Guidelines for Investment of Surplus Funds by Public Sector Enterprises

The Joint Parliamentary Committee [JPC] which enquired into the irregularities in securities transactions had adversely commented on certain investment decisions made by certain PSEs. The Committee had desired that Government should lay down clear guidelines governing investment of surplus funds by Public Sector Enterprises to avoid recurrence of instances of misuse of funds.

Principles concerning investments

2. The Government have considered the observations of the Committee. The undersigned is directed to advise that PSEs should observe the following guidelines in regard to investment of surplus funds:

i. Investments should be made only in instruments with maximum safety.
ii. There should be no element of speculation on the yield obtaining from the investment.
iii. There should be a proper commercial appreciation before any investment decision of surplus funds is taken. The surplus availability may be worked out for a period of minimum one year at any point of time.
iv. Funds should not be invested by the PSE at a particular rate of interest for a particular period of time while the PSE is resorting to borrowing at an equal or higher rate of interest for its requirements for the same period of time.
v. Investment decision should be based on sound commercial judgement. The availability should be worked out based on cash flow estimates taking into account working capital requirements, replacement of assets and other foreseeable demands.
vi. The remaining period of maturity of any instrument of investment should not exceed one year from the date of investment where the investment is made in an instrument already issued. Where investment is made in an instrument newly issued, the final maturity of the instrument should not exceed one year. However, only in the case of term deposits with banks, it can be up to three years.

Eligible Investments

3. Investments may be made in one or more of the following instruments, subject to principles outlined in the previous paragraph:

i. Term deposits with any scheduled commercial bank [i.e., banks incorporated in India] and with a paid up capital of atleast Rs. 100 Crores, fulfilling the capital adequacy norms as prescribed by the R.B.I. from time to time. These adequacy norms should be reflected in the last published balance sheet.
ii. Instruments which have been rated by an established Credit Rating Agency and have been accorded the highest credit rating signifying highest safety e.g. certificates of deposits, deposits schemes or similar instruments issued by scheduled commercial banks/term lending institutions including their subsidiaries, as well as commercial paper of corporates.

iii. Inter-corporate loans are permissible to be lent only to Central PSEs, which have obtained highest credit rating awarded by one of the established Credit Rating Agencies for borrowings for the corresponding period.

iv. Any debt instrument, which has obtained highest credit rating from an established Credit Rating Agency.

4. Authority Competent to Invest

i. Decisions on investment of surplus funds shall be taken by the Public Sector PSU Board. However, decisions involving investing short-term surplus funds up to one year maturity may be delegated up to prescribed limits of investment, to a designated group of Director[s], which should invariably include CMD & Director (Finance)/Head of Finance internally. Where such delegation is made, the delegation order should spell out the levels of approval and the powers of each official, which should be strictly observed. Where such delegation is exercised, there should be a proper system of automatic internal reporting to the Board at its next meeting in all cases.

ii. PSEs should ensure that all investment decisions are in accordance with the regulations as per the Company Law & Government of India instructions and any other relevant legislation and rules as applicable. Any investment already made, which is not in conformity with the above guidelines should not be renewed after maturity.

5. Every PSE should arrange to place the above guidelines at its next Board Meeting and evolve a suitable procedure to cover investment of surplus funds to be followed by company.

6. Necessary instructions may be issued for strict compliance of these guidelines.

7. These guidelines issue in consultation with the Ministry of Finance.

(DPE O.M. No. 4/6/94-Fin. dated 14/12/1994)

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