

EMPLOYEES' PROVIDENT FUND ORGANISATION
FINAL MINUTES OF THE
187th MEETING OF CENTRAL BOARD OF TRUSTEES (EPF)

Meeting: Central Board of Trustees, Employees' Provident Fund

Date: **04.07.2009**

Venue : Employees' Provident Fund Organisation,
Conference Hall, 3rd Floor,
Bhavishya Nidhi Bhawan,
Bhikaiji Cama Place, New Delhi-110 066.

The 187th meeting of the Central Board of Trustees (Employees' Provident Fund) was held under the Chairmanship of **Shri Mallikarjun Kharge**, Hon'ble Minister for Labour and Employment and Chairman, Central Board of Trustees (Employees' Provident Fund). Shri Harish Rawat, Hon'ble Minister of State for Labour & Employment was also present as Vice-chairman of the CBT, EPF.

The following members of the Board were present at the Meeting:

<p>Smt. Sudha Pillai, Secretary to Government of India, Ministry of Labour & Employment Government of India, New Delhi.</p> <p>Shri S. Krishnan, Special Secretary to the Government of India, Ministry of Labour & Employment Government of India, New Delhi.</p> <p>Shri S.K. Srivastava, Addl. Secretary to the Government of India, Social Security Division, Ministry of Labour & Employment Government of India, New Delhi.</p>	<p>Central Government Representatives.</p>
---	---

<p>Shri Rakesh Jain, JS & FA (L&E), Ministry of Labour & Employment Government of India, New Delhi.</p> <p>Dr. K.P. Krishnan, Joint Secretary (Capital Markets) Deptt. of Economic Affairs Ministry of Finance, Govt. of India.</p>	
<p>Shri A.D. Nagpal</p> <p>Shri B.N. Rai</p> <p>Shri Ashok Singh</p> <p>Shri Sankar Saha</p> <p>Shri D. L. Sachdev</p> <p>Shri W.R. Varada Rajan</p> <p>Shri M. Jagadiswara Rao (Representing Shri M.P. Patwardhan)</p>	<p>Employees' Representatives.</p>
<p>Shri Bhanwar Lal Principle Secretary, Labour & Employment, Govt. of Andhra Pradesh, Hyderabad.</p> <p>Shri Talleen Kumar, Secretary, Labour Department, Govt. of West Bengal.</p> <p>Shri Vishnu Sharma, Jt. Labour Commissioner, Govt. of Rajasthan.</p> <p>Shri T. Pradhan, OSD O/o Resident Commissioner,</p>	<p>State Government Representatives.</p>

Govt. of Orissa (Representing Principal Secretary, Govt. of Orissa). Shri D.N. Kaushik, Dy. Labour Commissioner, Faridabad, Govt. of Haryana. Shri P.K. Jain, Assistant Labour Commissioner, Govt. of Punjab. Shri Rakesh, Director, ESIC (Representing Principal Secretary, Govt. of Uttar Pradesh)	
Shri J.P. Chowdhury Shri Ravi Wig Shri Sharad S. Patil Shri P. Rajendran Shri Babu Lal Todi Shri Santosh Saraf Shri U.K. Dikshit Shri B.P. Pant Shri S.S. Rathi	Employers' Representatives.
Shri K. Chandramouli, Central Provident Fund Commissioner	Member Secretary.

The following members could not attend the meeting due to pre-occupation and were granted leave of absence:

Shri T. Prabhakar Rao, Secretary to the Govt. of Karnataka, Department of Labour. Shri R.M. Patel Secretary to the Govt. of Gujarat, Department of Labour.	State Govt. Representative
Dr. Ram Tarneja	Employers' Representatives.
Shri M.P. Patwardhan Shri Nirmal Ghosh Shri Girish Awasthi	Employees' Representatives.

The following members were absent from the meeting:-

Dr. G. Sanjeeva Reddy	Employees' Representative
Secretary (Labour) Assam. Secretary (Labour) Patna. Secretary(Labour) Madhya Pradesh. Secretary (Labour) Maharashtra. Secretary (Labour) Tamilnadu. Secretary(Labour) NCT of Delhi, Labour Department.	State Government Representatives.

The list of officers of the Employees' Provident Fund Organisation who attended the meeting is given at **Annexure – 'A'**.

At the outset, the CPFC welcomed the Chairman, the Vice-Chairman, Secretary (Labour & Employment), Special Secretary (Labour & Employment), representatives of ministries and all the members of the Board to the 187th meeting of the CBT, EPF. He mentioned that it was the first meeting organized under the Chairmanship of Hon'ble (LEM). He expected that EPFO through the CBT will gain guidance from the Chairman and will be able to function efficiently. He informed the House that the organisation is serving the nation for a long time. The spread of the organisation was gradually increasing every year and as on 31.03.2009, it was catering to nearly 5.3 lakh establishments and nearly 4.4 crore members. Having regard to its spread in the country, to modernize the offices and deliver better services to achieve satisfaction of the members was a challenge. The challenge has been taken up and a fresh impetus has been given by the Board for computerization of EPFO offices. The Computerisation project has made good progress. The claims settlement module developed by the NIC has completed its testing phase at Karnal and the claims are being processed on the computer. It was being gradually replicated at Wazirpur office at Delhi and at five more offices selected for testing and implementation. He assured that the time lines set for the project are being adhered to and by the year end all the offices would be in implementation stage. With these steps in the area of modernization of the organisation the following goals would be achieved :-

- Faster claims settlement by all offices and cut down in process delay.
- Drastic reduction in grievances relating to claims settlement.

He informed the Board that in the next meeting of the CBT a more detailed presentation on Computerization would be made. He then made a mention about the efforts of the organisation in the area of Human Resources by extending promotions to officers and staff and initiating recruitments against new creations. These efforts have a motivational value and would bring productivity and efficiency in the organisation.

Thereafter, the CPFC invited the members to introduce themselves to Hon'ble LEM and the new Chairman of the CBT. After brief introduction the members welcomed the new Chairman on behalf of their organisations and made their observations as follows.

Shri W.R. Varada Rajan on behalf of workers' side expressed happiness that a meeting had been called quickly. However, an opportunity should have been given by the Chairman to meet the representatives of Central Trade Unions. He expected more support from the Ministry of Labour & Employment to uphold the ethos of tripartism. Of late, there have been decisions taken by the Govt. without consulting the Central Trade Unions which was against the spirit of tripartism.

Shri Shankar Saha observed that there was a need to have discussion on the benefits flowing from Employees' Pension Scheme, 1995. There has been no enhancement in the quantum of pension for a long time. In view of the recent amendments made in the pension scheme the pensioners are going to suffer.

Shri A.D. Nagpal desired to have a status note on computerization taken up by the Organisation.

The Chairman intervened and while appreciating the comments he urged the members to first deliberate on the agenda placed before the Board and thereafter raise their issues if the time permits.

Shri B.N. Rai suggested that there was a need to have a "zero" hour in the CBT meeting before regular agenda is taken up. He had raised this in the previous meeting also. This was agreed to by the Chairman and supported by Vice-Chairman. It was desired to allocate half hour discussion to issues that the members may require bring to the attention of the House after the main agenda is over.

Thereafter, with the permission of the Chair, the CPFC introduced item No.2 first of the agenda. The Board thereafter took up items serially.

Item No.1: Action Taken Statement in respect of CBT Meetings held upto 22.02.2009.

The CPFC introduced the agenda item and read the action taken to the Board. The action taken report was noted by the Board and observations that were made by the members and were noted for further action and inclusion in the next action taken report, are as under :-

Sl. No. 1	Noted by the Board. However, it was desired by the members of the sub-committee that they may be given a chance to meet the experts to be appointed by the LEM. Secretary (L&E) observed that a time line for their appointment may also be spelt out. The suggestion of Shri Sharad Patil to take outside experts from Indian Banker Association was also accepted by the Board.
Sl. No. 2	Noted by the Board. However, it was suggested by Shri W.R. Varada Rajan that further comments from the members need not be awaited and meeting of the sub-committee may be called to arrive at final recommendation of the Committee.
Sl. No. 3	Noted by the Board. The CPFC further informed that the findings of the report will be placed in the next meeting.
Sl. No. 4	Noted by the Board.
Sl. No. 5	Noted by the Board. It was further informed by FA&CAO that while communicating the rate of interest for the year 2009-2009, the ministry of finance had suggested to keep a reserve with EPF accounts in case the rate of interest comes down. A copy of the letter received from Ministry of Finance will be circulated to all the members for information.
Sl. No. 6	Noted by the Board.

After taking note of the action taken, some of the members brought the following issues for the attention of the Chairman.

Shri A.D. Nagpal invited attention to a matter regarding grant of one increment to Group 'C' & 'D' employees of EPFO which was at Sl.No.6 of the action taken report of 186th CBT. The matter was very old and in a similar case the ESIC has granted the increments whereas it has been pending for long time in EPFO.

Shri W.R. Varada Rajan invited attention to the unilateral decision of the Govt. to amend the Employees' Pension Scheme, 1995. This was raised in the earlier meeting of the CBT and the then Chairman had assured that the apprehension of the employees' representatives will be considered. He further raised the following issues for further discussion in the Board.

- The Board had recommended the reduction of threshold limit from 20 to 10 workers for coverage and the matter is yet to take final shape.
- The Board had recommended in one of its earlier meetings to introduce a negative schedule in the EPF & MP Act to put at rest the issues relating to coverage of establishment.
- The delay in declaration of rate of interest had a deep impact on the field offices and they come under the burden of additional workload.

Shri Babulal Todi highlighted a matter of nomination made by a deceased subscriber in favour of his/her grand-sons. He observed that the scheme does not hold the nomination in favour of grand-son as valid and the office directs the legal heir to approach court of law for obtaining succession certificate. This was contrary to the judgment of Hon'ble Supreme Court of India and something should be done to amend the scheme so that the subscribers do not suffer.

Shri D.L. Sachdev supported the view of having a negative schedule in the Act to bring the contract employees into compliance fold. He highlighted the issue of non-coverage by the contractors of M/s. CWC which he has been raising with the concerned RPFC but no action could be taken so far.

Shri Shankar Saha highlighted the case of employees of M/s. FCI who have not been granted pension and are made to suffer at the hands of employer. He also highlighted the case of Bengal Chemicals against whom section 7A proceedings have been pending for more than seven years.

The Chairman appreciated the concerns of the member and observed that the members can refer individual matters separately and need not discuss in the Board. He thereafter requested the CPFC to take up the next item.

Item No. 2: Recommendation of rate of Interest to be credited to EPF members' accounts for the year 2009-2010.

The CPFC introduced the item and said that as per the proposal, 8.5% interest could be declared for the Financial Year 2009-10.

Shri M. Jagadiswara Rao said that in the past years 8.5% was declared even while deficits were present. Hence a higher interest rate should be declared when there is no deficit in the present year.

Shri J. P. Chowdhury said that it was not clear that accumulations in the Interest Suspense Account were carrying some surplus on account of interest to be credited to the subscribers for an extra year. A firm of Chartered Accountants should be engaged so as to ascertain such surpluses lying in the Interest Suspense Account, if any.

Shri Ashok Singh wanted to know the meaning and impact of 'cost of amortization'.

FA & CAO explained that this cost arose due to differential of the premium or discount paid or received over the face value of the securities purchased. This differential amount would get amortized over the tenure of the security.

Shri Singh further wanted to know the bifurcation of 'Damages' between penal damages under section 14 B as well as penal interest under section 7Q. FA and CAO replied that the figure was cumulative and had been taken as per the estimates submitted by the Regions.

The CPFC further explained that traditionally amounts pertaining to section 7Q and 14-B have been shown together and the break-up was available with the concerned Regional Offices only. As a whole, the amount has been taken as income as it should be.

The Hon'ble Vice Chairman suggested that a foot note may be attached to explain it from the next time onwards to avoid any confusion.

The Hon'ble Chairman opined that the same could be easily shown once the computerization project was implemented.

Shri Ashok Singh further remarked that a rate higher than 8.5% should only be recommended.

Shri W.R. Varada Rajan said that there had been successive reduction in the interest rate, which was 12% in the year 2000-01. He remarked that the investments of EPFO had been left to the mercy of the market forces that are ironically skewed in the favour of the borrower and not the lender. Citing from the economic survey, he said that the Govt. was keeping the interest rate at very low levels, which was detrimental to the interest of the EPF Subscribers. He also said that, in August 2004, the Prime

Minister had made a promise that the interest rate would not be reduced below 9.5%. Hence, the Govt. should be approached to find ways in order to keep the EPF interest rate at a minimum of 9.5%. The recommended rate of 8.5% was not acceptable.

Shri A.D. Nagpal said that there should be a structured debate on the Interest Suspense Account so as to ascertain the correct position therein. He further said that an audit of Maharashtra and West Bengal Regions indicated incorrect debits from the Interest Suspense Account. He supported the view that the interest suspense account should be thoroughly analysed by some specialised agency. He was also of the view that Hon'ble Prime Minister should be approached so that a minimum rate of 9.5% may be declared.

Shri B.N. Rai expressed his concern over the reduction of the interest rate. He said that in the recent past, committees were formed twice and they found out some surpluses so that 8.5% interest could be declared. This time also, an exercise should be undertaken to find out any surpluses in accounts like SRF or interest suspense account to enable offering higher interest rate. He also said that the Govt. should allow reinvestment in SDS while offering better rates on such deposits therein. He further remarked that as all the things are getting more expensive, it was not proper that interest rates were coming down.

Shri Shankar Saha said that the subscribers could not be expected to manage their money, and the same should be managed by EPFO to get highest possible interest rates. He also supported the view that a minimum of 9.5% rate should be declared.

Dr. K.P. Krishnan, JS (MoF) wanted to know the actual earnings vis-a-vis the estimates as per the last audited Balance Sheet and also whether the reinvestment rates presumed the old pattern to continue.

FA & CAO said that consistency was one of the foremost attributes of the accounting principles and the income and liability projections provided in the agenda item assiduously follow the same principle. He further invited attention of the Board

towards the fact that almost 80% of the earnings were fixed without any sort of estimation. Hence, it was not possible for the actual income to vary widely from the estimated income. He also said that the interest rate was a function of market dynamics, and under the present market conditions 8.5% was a very good return. As regard any surpluses, he said that the issue had already been thoroughly analysed by the 'Sub-committee to look into the Accounts of EPFO', which concluded that there were no surpluses in the Interest Suspense Account.

Shri D.L. Sachdev also supported the idea of meeting the Prime Minister on issue of raising the EPF interest rate. He further said that EPF interest rate affected about 15% to 16% population of the country and the Govt. should seriously consider the demands of the trade union for raising the interest rate. He also said that should a rate of 8.5% be declared, the trade unions will not be a party to such a decision.

Shri Santosh Saraf said that there should not be any burden on the corpus while declaring the interest rate. He further desired that FA & CAO should take immediate steps to reconcile the interest suspense account which is pending for long.

Shri P. Rajendran expressed his concern over the contradictions that on one hand we got only 8% in SDS and were compelled to invest in low yielding Govt. securities, on the other hand, we found it difficult to pay more than 8.5% to the subscribers. He said that the Govt. must allow more liberty, which may include investment in equities, to EPFO for earning higher returns in order to provide better returns to the subscribers.

The CPFC said that he was aware of the low returns on SDS balances and would certainly take up the issue with the concerned authorities.

The CPFC summed up that as per the estimates provided in the agenda item, 8.5% interest rate could only be recommended. He proposed that the interest rate for the financial year 2009-10 should be recommended by the Board accordingly. The Chairman agreed with the proposal.

The representatives of the Trade unions observed that if the rate at 8.5% was declared, the same should be done while recording their dissent only.

The item to recommend 8.5% interest rate to EPF subscribers for the financial year 2009-10 was accordingly passed by the Central Board of Trustees.

Item No. 3: Supplementary Budget for the financial year 2009-2010 towards the expenditure for providing Modular Furniture in respect of the Regional and Sub-Regional Offices functioning in Own Building of the Organisation.

The proposal contained in the memorandum was approved by the Board.

Item No.4: Pattern of Investment Notified by the Ministry of Finance on 14.08.2008.

The CPFC introduced the item and informed the Board that EPFO was presently following the investment pattern notified in 2003, while the Ministry of Finance has subsequently notified two more patterns in 2005 and 2008. He informed the members that a comparative study of the existing pattern and the pattern notified in 2008 was given in the agenda item. He also explained the Board about the salient features of the two patterns.

Secretary (L &E) said that the representative from the Finance Ministry, Dr K. P. Krishnan (Joint Secretary), was also present and requested him to listen carefully to the concerns of the Board Members regarding the newly notified investment pattern.

When Dr. K.P. Krishnan enquired about the concerns, Additional Secretary (L&E) explained that the major problem lay in shrinking the total allocation to the PSU/PSFI

category from 60% maximum in the 2003 pattern to a maximum of just 40% in the new pattern, especially when this category was according the maximum returns to EPFO. The Additional Secretary (L&E) further said that EPFO would be forced to go to the low yielding Government Securities, where the categorical allocation has been raised to 55%.

Shri W.R. Varada Rajan said that as EPFO had decided against investing in equities, taking away 15% allocation to equities as provided in the new pattern would remove any flexibility in the investment pattern.

The Chairman remarked that investment pattern to be followed by the EPFO should ensure the twin objectives of safety and returns.

FA &CAO said that the draft pattern issued by the Ministry of Finance before the newly notified pattern was discussed by the CBT and the recommendations were forwarded to the Finance Ministry, but the same were by and large ignored while finalising the Pattern. He informed the Board that an anomalous situation has arisen where some trusts following the CBDDT directives have adopted the 2008 pattern, while the exempted trusts under the purview of EPFO are still following 2003 pattern. He further said that it may not be prudent to accept the proposals of the Ministry of Finance in a piecemeal basis, rather the same should be accepted as a complete package. He also requested the Board members to look afresh at investments in equities, which would broaden the basket of investments for EPFO at little or no risk. He put forth the result of an internal analysis, which showed that the probability of loss decreased as the time one remain invested in the index increased and it also yielded a very attractive return in the long run.

Shri W.R. Varada Rajan said that the Board had earlier rejected the proposal to invest in equities. He observed that the analysis done by FA&CAO was not part of the agenda and could be taken up separately by the Board. He recommended that

investments in TDRs having tenure of less than one year should be provided, while the allocation to different categories should be as following:

G-Secs	:	40%
PSU/PSFI/PSB Category	:	60%
Money Market Instruments	:	10%

He further said that investments in POTDRs and NSCs should also be allowed, on which Additional Secretary (L&E) explained that the Finance Ministry has categorically said that these instruments are only for the benefit of individuals and not institutional investors like EPFO.

The Chairman wanted to know as to how the subscribers would be paid if their funds remained invested in equity market. FA and CAO clarified that all the withdrawals to the subscribers are settled out of the fresh contributions only and investments have not been touched so far for paying the dues to the subscribers.

Dr K.P. Krishnan explained to members that investing in index instead of equities and that too for a long period should result in healthy returns at almost negligible risk as alluded to by the FA & CAO. Investing in index would provide benefit of diversification and relatively underperforming scrips would automatically be moved out if an index based strategy was adopted. He said that the equity component was introduced in the pattern due to heavy demand from many superannuation funds only. He suggested that EPFO should begin with 3-5% investments in indices.

Secretary (L&E) agreed with the observations made by Dr. Krishnan, but observed that a detailed note on the same should have been presented before the Board members.

Additional Secretary (L&E) said that in order to enhance returns on investments, EPFO needed to look beyond the conventional set of investment avenues, and suggestion made by Dr. Krishnan merited attention.

The Members raised a point that a detailed presentation on the matter was needed before they could decide on the suggestions forwarded by Dr. Krishnan. Dr. Krishnan was requested to make a detailed presentation on this subject in the next meeting of the Central Board of Trustees, and he readily agreed for the same. It was decided that the agenda be first discussed in the Finance and Investment Committee of the Board and then brought to the CBT with the comments and recommendations.

The item was, therefore, deferred for the discussion in the next meeting of the CBT.

Item No.5: Changes in the Existing Guidelines.

After brief discussion, the proposal contained in the memorandum was approved by the Board.

Item No. 6: Declaration of Appellate Authorities to hear appeals on the orders by Recovery Officers.

The item was introduced by the CPFC. Shri A.D. Nagpal observed that the item proposed RPF Gr. I as one of the Appellate authorities whereas he has been notified as the Recovery Officer also. He suggested that the Addl. CPFC in the Zones may be declared Appellate Authorities. He invited attention to Section 21 of the Act, according to which the Central Govt. have to notify rules to provide for manner in which a copy of the certificate is to be certified for sending to the Recovery Officer. There was an apparent legal infirmity due to which there could be legal hassles in its implementation.

With above discussion, the agenda item was withdrawn for further examination.

Item No. 7: List of ineligible requests for waiver of damages rejected by Central Provident Fund Commissioner.

The agenda item was noted by the Board.

Item No. 8: Delegation of financial / administrative power by Central Provident Fund Commissioner.

The proposal for delegation for the purpose of reimbursement of medical expenses in relaxation of the CS (MA) Rules, contained in the memorandum was approved by the Board.

Item No. 9: Delegation of financial / administrative power by Central Provident Fund Commissioner.

The proposal for delegation for the purpose of allotment of residences under the Central Board of Employees (Allotment of Residence) Rules, 1972, contained in the memorandum was approved by the Board.

Item No. 10: Request for Waiver of damages under section 14B of the Act – M/s Tata Engg. And Locomotives Co. Ltd. (Earlier M/s. Noduron Founders Maharashtra Ltd.), MH/30511.

The request was rejected by the Board.

Item No. 11: Grant of exemption under section 17 of the EPF & MP Act, 1952 by Appropriate Government.

The proposal contained in the memorandum was unanimously approved by the Board.

The meeting ended with vote of thanks to the Chair.

Minutes Confirmed.

**(Mallikarjun Kharge)
Minister of Labour & Employment &
Chairman, Central Board of Trustees, EPF.**

Annexure – 'A'

List of the officers of Employees' Provident Fund Organisation, who attended/present in the 187th of the Central Board of Trustees (EPF) held on 04.07.2009.

1. Shri S.K. Verma, Director, Ministry of Labour & Employment.
2. Shri Vikas, Director, Ministry of Labour & Employment.
3. Shri Abhay Kumar Singh, FA & CAO.
4. Shri P. Sudhakar Babu, Addl. CPFC (Compliance).
5. Shri V.P. Ramaiah, Addl. CPFC (HR).
6. Shri Ajit Kulshrestha, Addl. CPFC (CSD).
7. Shri Rajesh Bansal, Addl. CPFC (Pension).
8. Shri B.K. Panda, Addl. CPFC(IS).
9. Col. P.K. Chaturvedi, Chief Engineer.
10. Shri R.K. Kukreja, RPFC (HRM).
11. Shri Shankar Pathak, Director (Recovery).
12. Shri K.V. Sarveswaran, RPFC (IWU).
13. Shri P.U. Kulkarni, RPFC (Pension).
14. Shri S. Deb, RPFC (Compliance).
15. Shri K.L. Goyal, RPFC (IMC).
16. Shri K.S. Rajan, RPFC (F&A).
17. Shri Chandramauli Chakraborty, RPFC (IS).
18. Shri V. Ranganath, RPFC (Investment).
19. Shri K.V. Ranganadhan, Dy. Director (Audit).
20. Shri Saurabh Jagati, RPFC (Exemption).
21. Shri Sanjay Bisht, RPFC (Conference).
22. Ms. Nidhi Singh, APFC (IMC).
23. Shri Brajesh Mishra, APFC (IMC).
24. Shri U.P. Singh, APFC (Recovery).
25. Shri Vishal Agarwal, APFC (Conference).
26. Shri J.C.Thukral, APFC (ASD).