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F. No. DPE/18(1)/2012-Fin
Government of India
Ministry of Heavy Industries & Public Enterprises
Department of Public Enterprises

Public Enterprises Bhavan
Block No. 14, CGO Complex
Lodhi Road New Delhi-110003

Dated: 08.05.2017

OFFICE MEMORANDUM

Sub: Guideline on Investment of Surplus Funds by the CPSEs-regarding

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The undersigned is directed to enclose herewith a copy of the "Guidelines on Investment of Surplus Funds by the CPSEs" for taking necessary action to ensure compliance of these guidelines. This is in supersession of all Guidelines on Investment of Surplus Funds by the CPSEs issued by Department of Public Enterprises from time to time.

2. This issues with the approval of Minister (HI & PE).

Kalyani Mishra

(Kalyani Mishra)
Director
Tel: 24362061

Wmnd
14/5/17

Encl. : As above

1. Secretaries of administrative Ministries / Departments of CPSEs.
2. Chief Executive of CPESs
3. Department of Investment & Public Asset Management w.r.t. their OM. No. 7(13)/2016-Policy dated 3rd April, 2017

Subject:- Guidelines on Investment of Surplus Funds by the CPSEs-regarding.

Guidelines on investment of surplus funds essentially deal with the management of surplus funds with CPSEs to prevent the funds from lying idle, and instead, generate returns.

2. The details of Guidelines on Investment of Surplus Funds by the CPSEs issued by Department of Public Enterprises from time to time are **Annexed**. In supersession of all these Guidelines and other Guidelines, if any, issued by any other Ministries/Departments on investment of surplus funds by CPSEs earlier, the Guidelines on Investment of Surplus Funds by the CPSEs are issued as follows:

Applicability

3. These Guidelines shall be applicable to all CPSEs. The definition of CPSE for the purpose of these guidelines shall be same as defined vide O.M. No. PP/14(0005)/2016 dated 20.06.2016 regarding Capital Restructuring of Central Public Sector Enterprises (CPSEs) as reproduced below:

"All corporate bodies where Government of India and/or Government controlled one or more body corporate have controlling interest.

- i) Body corporate shall include body incorporated under the provisions of the Companies Act, 1956 or the Companies Act, 2013, or under any other Act as may be applicable except Limited Liability Partnership.
- ii). Controlling interest means control over the composition of the Board of Directors; or exercise or control over more than one-half of the total share capital or able to exercise more than 50 per cent voting rights in the meeting of the members, Board of Directors or any other similar executive structure, e.g., Governing Body, Executive Committee, etc.
- iii) A body corporate in which Government of India and/ or CPSEs including their subsidiaries controls the composition of the Board of Directors; or exercises or controls more than one-half of the total share capital shall be deemed to be a body controlled by Government of India".

3.1 However, these guidelines will not apply to banks and insurance companies.

Scope

4. These guidelines shall apply to surplus funds available with CPSEs after meeting the business requirements including operating expenses, payment of taxes, working capital, debt servicing, capital expenditure, replacement/revamping/renewal of business assets, etc. Cash surplus of temporary nature including those available for a few days or weeks would also come within the purview of these guidelines. However, these guidelines shall not apply to investments by CPSEs in their core business activities or investment in equity under disinvestment programme of the Govt. and investments in subsidiaries/joint ventures by way of equity capital.

5. CPSEs shall also ensure compliance with the guidelines on "Capital Restructuring of CPSEs" issued by Department of Public Enterprises on 20.06.2016 before investing the surplus funds available with them in eligible instruments.

6. These guidelines shall apply to CPSEs subject to the following:

- i. If any statutory guidelines have been issued by the sector regulatory authority like RBI, SEBI, IRDA, etc., on investment of surplus funds, these guidelines will be applicable to CPSEs only to the extent these are not contrary to the guidelines laid down by such regulatory authority.
- ii. If surplus funds have been earmarked for any purpose under any scheme framed under applicable laws/regulations, or Court directions, these guidelines will be applicable to the extent these are not contrary to the provisions of the scheme made under such laws/regulations or Court directives.
- iii. These guidelines will not apply to investment of surplus funds kept outside India by CPSEs or their overseas subsidiaries for normal business purposes in compliance with applicable Foreign Exchange Management Act, 1999 (FEMA) regulations and the local applicable laws.
- iv. The CPSEs shall also comply with Section 186 of the Companies Act, 2013.

Principles of investment of surplus funds:

7. CPSEs shall invest their surplus funds as per the following broad principles:

- i. Investment shall be made in instruments ensuring the safety of funds.
- ii. There shall be no speculation on the yield obtaining from the investment. It shall be known at the time of making the investment except for investment in debt mutual funds. However, in case of investment in marketable debt-instruments, (viz., mutual fund debt instruments, Government securities and T bills) there is a risk that final yield may differ from yield estimated at the time of investment due to movement in prices of the security, if such debt-instruments are sold due to unforeseen circumstances before final maturity date (i.e., they are not held to maturity). Such investment will not be treated as having speculative yield. Similarly, in case of premature encashment of bank term deposits due to unforeseen exigencies, the difference between fixed yield at the time of investment and actual yield at premature payment will not be speculative yield.
- iii. Since investment in debt schemes of mutual funds are subject to market risks, the track-record of the scheme shall be taken into account for taking investment decisions.
- iv. There shall be a proper commercial appreciation and due diligence before any investment decision of surplus funds is taken.
- v. The forecast of surplus availability may be worked out normally for a period of one year at any point of time so as to deploy available funds on longer term basis at better yields. This forecasting exercise shall ideally be done every month or quarter.
- vi. In order to utilize the surplus funds effectively, CPSE may also prepare best estimate of the periods for which surplus funds would be available to facilitate investment decisions for such periods including on a day-to-day basis.
- vii. Funds shall normally not be invested by a CPSE at a particular rate of interest for a particular period of time while the CPSE is resorting to borrowing at an equal or higher rate of interest for its requirements for the same period. However, CPSEs may take decisions on all matters relating to short term cash management, as they would be the best judge of asset-liability mismatch in the short run.
- viii. CPSEs shall put in place a centralized system of liquidity management for optimum utilization of liquidity for business operation.

Eligible Investments

8. CPSEs shall invest their surplus funds in one or more of the following instruments, subject to principles outlined above:

- i. Treasury bills and Government of India securities.
- ii. Term deposits with any scheduled commercial bank incorporated in India and with a net worth (i.e. the paid up capital plus free reserves of the bank) of at least Rs.500 Crore, fulfilling the capital adequacy norms as prescribed by the Reserve Bank of India (RBI) from time to time. Capital adequacy and net worth of Banks may be assessed on the basis of their Annual Accounts (audited) or as available on the website of RBI, whichever is the latest. While investing, CPSEs shall ensure that minimum 60% of funds placed in bank term deposits are placed with public sector banks. Further, CPSEs may obtain competitive quotations from Banks.
- iii. Instruments issued by scheduled commercial banks incorporated in India/all India term lending and refinancing institutions including their subsidiaries e. g. certificates of deposits, deposits schemes, commercial paper or similar instruments, which have been rated by any two Credit Rating Agencies, registered with SEBI and have been accorded the highest safety credit rating.
- iv. Loans/Deposits with CPSEs (including those under inter-corporate borrowing programme) subject to availability of highest credit rating from any Credit Rating Agency registered with SEBI for borrowing for the corresponding period.
- v. Investment in collateralized borrowing and lending obligations (CBLOs) where Clearing Corporation of India Ltd (CCIL) acts as counterparty.
- vi. In mutual funds subject to the following conditions:
 - a) Only Maharatna, Navratna and Miniratna CPSEs are permitted to invest in debt based schemes of SEBI regulated public sector mutual funds.
 - b) Portfolio Management Schemes of any Asset Management Company/or any other entity will not be mutual funds for this purpose.
 - c) Investment in mutual funds shall not exceed 30% of the available surplus funds of the concerned CPSE.
 - d) Public Sector Mutual Fund means the Mutual Funds registered with and regulated by SEBI where the Government of India, its financial institutions and public sector banks holds/hold individually or collectively more than 50% of equity/shares in the Asset Management Company of that Mutual Fund.
 - e) The mutual fund debt scheme should have been accorded highest mutual fund rating by any two of the Credit Rating Agencies registered with SEBI.
 - f) The mutual fund debt scheme should have corpus amounting to at least Rs.1000 Crore for the scheme at the time of investment. The corpus may be reckoned from the latest published information at the time of investment.
 - g) The Board of Directors of the CPSEs should decide the guidelines, procedures and management control systems for investment in such mutual funds and keep the Administrative Ministry informed through the Financial Adviser.
- vii. Any other debt instrument (including commercial paper) of public sector entities, subject to highest credit rating from any two rating agencies approved by SEBI.

Maturity Period of Investment

9. The period of maturity, including cases of residual maturity, of any instrument of investment shall not exceed one year from the date of investment. However, in the case of term deposits with banks and GOI securities, it may be up to three years from the date of investment.

Competent Authority for Investment and Reporting

10. Decisions on investment of surplus funds shall be taken by the Board of CPSE. However, Board may delegate powers regarding investment of short-term surplus funds up to one year maturity to a designated group of Director[s], which should invariably include CMD/MD and Director (Finance) of the CPSE concerned upto such financial limits as the Board may decide.

11. In case of Maharatna/Navratana CPSEs, decisions regarding investment of short-term surplus funds up to one year maturity may be delegated to Director (Finance) up to prescribed limits of investment as may be decided by the Board provided that (i) the proposals are examined and put up by an internal investment committee and (ii) guidelines, systems and proper procedures are laid down with the approval of Board. All such investment should be reported to CMD at least on a fortnightly basis.

12. Where such delegation is made, the delegation order should spell out criteria for selection of party, party exposure limits, etc., which should be strictly observed. Further, there should be a proper system of reporting to the Board at least on a quarterly basis.

13. An annual report on surplus funds invested in different instruments and the yield thereon may be placed before the Board.

14. The projected surplus availability for the ensuring year shall be informed to the Administrative Ministry at the beginning of financial year.

General

15. CPSEs shall ensure that all investment decisions are in accordance with the regulations as per the Company Law and Government of India instructions and any other relevant legislation and rules as applicable. Any investment already made, which is not in conformity with these guidelines should not be renewed after maturity/or at the earliest opportunity as may be decided by the Board of CPSE.

16. The Board of every CPSE shall arrange to formulate suitable procedure and management control systems for investment of surplus funds to be followed by the company. Boards of CPSEs may also lay down guidelines, procedures and systems for estimation of surplus funds and investment of these funds keeping in view the above guidelines and giving due consideration to safety of funds, risk on yield, requirement of liquidity and applicable laws.

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17. The operating instructions are to be formulated keeping in view their suitability for making financial investments.

18. No agent/broker etc. in any form whatsoever shall be involved on either side. However, for secondary market investment in government securities and treasury bills, invitation of quote/s from a minimum of three primary dealers registered with RBI may be obtained.

This issues in consultation with the Department of Investment and Public Asset Management (DIPAM), Ministry of Finance and has the approval of Ministry of Finance communicated to DPE vide O.M No. 7/13/2016-Policy dated 3rd April, 2017.

Details of Guidelines on Investment of Surplus Funds by the Central Public Sector Enterprises (CPSEs) issued by Department of Public Enterprises from time to time:

Sl. No.	OM Nos.	Dated
1.	DPE /14(19)/90-Fin.	3 rd January 1992
2.	DPE/4/3/92-Fin.	27 th June 1994
3.	DPE/4(6)/94-Fin.	14 th December 1994
4.	DPE/4(6)/94-Fin.	1 st November 1995
5.	DPE/4(6)/94-Fin.	11 th March 1996
6.	DPE/4(6)/94-Fin.	2 nd July 1996
7.	DPE/4(6)/94-Fin.	14 th February 1997
8.	DPE/4(6)/94-Fin. G-XVII	25 th November 1999
9.	DPE/4(6)/1994-Fin.	29 th September 2005
10.	DPE/11/47/2006-Fin.	31 st August 2007
11.	DPE/11/47/2006-Fin.	4 th December 2007
12.	DPE/11/47/2006-Fin.	11 th April 2008
13.	DPE/11/47/2006-Fin.	15 th April 2008
14.	DPE/11/47/2006-Fin.	14 th August 2008
15.	DPE/18(1)/08-Fin.	15 th December 2008
16.	DPE/11(15)/08-Fin.	12 th January 2009
17.	DPE/18(15)/08-Fin.	24 th February 2009
18.	DPE/14(24)/2011-Fin.	23 rd April, 2012
19.	DPE/18(1)/08-Fin.	13 th August 2012