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PFRDA/2021/28/REG-PF/2 **Date: 20th July, 2021**

CIRCULAR

To

- CEOs of All Pension Funds

Dear Sir/Madam,

SUBJECT: Investment Guidelines-2021 for NPS Schemes (Applicable to Scheme CG, Scheme SG, Corporate CG and NPS Lite schemes of NPS and Atal Pension Yojana) w.e.f. 20th July, 2021.

In supersession of the Investment Guidelines issued by the Authority vide Circular No. PFRDA/2015/16/PFM/7 dated 3rd June, 2015 for NPS Schemes (Applicable to Scheme CG, Scheme SG, Corporate CG and NPS Lite schemes of NPS and Atal Pension Yojana) applicable w.e.f. 10th June, 2015 and subsequent changes made by the Authority from time to time, it has been decided that Investment Guidelines for NPS Schemes (Applicable to Scheme CG, Scheme SG, Corporate CG and NPS Lite schemes of NPS and Atal Pension Yojana) w.e.f. 20th July, 2021 shall be as under:

Category	Investment Pattern	Percentage amount to be invested
(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-	**Upto 55%**

	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.	
(ii)	**<u>Debt Instruments and Related Investments:</u>** (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. 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	**Upto 45%**

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;

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.

(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)	**<u>Short-term Debt Instruments and Related Investments:</u>** (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. 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.	**Upto 10%**

(iv)	**<u>Equities and Related Investments:</u>** (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. (f) Initial Public Offering (IPO), Follow on Public Offer (FPO) and Offer for Sale (OFS) of companies, approved by SEBI.	**Upto 15%**
(v)	**<u>Asset Backed, Trust Structured and Miscellaneous Investments:</u>** (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.	**Upto 5%**

	(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) 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 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.

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 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 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 by the fund.

10. 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 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 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 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.

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.

Sd/-

(A. G. Das)
Executive Director

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