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### CIRCULAR

PFRDA/2017/18/PF/2

Date: 04.05.2017

**Subject: Investment Guidelines for NPS Schemes {Other than Govt. Sector (CG &SG),  
Corporate CG, NPS Lite and APY} w.e.f 08.05.2017**

Scheme/ Asset Class	Category	Investment Guidelines
G	(i)	<p>(a) Government Securities,</p> <p>(b) Other Securities { 'Securities' as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956} the principal whereof and interest whereon is fully and unconditionally guaranteed by the Central Government or any State Government.</p> <p>Provided that the portfolio invested under this sub-category 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.</p> <p>(c) Units of Mutual Funds set up as dedicated funds for investment in Govt. securities and regulated by the Securities and Exchange Board of India:</p> <p>Provided that the portfolio invested in such mutual funds shall not be more than 5% of the of the G-Sec in the concerned NPS Scheme of the pension fund at any point of time and fresh investments made in them shall not exceed 5% of the fresh accretions in the year.</p>
C	(ii)	<p>(a) Listed (or proposed to be listed in case of fresh issue) debt securities issued by bodies corporate, including banks and public financial institutions (Public Financial Institutions' as defined under Section 2 of the Companies Act, 2013), which have a minimum residual maturity period of three years from the date of investment.</p> <p>(b) Rupee Bonds having an outstanding maturity of at least 3 years issued by the International Bank for Reconstruction and Development, International Finance Corporation and Asian Development Bank.</p> <p>(c) Term Deposit receipts of not less than one year duration issued by scheduled commercial banks, which satisfy the following conditions on the basis of published annual report(s)</p>

		<p>for the most recent years, as required to have been published by them under law:</p> <ul style="list-style-type: none"> <li>(i) having declared profit in the immediately preceding three financial years;</li> <li>(ii) maintaining a minimum Capital to Risk Weighted Assets Ratio of 9%, or mandated by prevailing RBI norms, whichever is higher;</li> <li>(iii) having net non-performing assets of not more than 4% of the net advances;</li> <li>(iv) having a minimum net worth of not less than Rs. 200 crores.</li> </ul> <p>(d) Units of Debt Mutual Funds as regulated by Securities and Exchange Board of India:</p> <p>(e) The following infrastructure related debt instruments:</p> <ul style="list-style-type: none"> <li>(i) Listed (or proposed to be listed in case of fresh issue) debt securities issued by body corporates engaged mainly in the business of development or operation and maintenance of infrastructure, or development, construction or finance of low cost housing. <ul style="list-style-type: none"> <li>Further, this category shall also include securities issued by Indian Railways or any of the body corporates in which it has majority shareholding.</li> <li>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.</li> </ul> <p>It is further clarified that any structural obligation undertaken or letter of comfort issued by the Central Government, Indian Railways or any Authority of the Central Government, for any security issued by a body corporate engaged in the business of infrastructure, which notwithstanding the terms in the letter of comfort or the obligation undertaken, fails to enable its inclusion as security covered under category (i) (b) above, shall be treated as an eligible security under this sub-category.</p> <ul style="list-style-type: none"> <li>(ii) Infrastructure and affordable housing Bonds issued by any scheduled commercial bank, which meets the conditions specified in the category (ii)(c) above.</li> <li>(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.</li> </ul> </li> </ul>
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		<p>(iv) Listed (or proposed to be listed in case of fresh issue) units issued by Infrastructure Debt Funds operating as a Mutual Fund and regulated by Securities and Exchange Board of India.</p> <p>It is clarified that, barring exceptions mentioned above, for the purpose of this sub-category (e), a sector shall be treated as part of infrastructure as per Government of India's harmonized master-list of infrastructure sub-sectors.</p> <p>(f) Listed and proposed to be listed Credit Rated Municipal Bonds</p> <p>Provided that the investment under sub-categories (a), (e) (i) to (iii) and (f) 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 (e) (iii) the ratings shall relate to the Non-Banking Financial Company.</p> <p>Provided further that if the securities/entities have been rated by more than two rating agencies, the lowest two of all the ratings shall be considered.</p> <p>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.</p> <p>For sub-category (b) a single rating of AA or above by a domestic or international rating agency will be acceptable.</p> <p>It is clarified that debt securities covered under category (i) (b) above are excluded from this category (ii).</p>
E	(iii)	<p><b>Equities and Related Investments</b></p> <p>(a) Shares of body corporates listed on Bombay Stock Exchange (BSE) or National Stock Exchange (NSE), which have:</p> <p>(i) Market capitalization of not less than Rs. 5000 crore as on the date of investment; and</p>

		<p>(ii) Derivatives with the shares as underlying traded in either of the two stock exchanges except in case of IPO but the same should be available in the F&amp;O segment in either of two stock exchanges within one Year to remain invested in that stock.</p> <p>(b) Units of mutual funds regulated by the Securities and Exchange Board of India, which have minimum 65% of their investment in shares of body corporates listed on BSE or NSE.</p> <p>(c) Exchange Traded Funds (ETFs)/Index Funds regulated by the Securities and Exchange Board of India that replicate the portfolio of either BSE Sensex Index or NSE Nifty 50 Index.</p> <p>(d) ETFs issued by SEBI regulated Mutual Funds constructed specifically for disinvestment of shareholding of the Government of India in body corporates.</p> <p>(e) Exchange traded derivatives regulated by the Securities and Exchange Board of India having the underlying of any permissible listed stock or any of the permissible indices, with the sole purpose of hedging.</p> <p>Provided that the portfolio invested in derivatives in terms of contract value shall not be in excess of 5% of the total portfolio invested in sub-categories (a) to (d) of category (iii).</p>
A	(iv)	<p><b><u>Alternative Asset Class:-</u></b></p> <p>The permissible securities for alternate asset class are as under:-</p> <ul style="list-style-type: none"> <li>(a) Commercial mortgage based Securities or Residential mortgage based securities.</li> <li>(b) Asset Backed Securities regulated by the Securities and Exchange Board of India.</li> <li>(c) Units issued by Real Estate Investment Trusts regulated by the Securities and Exchange Board of India</li> <li>(d) Units of Infrastructure Investment Trusts regulated by the Securities and Exchange Board of India.</li> <li>(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.</li> <li>(f) Basel III Tier-1 bonds issued by scheduled commercial banks under RBI Guidelines.</li> </ul> <p>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.</p> <p>Provided further that investment under this category (from (a) to (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</p>

(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.

Further, in case of sub category (a), (b) and (e) rating from only one rating agency will be sufficient. However, in case Govt. owned AIFs under sub category (e), ratings would not be required.

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 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 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 a 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 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 2% of the total portfolio of the fund.
- (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

		<p>shall not exceed 20% of such bonds issued by that Bank.</p> <p>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.</p> <p><b>Asset Class A shall not be available to NPS subscribers under Tier II account.</b></p>
<p>Short-term investment</p>	<p>(Applicable to i, ii iii and iv)</p>	<p><b><u>Short term debt instruments and related investments : (not exceeding a limit of 5% of the scheme corpus on temporary basis only)</u></b></p> <p>(a) Money market instruments :</p> <p>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.</p> <p>Provided further that if commercial paper has been rated by more than two credit rating agencies, the lowest two of the ratings shall be considered.</p> <p>Provided further that investment in this sub-category in Certificates of Deposit of up to one year duration issued by scheduled commercial banks will require the bank to satisfy all conditions mentioned in category (ii) (c) above.</p> <p>(b) Investments in units of liquid mutual funds regulated by the Securities and Exchange Board of India with the condition that the average total asset under management of AMC for the most recent six month should be at least Rs. 5000/- crores</p> <p>(c) 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</p> <p>Provided further that, the limit with respect to investment in Money market instruments under Scheme A (under Tier-I) and Scheme C-II and G-II shall be 5% the scheme corpus or Rs. 10 lacs whichever is higher.</p>

- Proceeds arising out of exercise of put option, tenure or asset switch or trade of any asset before maturity can be invested in any of the permissible categories described above in the manner that at any given point of time the percentage of assets under that category

should not exceed the maximum limit prescribed for that category and also should not exceed the maximum limit prescribed for the sub-categories, if any. However, asset switch because of any RBI mandated Government debt switch would not be covered under this restriction.

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 and Trust and needs to be exercised with utmost due diligence. The Trust and Pension Fund would accordingly be responsible for investment decisions taken to invest the funds
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 and Pension Funds will ensure that the process of investment is accountable and transparent.
  - ii. It will be ensured that due diligence is carried out to assess risks associated with any particular asset before investment is made by the fund in that particular asset and also during the period over which it is held by the fund. The requirement of ratings as mandated in 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 regard, 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.
9. The following restrictions/filters/exposure norms would be applicable to reduce concentration risks. It would, however, be not applicable to Asset Class "A" (Scheme A) till its scheme corpus reaches to Rs.1 Crores.
  - a) NPS investments have been restricted to 5% of the 'paid up equity capital'\* of all the sponsor group companies or 5% of the total AUM under Equity exposure whichever is lower, in each respective scheme and 10% in the paid up equity capital of all the non-sponsor

group companies or 10% of the total AUM under Equity exposure whichever is lower, in each respective scheme.

\*'Paid up share capital': Paid up share capital means market value of paid up and subscribed equity capital.

b) NPS investments have been restricted to 5% of the 'net-worth'<sup>#</sup> 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.

<sup>#</sup>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 PF makes investments in Index funds/ETF/Debt MF, in addition to the investments in Equity/Debt instruments, the exposure limits under such Index funds/ETF/Debt MF should be considered for compliance of the prescribed Industry Concentration, Sponsor/ Non Sponsor group norms. ( For example, if on account of investment in Index Funds/ ETFs/Debt MFs , if any of the concentration limits are being breached then further investment should not be made in the respective Industry /non sponsor company/sponsor company).

10. In the interest of subscribers 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 50%, 100%, 100% and 5% respectively" is adhered to.

11. These Investment guidelines supersede the Investment Guidelines for NPS Schemes {Other than Govt. Sector (CG &SG), Corporate CG, NPS Lite and APY} prescribed by PFRDA vide Circular No. PFRDA/2015/21/PFM/08 dated 02.09.2015 and will be effective from 08.05.2017.

(Sumeet Kaur Kapoor)  
Chief General Manager

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