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विकास प्राधिकरण
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कुतुब संस्थागत क्षेत्र,
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PFRDA/2021/29/REG-PF/3

Date: 20th July, 2021

CIRCULAR

To

- CEOs of All Pension Funds

Dear Sir/Madam,

SUBJECT: Investment Guidelines-2021 for NPS Schemes {Other than Govt. Sector (CG &SG), Corporate CG, NPS Lite and APY} w.e.f. 20th July, 2021.

In supersession of the Investment Guidelines issued by the Authority vide Circular No. PFRDA/2017/18/PFM/2 dated 4th May, 2017 for NPS Schemes {Other than Govt. Sector (CG &SG), Corporate CG, NPS Lite and APY} applicable w.e.f. 8th May, 2017 and subsequent changes made by the Authority from time to time, it has been decided that Investment Guidelines for NPS Schemes {Other than Govt. Sector (CG &SG), Corporate CG, NPS Lite and APY} w.e.f. 20th July, 2021 shall be as under:

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 G-Sec in the concerned NPS Scheme of the Pension Fund at any point of time.</p>
C	(ii)	<p>(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).</p> <p>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.</p> <p>In case of securities where the principal is to be repaid in a single payout the maturity of the securities shall mean residual maturity.</p> <p>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.</p> <p>(b) Rupee Bonds issued by the International Bank for Reconstruction and Development, International Finance Corporation and Asian Development Bank.</p> <p>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.</p> <p>(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 published by them under law:</p>

		<p>(i) having declared profit in the immediately preceding three financial years;</p> <p>(ii) having net non-performing assets of not more than 4% of the net advances;</p> <p>Provided that Deposits with any one scheduled commercial bank including its subsidiaries should not be more than 10% of the portfolio of the scheme.</p> <p>(d) Units of Debt Schemes of Mutual Funds as regulated by Securities and Exchange Board of India:</p> <p>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.</p> <p>(e) Debt securities issued by Real Estate Investment Trusts regulated by the Securities and Exchange Board of India.</p> <p>(f) Debt securities issued by Infrastructure Investment Trusts regulated by the Securities and Exchange Board of India.</p> <p>Provided that investment under category (e) & (f) shall be made only in such securities which have 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.</p> <p>(g) The following infrastructure related debt instruments:</p> <p>(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.</p> <p>Further, this category shall also include securities issued by Indian Railways or any of the body corporates in which it has majority shareholding.</p>
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		<p>Under Management of Corporate Bond Portfolio of the respective schemes.</p> <p>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.</p> <p>Provided further that if the securities/entities have been rated by more than two rating agencies, the two lowest of all the ratings shall be considered.</p> <p>Provided further that Pension Fund can make investment in infrastructure companies rated not less than 'A' along with an Expected Loss Rating of 'EL1'.</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> <p>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</p>
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		<p>bonds is made to the extent of 10% of the overall corporate bond portfolio of the Pension Fund at any point of time.</p>
E	(iii)	<p><u>Equities and Related Investments:</u></p> <p>(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.</p> <p>(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.</p> <p>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.</p> <p>(c) Exchange Traded Funds (ETFs)/Index Funds regulated by the Securities and Exchange Board of India that replicate the portfolio of either BSE Sensex Index or NSE Nifty 50 Index.</p> <p>(d) ETFs issued by SEBI regulated Mutual Funds constructed specifically for disinvestment of shareholding of the Government of India in body corporates.</p> <p>(e) Exchange traded derivatives regulated by the Securities and Exchange Board of India having the underlying of any permissible listed stock or any of the permissible indices, with the sole purpose of hedging.</p> <p>Provided that the portfolio invested in derivatives in terms of contract value shall not be in excess of 5% of the total portfolio invested in sub-categories (a) to (d) above of category (iii).</p> <p>(f) Initial Public Offering (IPO), Follow on Public Offer (FPO) and Offer for Sale (OFS) of companies, approved by SEBI.</p>

A	(iv)	<p><u>Alternative Asset Class:</u></p> <p>The permissible securities for alternate asset class are as under:-</p> <p>(a) Commercial mortgage based Securities or Residential mortgage based securities.</p> <p>(b) Asset Backed Securities regulated by the Securities and Exchange Board of India.</p> <p>(c) Units issued by Real Estate Investment Trusts regulated by the Securities and Exchange Board of India.</p> <p>(d) Units of Infrastructure Investment Trusts regulated by the Securities and Exchange Board of India.</p> <p>(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.</p> <p>(f) Basel III Tier-1 bonds issued by scheduled commercial banks under RBI Guidelines:</p> <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 (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.</p> <p>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.</p>
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		<p>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.</p> <p>The investments in category (e) (i.e. AIF – Cat. I and Cat. II) is allowed subject to satisfaction of the following conditions:-</p> <p>(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.</p> <p>(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 Start-up entities, infrastructure entities or SMEs or venture capital or social welfare entities.</p> <p>(iii) Pension Fund shall invest only in those AIFs whose corpus is equal to or more than Rs.100 crores.</p> <p>(iv) The exposure to single AIF shall not exceed 10% of the AIF size.</p> <p>(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.</p> <p>(vi) The sponsors of the Alternative investment funds should not be the promoter in Pension Fund or the promoter group of the Pension Fund.</p> <p>(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.</p> <p>The investments in category (f) of Alternative Asset Class is allowed provided that:-</p>
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		<p>(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.</p> <p>(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.</p> <p>(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.</p> <p>(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.</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>Asset Class A shall not be available to NPS subscribers under Tier II account.</p>
<p>Short-term investment</p>	<p>(Applicable to i, ii iii and iv)</p>	<p><u>Short-term debt instruments and related investments :</u> (not exceeding a limit of 5% of the scheme corpus on temporary basis only)</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 rating agencies, the two lowest of the ratings shall be considered.</p>

		<p>Provided further that investment in this sub-category in Certificates of Deposit of up to one year duration issued by scheduled commercial banks, will require the bank to satisfy all conditions mentioned in category (ii) (c) above.</p> <p>(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.</p> <p>(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.</p> <p>(d) Further, the Pension Funds are allowed additional exposure of 5% of the corpus in the 'short term debt securities and related investments' in Scheme E-I, E-II, C-I and G-I so that the Pension Funds may deploy additional cash and cash equivalents during the highly volatile market conditions.</p> <p>Provided further that the limit with respect to investment in Money market instruments under Scheme A (under Tier-I) shall be 5% of the scheme corpus or Rs.10 lacs whichever is higher. For investment under Scheme C-II and G-II the limit shall be 10% of the corpus of the scheme, however, this exposure norm shall not be applicable with corpus below Rs.5 crore under the said scheme.</p>
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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 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. NPS Trust needs to 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 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 for being 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 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, not be applicable to Asset Class A (Scheme A) and Tier II Schemes till the scheme corpus reaches Rs.5 crore in each scheme:
 - 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 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 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.
10. In the interest of subscribers Central Recordkeeping Agencies (CRAs) would monitor that '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%, 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 mentioned 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.

Yours sincerely,



(A. G. Das)
Executive Director

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