) Information gathered from other sources. While making an investment decision, factors such as regulatory investment restrictions, liquidity needs, existing weightage, overall risk profile are also kept in mind.

II) Equity

For every eligible IPO, equity analyst will evaluate and carry out fundamental analysis of an issuer and prepare investment arguments. Also equity analyst will prepare quarterly earnings update on all the holdings in the portfolio. Equity analyst will also prepare notes on management meetings/analyst calls etc. Fund manager to take investment decisions on the basis of a) Investment argument prepared by equity analyst, b) Earnings update prepared by equity analyst c) Publicly available information about the company & industry/ sector, d) Information gathered from other sources. While making an investment decision, factors such as regulatory investment restrictions, liquidity needs, stock/sector existing weightage, overall risk profile are also kept in mind.

E. Reporting mechanism:

1. All deals carried out during the day shall be reported to the CEO at the end of day.

2. Quarterly report on the Securities Transactions and Performance of the NPS Schemes shall be submitted to the Investment Management Committee and Board.

6. VALUATION PRINCIPLES

Valuation Policies have been specified in Clause III of Schedule A of the PFRDA (Preparation of Financial Statements and Auditor's Report of schemes under National Pension System) Guidelines -2012.

However, as per Clause 3.31 of the Investment Management Agreement (for Govt. Sector Employees) entered into with the NPS Trust, the PF shall adhere to the valuation practices as notified by PFRDA from time to time.

Also, as per Clause 4.31 of the Investment Management Agreement (for Private Sector) entered into with the NPS Trust, the PF shall adhere to the valuation practices / procedures as notified by PFRDA / NPS Trust from time to time.

NPS Trust had hired services of CRISIL Limited for providing valuation services to the Pension Fund Managers.

Therefore, valuation is done by the CRISIL Limited.

7. LIQUIDITY:

The cash Flow information is available in the mPower which may be downloaded by Fund Managers / Dealer / Back Office for reference and utilization of funds.

The Fund Manager / back office will prepare a Cash Flow Statement on a daily basis, to ascertain the funds available for investment.

The Cash Flow Statement will facilitate the CIO / Fund Managers to utilize it for investment / deployment.

8. STOP LOSS POLICY

Background

UTI RSL manages Pension Funds and invests in accordance with PFRDA Investment Guidelines and Internal Investment norms laid down by the Board. As the funds are long term in nature, the Fund follows a conservative style of management, investing the corpus in listed equities & Debt instruments of corporates with high credit quality with a long term track record.

Stop Loss Policy

Stop Loss Policy is generally used by Traders for a trading portfolio where trades are based on Technical Analysis rather than on long term fundamentals or to capture short term profit in view of the expected change in scenario or event.

The portfolio under NPS follows a different approach and is built for a long term horizon with the inherent objective of safety and stable capital appreciation over the life of investments. It is not a trading portfolio involving frequent entries/exits from securities. Rather any correction in the stock price without any change in fundamentals is viewed as an opportunity to enter the stock.

In the above background, we propose a stop loss policy as under:-

Equity Investments

The Funds invest mostly in Large cap companies with a higher weightage to Index stocks. Continuous monitoring of the equity portfolio & keeping track of the fundamentals of the company is undertaken for all stocks wherein we have investments.

a. In case of a significant decline in the Consolidated top-line of a company (>=20%) quarter on quarter (q-o-q) or year on year (y-o-y) the reasons for the same will be analysed to review whether the decline is temporary in nature or more fundamental to the company and hence has a long term impact . In case of serious concern on the operating performance of the company due to this factor, stop loss in the holding will be triggered.
b. Similarly, if the Consolidated EBITDA & Consolidated net profit declines >=20% q-o-q or y-o-y due to some factors intrinsic to the company or sector leading to a long term impact to the stock , the reasons would be analysed and stop loss will be triggered in the stock. However, the following two restrictions will be applied for points (a) & (b) -

- For Large cap companies with market cap greater than Rs.5000cr, if **both the above parameters (a) & (b) i.e (REVENUE, EBITDA & PAT decline >=20%) occur together,** stop loss will get triggered.

- In case of companies with market cap of less than Rs.5000cr, stop loss will get triggered **if any one of the parameters (a) or (b) above gets triggered.**

c. In case of companies in the Financial Sector, in addition to the above two parameters, asset quality is a key data point. Hence the NPA's for Banks/FIs/NBFCs/Housing Finance Companies would also be analysed and an increase of 100 bps in Gross NPA's on a q-o-q basis in a holding would trigger a stop loss.

d. It is proposed that incase a material stock price correction of >=25% occurs relative to the Benchmark the reason for the price correction would be analysed and the following two situations would be considered :--

i) If price correction during any period of 30 days relative to the Benchmark is without any deterioration in the fundamentals of the company or is due to market related/global or economic reasons we will continue holding the security. Also, we will continuously monitor for any adverse development in the company, if any.

ii) If the stock price correction (>=25%) relative to the Benchmark is due to some adverse development in the company, any corporate action, etc. the stop loss will get triggered.

Proposed course of action – Equity

All the above situations as mentioned in (a) to (d) above would be monitored, examined and the decision whether to cost average, exit or hold is taken by the investment team and brought to the notice of the CEO, UTIRSL for approval. All case/s wherein stop loss is triggered would be reported to the Investment Committee and Risk Management Committee on quarterly basis and also informed to the Regulator.

Monitoring mechanism for Stop Loss instances

The following mechanism is to be adopted for stop loss monitoring:-

- There is a Stop Loss committee comprising of the CEO, CIO, Equity Fund Manager and Fixed Income Fund Manager.
- All the instances of Stop Loss may get reported within 72 hours of the trigger to the Stop Loss Committee.
- The committee after having detailed deliberation on several parameters like fundamentals, operational, etc. may take a view to buy, hold or sell the stock.
- In case the decision to sell the stock is taken by the stop loss committee, the same may get executed within 15 days and in case of any liquidity constraint the same may get executed within 30 days from the day of decision.
- All the stop loss instances as approved by the Stop Loss Committee may be reported to the Investment & Risk Management Committee of the Board in the upcoming meetings.

Debt Investment

- ✓ In case the rating is downgraded by two notches in any debentures /Bonds wherein we have exposure and the company’s financials are reasonably expected to further deteriorate in future, it would trigger a stop loss.
- ✓ In case of any Investment falling below investment grade all attempt will be made to exit the Investment at the earliest. This is also as per the Guidelines laid down by the Regulator.

Proposed course of action - Debt

All such cases would be monitored, examined and the decision whether to hold or exit would be taken by the investment team and brought to the notice of CEO – UTI RSL for approval. All cases wherein stop loss is triggered would be reported to the Investment Committee and Risk Management Committee on quarterly basis and also informed to the Regulator.

9. Prudential norms, Income recognition, Asset classification and Provisioning of NPA

As per Clause 13 of Part II in Schedule A of 'PFRDA (Preparation of Financial Statements and Auditor's Report of Schemes under National Pension System) Guidelines-2012',

"An investment is regarded as non-performing, if interest/principal or both amounts have not been received or have remained outstanding for 90 days from the day such income/ installment has fallen due. Provision shall be made by charge to the Revenue Account, in respect of.*

*a) Non Performing Debt Securities as per the **Authority Guidelines** to be issued from time to time.*

(may be read as one quarter)*

Accordingly, Authority is prescribing the guidance note on Identification, Income Recognition and Provisioning of NPA in respect of debt securities.

1. Identification of Non-Performing Asset (NPA):

A debt security ('asset') shall be classified as 'Non-Performing Asset' (NPA) if the interest and/or installment of principal have not been received or remained outstanding for *one quarter*, from the day such income and/or installment principal was due.

Example: If interest and/or installment of principal falls due and remains unpaid on 05-Mar-2013, then it will be classified as NPA after one quarter i.e. on 05-June-2013.

2. Treatment of income accrued on NPA and further accruals

2.1 After the expiry of the 1st quarter, from the date the interest has fallen due, there will be no further interest accrual on the asset i.e., from the beginning of the 2nd quarter from the date the interest has fallen due, interest should not be accrued on the asset.

2.2 (a) On classification of the asset as NPA, provision for all interest, accrued on that asset and recognized in the books of accounts of the scheme till date, should be made.

(b) Illustrative set of entries, which can be passed, can be as follows:

Step 1. Accrual entry which would have been already passed	Interest Accrued (Dr.) Interest Income (Cr.)
Step 2.On due date, entry which would have been already passed	Interest due (Dr.) Interest Accrued (Cr.)
Step 3. On identification as NPA, provision entry to be passed Or, This entry is to be passed, if	Interest Income (Dr) Provision for Interest overdue (Cr.) Profit and Loss account (Dr.)

asset becomes NPS during the subsequent Financial Year (i.e. 'interest income' as per Step-1 is charged to revenue account of previous financial year)	Provision for Interest overdue (Cr.)
Step 4. On identification as NPA, entry to be passed	Interest Due on NPA account (Dr.) Interest due (Cr.)... unrealized amount Interest Accrual (Cr.)... accrued till/ the date ofidentification as NPA.

2.3 (a) However, for monitoring purposes, the PFM shall continue to calculate the interest accrued and due on the NPA (security wise) separately through the system, as a mirror account but should not be accounted for in the books of account of scheme.

(b) Following entry may be passed on every subsequent coupon due date:

Interest Due on NPA account (Dr.) (nature of account is Balance sheet item (Assets)]
Provision for Interest overdue (Cr.) [nature of account is Balance sheet item (Liability)]

(In the financial statements of schemes, prepared at the end of Financial Year, the above entry will have to be nullified by reversing the said entry and need not be disclosed in the Balance Sheet as this entry is only for monitoring purposes. The above entry is again required to be passed at the beginning of the next financial year.)

2.4 Interest on NPA is recognized and booked as income only when it is actually received (i.e. on cash basis).

3. Provisioning for NPAs:
On classification of the asset as NPA, provision must be made on the book value in the following manner or at a higher percentage at the discretion of the Pension Fund with the approval of their Investment Committee. However, Pension Fund will not have the discretion to extend the period of provisioning. The provisioning against the book value should be made at the following rates irrespective of whether the principal is due for repayment or not.

Period past due from due date of interest/ installment of principal	Period past due from the date of classification of assets as NPA	% Provision on Book Value
6 months	3 months	50%
9 months	6 months	75%
12 months	9 months	100%

Following entry can be passed in the Books of Account:

Profit and Loss a/c (Dr.)
Provision for Non-Performing Assets (Cr.)

4. Classification of Deep Discount Bonds as NPAs :

Investments in Deep Discount Bonds can be classified as NPAs, if any two of the following conditionsare satisfied:

i. If the rating of the Bond comes down below Investment Grade.
ii. If the issuer is defaulting in their commitments in respect of other assets
iii. Full Net worth erosion of issuer.

Provision should be made as per the norms set at *clause-3* above as soon as the asset is classified asNPA.

5. Writing-back of provisioning and further accruals on reclassification of NPA as 'performing'

5.1 Reclassification of Assets. The non-performing asset shall be re-reclassified as 'performing asset', if all the arrears of interest and installment of principal are cleared and the debt is regularly serviced for consecutive two quarters, or subsequent coupon is paid on due date, whichever is later.

5.2 Written-back of provisioning of interest. Upon reclassification of assets as 'performing asset',

i. In case an issuer has fully cleared all lhe arrears of interest, the interest provisions can be written back in full.

5.3 Written-back of provisioning of principal.' The provision made for the principal can be written back in the following manner:-

i. 100% of the asset provided for in the books will be written back at the end of the 2nd calendar quarter, where the provision of principal was made due to the interest defaults only.
ii. 50% of the asset provided for in the books will be written back at the end of the 2'° calendar quarter and 25% after every subsequent quarter, where both principal and interest were in default earlier.

5.4 Accounting for accrual of interest: Further accrual of interest on the performing assets shall be made after it has been classified as performing asset. Till such time, interest on the asset should be recognized on cash basis only. The interest not credited on accrual basis would be credited only at the time of actual receipt of interest.

6. Re-schedulement of an asset :

In case any issuer of debt security defaults in the payment of interest and installment of principal, if any, and the Pension Fund has accepted re-schedulement of NPA, it may be re-classified as 'performing asset' if the next two coupons/ installments of principal, if applicable, is regularly serviced as re-scheduled. Clause 6 will be applicable for written-back of provisioning and further accruals on its reclassification as 'performing asset'.

7. <u>Disclosure of NPA in the monthly portfolio details :</u>

7.1 The Pension Fund shall make security-wise monthly disclosures of NPAs in the monthly portfolio details.

7.2 The total amount of provisions made against the NPAs shall be disclosed in addition to the total Book Value of NPAs. .Further, the proportion of NPA with respect to the assets under management (AUM) of the respective scheme may also be disclosed. In the list of investments an asterisk mark shall be given against such investments which are recognized as NPAs.

7.3 Where the date of redemption of an investment has lapsed, the amount not redeemed shall be shown as 'Sundry Debtors' and not as investment provided, that where an investment is redeemable by installments, it will be shown as an investment until all installments have become overdue.

8. <u>Written off NPA on identification as 'loss assets':</u>

8.1 A 'loss asset' is one which is deemed as un-recoverable or its value has been diminished and has been identified by the Pension Fund or scheme auditors as such. On classifying the NPA as loss asset, the asset along with its provision should be written off by the Pension Fund after obtaining approval from its Board of Directors or its Investment Committee (subject to report to the Board of Directors). The following entry may be passed:

<u>Provision for Non-Performing Assets (Dr.)</u>
<u>Sundry Debtors/ Investment (Cr.)</u>

8.2 The 'Provision for Interest Overdue', made as per Clause-2, may be written off against 'Interest Due on NPA account' and following entry may be passed:

<u>Provision for Interest overdue (Dr.) [Balance sheet: Liability side]</u>
<u>Interest Due on NPA account (Cr.) [Balance sheet: Assets side]</u>

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