

24

STANDING COMMITTEE ON LABOUR

(2020-21)

SEVENTEENTH LOK SABHA

MINISTRY OF LABOUR & EMPLOYMENT

**[Action taken by the Government on the Observations/
Recommendations of the Committee contained in their
Fifty-Seventh Report (Sixteenth Lok Sabha) on
'Guidelines, Monitoring, Rating and Regulatory System,
Status of Investment in Bonds and such Instruments
(example of Infrastructure Leasing & Financial Services
(IL&FS) by PF Funds, Pension Funds]**

TWENTY FOUR REPORT



LOK SABHA SECRETARIAT

NEW DELHI

July, 2021/Ashadha, 1943 (Saka)

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Rating and Regulatory System, Status of Investment in Bonds and
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Services (IL&FS) by PF Funds, Pension Funds]**

Presented to Lok Sabha on 22.07.2021

Laid in Rajya Sabha on 23.07.2021



LOK SABHA SECRETARIAT

NEW DELHI

July, 2021 /Ashadha, 1943 (Saka)

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**COMPOSITION OF THE STANDING COMMITTEE ON LABOUR
(2020-21)**

Shri Bhartruhari Mahtab - Chairperson

MEMBERS

LOK SABHA

2. Shri Subhash Chandra Baheria
3. Shri Pallab Lochan Das
4. Shri Pasunoori Dayakar
5. Shri Feroze Varun Gandhi
6. Shri Satish Kumar Gautam
7. Shri B.N. Bache Gowda
8. Dr. Umesh G. Jadhav
9. Shri Dharmendra Kumar Kashyap
10. Adv. Dean Kuriakose
11. Shri Sanjay Sadashivrao Mandlik
12. Shri Khalilur Rahaman
13. Shri D. Ravikumar
14. Shri Nayab Singh Saini
15. Shri Naba Kumar Sarania
16. Shri Ganesh Singh
17. Shri Bhola Singh
18. Shri K. Subbarayan
19. @ Vacant
20. # Vacant
21. \$ Vacant

RAJYA SABHA

22. Shri Dushyant Gautam
23. Shri Neeraj Dangi
24. Shri Oscar Fernandes
25. Shri Elamaram Kareem
26. ^ Shri Mahesh Jethmalani
27. Dr. Banda Prakash
28. * Shri Naresh Bansal
29. Ms. Dola Sen
30. Shri M. Shanmugam
31. Shri Vivek Thakur

SECRETARIAT

1. Shri T.G. Chandrasekhar - Joint Secretary
2. Shri D.R. Mohanty - Director
3. Shri Kulvinder Singh - Deputy Secretary

@ Vacancy occurred *vice* Shri P.K. Kunhalikutty resigned *w.e.f* 3rd February, 2021.

Shri John Barla ceased to be Member of the Committee *w.e.f* 07.07.2021 *vice* he was appointed as Union Minister.

\$ Dr. Virendra Kumar ceased to be Member of the Committee *w.e.f* 07.07.2021 *vice* he was appointed as Union Minister.

^ Nominated *w.e.f* 11th June, 2021 *vice* Dr. Raghunath Mohapatra expired.

* Nominated *w.e.f* 23rd December, 2020 *vice* Shri Rajaram retired.

INTRODUCTION

I, the Chairperson, Standing Committee on Labour (2020-21) having been authorized by the Committee do present on their behalf this Twenty Four Report on Action taken by the Government on the Observations/ Recommendations of the Committee contained in their Fifty-Seventh Report (Sixteenth Lok Sabha) on 'Guidelines, Monitoring, Rating and Regulatory System, Status of Investment in Bonds and such Instruments (example of Infrastructure Leasing & Financial Services (IL&FS) by PF Funds, Pension Funds' pertaining to the Ministry of Labour & Employment.

2. The Fifty-Seventh Report was presented to Lok Sabha and also laid in Rajya Sabha on 13th February, 2019. The Ministry of Labour & Employment furnished their replies on 10th June, 2019 indicating action taken on the recommendations contained in that Report. The Committee at their sitting held on 8th July, 2021 considered and adopted the Draft Report.

3. An analysis of the action taken by Government on the Observations/ Recommendations contained in the Fifty Seventh Report (Sixteenth Lok Sabha) of the Committee is given in Appendix-II.

4. For the facility of reference and convenience Recommendations/ Observations of the Committee have been printed in thick type in the body of the Report.

New Delhi;
20th July, 2021
29 Ashadha, 1943 (Saka)

BHARTRUHARI MAHTAB
CHAIRPERSON,
STANDING COMMITTEE ON LABOUR

CHAPTER-I

REPORT

This Report deals with the action taken by Government on the Observations/Recommendations of the Committee contained in their Fifty-Seventh Report (Sixteenth Lok Sabha) on 'Guidelines, Monitoring, Rating and Regulatory System, Status of Investment in Bonds and such Instruments (example of Infrastructure Leasing & Financial Services (IL&FS) by PF Funds, Pension Funds' relating to the Ministry of Labour & Employment.

2. The Fifty-Seventh Report was presented to Lok Sabha/ laid in Rajya Sabha on 13th February, 2019. It contained 04 Observations/ Recommendations. Replies of Government in respect of all the recommendations have been received and are categorized as under:-

- | | |
|---|--|
| (i) Recommendations/Observations which have been accepted by the Government –
Rec. Para Nos.- 15, 16, 20 and 25 | Total:04
Percentage:100 |
| (ii) Recommendations/Observations which the Committee do not desire to pursue in view of
the Government's reply – Rec. Para No.-
NIL. | Total:00
Percentage:00 |
| (iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration – Rec. Para No.- NIL. | Total:00
Percentage:00 |
| (iv) Recommendations/Observations in respect of which replies of the Government are interim in nature – Rec. Para No.- NIL. | Total:00
Percentage:00 |

3. The Committee desire that Action Taken Notes on the Observations/ Recommendations contained in Chapter-I may be furnished to them at the earliest.

4. The Committee will now deal with some of their earlier Observations/Recommendations which either require reiteration or merit further comments.

I. Safety and Returns on Investment of Employees' Provident Fund

(Recommendation Para Nos.15 and 16)

5. In their earlier Report, observing that the inherent principle of EPF is social security for the vulnerable working class of the society which implies risk-free investment of the Fund, the Committee opined that the EPFO in their capacity of being the custodian of the EPF had the onerous task of safeguarding as well as ensuring viable investment of the fund and should exercise due diligence and extreme caution, so as to ensure a fine balance between safety and security of this fund alongwith returns on investment. Further noting that 68% of total investments of EPF had been invested in Government Sector as on 31st March, 2018. The Committee expressed confidence that the remaining portion of the EPF would have been invested after a thorough deliberation process giving due weightage to the social security aspect for proper investment of the hard earned money of the worker.

6. In their Action Taken Note furnished to the Committee, the Ministry of Labour & Employment have stated as follows:-

“The provisions for investment of Funds are enshrined under Para 52 of the EPF Scheme 1952. The investment is made as per the pattern of investment notified by the Ministry of Finance, which is adopted and further notified by the Ministry of Labour & Employment, Government of India.

The investments in individual bonds/ securities are further regulated through investment guidelines which have been approved by Central Board of Trustees, EPF duly taking into account the twin objectives of safety and returns.

EPFO would however, continue to exercise extreme caution and complete due diligence in making investments in all the permitted categories of the pattern of investment.”

7. The Ministry further submitted as under:

- i. "All the monies of the fund are invested through the appointed Portfolio Managers strictly as per pattern of investment of Government of India and investment guidelines approved by the Central Board of Trustees, EPF. EPFO has laid down a procedure of deliberations and discussions in its Finance, Investment and Audit Committee (FIAC) followed by deliberation at its apex body Central Board of Trustees before

investments are allowed to be made in any approved category of the notified pattern of investments.

- ii. EPFO has also appointed following agencies to evaluate and audit investments made by EPFO.
 - a. Consultant: carries out regular performance evaluation and provides research reports.
 - b. External Concurrent Auditor (ECA): ECA carries out regular monitoring and conduct audit of the investment transactions as well as conducts overall monitoring of investments.
 - c. Custodian: Acts as the custodian of EPFO's investments and also monitors the timely receipt of interest and maturities of investments.
 - d. Regular monitoring and performance evaluation of Portfolio Managers is carried out with the assistance of the Consultant and the ECA. The reports of the performance evaluation are also submitted to the Finance, Investment and Audit Committee (FIAC) as well as the Central Board of Trustees, EPF.
- iii. EPFO would continue to exercise complete caution, due diligence as well as follow the laid down procedure for ensuring proper investment of EPFO's Corpus."

8. According to the Ministry, all the monies of the Employees' Provident Fund are invested through the appointed Portfolio Managers strictly as per the pattern of investment of Government of India and investment guidelines approved by the Central Board of Trustees, EPF. In order to have a proper evaluation and audit of the investments made, EPFO has appointed some agencies like a Consultant to carry out regular performance evaluation and provide research based reports; an External Concurrent Auditor (ECA) to conduct audit of the investment transactions; a Custodian to monitor the timely receipt of interest and maturities of investments. The Committee are of the considered opinion that the above measures initiated are in line with the Ministry's assurance that EPFO would continue to exercise complete caution, due diligence as

well as follow the laid down procedures for ensuring proper investments of the Corpus. The Committee desire that the steps taken be further strengthened and fortified so as to achieve the twin objectives of safety of and returns on the investment of the EPF.

II. Monitoring Mechanism

(Recommendation Para No. 20)

9. Expressing satisfaction over the Ministry's willingness to initiate remedial measures and undertake stringent checks before investing the provident fund, the Committee, in their earlier Report, had opined that strengthening the monitoring mechanism by exercising tighter control over the designated portfolio managers and ensuring external concurrent audit would insulate the fund from any bad investment as well as prevent the need to delve into the reserves to make good the losses arising out of such investments.

10. The Ministry, in their Action Taken Note, have submitted as under:

i. "Investments of EPFO are made as per the notified investment pattern of Government of India and investment guidelines approved by Central Board of Trustees, EPF.

ii. A consultant has been appointed to assist in the performance review of the investments.

iii. An external concurrent auditor (ECA) has been appointed to monitor & conduct audit of the investment transactions as well as for overall monitoring of investments. In order to make the process of review more stringent the Central Board, EPF in its 224th meeting held on 21.02.2019 has recommended for appointing another third party consultant in addition to their existing consultant so as to ensure proper due diligence & checks as well as assist in the performance review of the investments made."

11. The Committee appreciate that in order to make the process of review more stringent, the Central Board, EPF has recommended for appointment of a third party consultant in addition to the existing one. In view of the imperatives involved in establishing a stronger monitoring

mechanism, the Committee trust that the third party consultant should have been appointed by now so as to ensure a robust performance review of the investments made which in turn would assure safe and prudent investment of the corpus.

III. Credit Rating Agencies (CRAs)

(Recommendation Para No.25)

12. In their earlier Report, observing the need for substantial improvement in the process adopted by the Credit Rating Agencies (CRAs) for determining the credit rating of any financial institution, the Committee had recommended that the Ministry of Labour & Employment should take up the matter with the Ministry of Finance and other agencies concerned so as to put in place an effective monitoring mechanism and robust rating process by the CRAs for establishing confidence in EPFO to go for an investment which would be secure and guarantee decent returns.

13. In their Action Taken Note furnished to the Committee, the Ministry of Labour & Employment have stated as follows:

“EPFO makes its investment as per the notified investment pattern of the Government of India & the approved guidelines of the CBT. Both the pattern as well as the guidelines prescribes minimum ratings from at least two Credit Rating Agencies. Accordingly, EPFO invests relaying on the Credit Ratings of the bonds/ instruments. Therefore, it becomes important that CRAs have a robust Credit Rating Mechanism with proper due diligence and extra care. CRAs must also be vigilant against possibilities of default and take due care to reflect the same in their ratings. Regular monitoring and continuous evaluation/ review are a mandatory exercise which should be followed regularly and is the duty/ responsibility of the regulator who regulates these Credit Rating Agencies (CRA).

The Matter was taken up with the Ministry of Finance to make the process of Credit Rating more robust and accountable so that investments of social security organisations like EPFO are not put to any peril. Ministry of Finance state that SEBI CRA regulations and the Circulars issued thereunder, prescribe various guidelines/ requirements to strengthen the rating, monitoring and forewarning mechanism of CRAs. The major requirements/ guidelines in this regard are as under:-

Monitoring mechanism

- i. Every CRA shall, during the lifetime for securities rated by it, continuously monitor the rating of such securities, unless the rating is withdrawn.
- ii. CRAs are required to be proactive in early detection of defaults/ delays in making payments. In this regard, CRAs are required to

- track the servicing of debt obligations for each instrument rated by them, ISIN-wise and look for potential deterioration in financials which might lead to defaults/ delays, particularly before/ around the due date(s) for servicing of debt obligations.
- iii. CRAs shall monitor the Stock Exchange website(s) for disclosures made by issuers regarding interest/ principal repayments by them.
 - iv. CRAs shall interact with bankers, auditors and debenture trustees regarding the financial conduct of the issuer.
 - v. CRAs shall obtain a monthly No-Default Statement from the issuer, in a standardised prescribed format on the first working day of the next month.

Rating mechanism

- i. The Rating process of each CRA shall be disclosed on its website.
- ii. Every credit rating agency shall have professional rating committees, comprising adequately qualified and knowledgeable members. Further, all rating decisions shall be taken by the rating committee.
- iii. Every CRA shall, while rating a security, exercise due diligence in order to ensure that the rating given by the CRA is fair and appropriate.
- iv. CRAs are required to frame detailed criteria for rating different instruments and publicly disclose the same. Further, these criteria are required to be reviewed periodically and changes, if any, shall be reflected on the CRA's website.

Forewarning System

- i. CRAs shall carry out a review of ratings upon the occurrence of or announcement/ news of any material event, including financial results, merger/ demerger/ acquisition, significant decline in the share/bond prices of the issuer etc.
- ii. CRAs shall treat any sharp deviations in the bond spreads of debt instruments *vis-a-vis* relevant benchmark yield as a material event and review the ratings of such instruments, if warranted.
- iii. The press release regarding a rating action shall include a specific section on "Liquidity", highlighting parameters like liquid investments or cash balances, liquidity coverage ratio, adequacy of cash flows for servicing maturing debt obligation, etc".

14. The Committee are pleased to note that pursuant to their recommendation, the Ministry of Labour & Employment took up the matter with the Ministry of Finance to make the process of credit rating more robust and accountable. The Ministry of Finance in turn have stated that the SEBI, CRA regulations and also the circulars issued there under prescribe various guidelines/ requirements to strengthen the rating monitoring and forewarning mechanism of CRAs. A perusal of such guidelines/circulars has revealed that various procedures have been

prescribed for the CRAs for effective monitoring, rating and forewarning of the credit rating. According to the Ministry of Labour & Employment, regular monitoring and continuous evaluation/review are mandatory exercise and it is the duty/responsibility of the Regulator to do that. The Committee recommend that the Ministry of Labour & Employment should also keep a watch on the functioning of the CRAs to find out their compliance with the guidelines/requirements issued and in case of any deviations, the matter be brought to the notice of the Regulator for requisite corrective actions so that investments of social security organisations like EPFO are not put to any peril.

New Delhi;
20th July, 2021
29 Ashadha, 1943 (Saka)

BHARTRUHARI MAHTAB
CHAIRPERSON,
STANDING COMMITTEE ON LABOUR

STANDING COMMITTEE ON LABOUR
(2020-21)

Minutes of the Nineteenth Sitting of the Committee

The Committee sat on Thursday, the 08th July, 2021 from 1100 hrs. to 1315 hrs. in Committee Room No. '3', Parliament House Annexe, Extension Building, New Delhi.

PRESENT

Shri Bhartruhari Mahtab, Chairperson

Lok Sabha

2. Shri Subhash Chandra Baheria
3. Shri Pallab Lochan Das
4. Shri Dayakar Pasunoori
5. Shri Satish Kumar Gautam
6. Dr. Umesh G. Jadhav
7. Shri Naba Kumar Sarania
8. Shri Nayab Singh Saini
9. Shri Bhola Singh

Rajya Sabha

10. Dr. Banda Prakash
11. Ms. Dola Sen
12. Shri M. Shanmugam
13. Shri Neeraj Dangi
14. Shri Dushyant Gautam
15. Shri Vivek Thakur
16. Shri Naresh Bansal

SECRETARIAT

1. Shri T.G. Chandrasekhar - Joint Secretary
2. Shri D.R. Mohanty - Director
3. Shri Sanjay Sethi - Additional Director
4. Shri Kulvinder Singh - Deputy Secretary
5. Shri Sidhartha Gautam Kamidi- Deputy Secretary

2. At the outset, the Chairperson welcomed the Members to the sitting of the Committee, convened for consideration and adoption of the following Draft Reports on:

(i) XX XX XX XX.

(ii) XX XX XX XX.

(iii) XX XX XX XX.

(iv) XX XX XX XX.

(v) Action Taken by the Government on the Observations/ Recommendations of the Committee contained in their 57th Report (Sixteenth Lok Sabha) on the Subject 'Guidelines, Monitoring, Rating and Regulatory System, Status of Investment in Bonds and such Instruments - [example of Infrastructure Leasing and Financial Services (IL&FS)] by PF Funds, Pension Funds'.

3. Giving an overview of the important Observations/ Recommendations contained in the Draft Reports, the Chairperson solicited the views/ suggestions of the Members.

4. The Committee, then, took up the Draft Reports one by one for consideration and after some discussions adopted them.

5. The Committee then authorized the Chairperson to finalise the Reports XXXXX and present the Reports to Parliament in the ensuing Monsoon Session.

6. XX XX XX XX.

The witnesses then withdrew.

[A copy of the verbatim proceedings was kept on record]

The Committee then adjourned.

XX Does not pertain to this Report.

(Vide Para No. 3 of the Introduction)

ANALYSIS OF ACTION TAKEN BY THE GOVERNMENT ON OBSERVATIONS/ RECOMMENDATIONS CONTAINED IN THEIR FIFTY-SEVENTH REPORT OF THE STANDING COMMITTEE ON LABOUR (SIXTEENTH LOK SABHA)

	Total	Percentage
I. Total number of Recommendations	04	100%
II. Recommendations/Observations which have been accepted by the Government – Rec. Para Nos.- 15, 16, 20 and 25	04	100%
III. Recommendations/Observations which the Committee do not desire to pursue in view of the Government’s reply – Rec. Para No.- NIL.	00	00%
IV Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration – Rec. Para No.- NIL.	00	00%
V Recommendations/Observations in respect of which replies of the Government are interim in nature – Rec. Para No.- NIL.	00	00%
		100%