

PFRDA/2023/31/REG-PF/02

Date: 16th November, 2023

To

- CEOs of All Pension Funds & NPS Trust

SUBJECT: Addendum to the Valuation Guidelines for securities held under NPS issued vide circular no. PFRDA/2019/23/REG-PF/4 dated 21st November 2019

- These guidelines are being issued in exercise of powers of the Authority under sub-clause (b) of sub-section (2) of Section 14 read with Section 23 of the PFRDA Act, 2013 and sub-regulation (1) of Regulation 14 of PFRDA (Pension Fund) Regulations, 2015 as amended from time to time.
- The below mentioned guidelines is being issued as an addendum to circular no. PFRDA/2019/23/REG-PF/4 dated 21st November 2019.
- These guidelines will supersede the PFRDA (Identification, Income Recognition and Provisioning of NPA) Guidance Note 2013 as valuation of securities under NPS are being undertaken on the principles of fair valuation and classification of debt securities (other than government securities) under NPS stands revised as detailed hereunder.
- These guidelines shall also substitute the consequential changes/revisions in provisions of relevant guidelines/circulars/directions issued by the Authority.
- These guidelines shall be effective from the date of its issuance.

Addendum to Valuation Guidelines for securities held under NPS

Classification of Debt Securities (other than government securities) held under NPS:

- Investment Grade – debt security rated upto BBB- (long term rating) or upto A3 (short term rating) by SEBI registered Credit Rating Agency
- Below Investment Grade – debt security rated below BBB- (long term rating) or below A3 (short term rating) by SEBI registered Credit Rating Agency
- Default – debt security shall be classified as “Default” if the interest and / or principal amount has not been received, on the day such amount was due or when such security has been downgraded to “Default” grade by a Credit Rating Agencies (CRAs). In this respect, Pension Funds shall promptly inform to the valuation agencies and the CRAs, any instance of non-receipt of payment of interest and / or principal amount (part or full) in any security



Valuation (as per guidelines) and Accounting

- (i) Investment Grade – as per PFRDA (Preparation of Financial Statements and Auditor's Report of Schemes under NPS) Guidelines 2012
- (ii) Below Investment Grade – on the date of classification;
 - a) indicative hair cut (as per valuation guidelines) shall be applied to the principal amount
 - b) indicative hair cut (as per valuation guidelines) shall be applied to any interest accrued on such debt security
 - c) interest accrual to be continued with the applicable haircut

On being re-classified as Investment Grade, as per PFRDA (Preparation of Financial Statements and Auditor's Report of Schemes under NPS) Guidelines 2012

- (iii) Default – on the date of classification;
 - a) indicative hair cut (as per valuation guidelines) shall be applied to the principal amount
 - b) indicative hair cut (as per valuation guidelines) shall be applied to any interest accrued on such debt security
 - c) interest accrual to be discontinued

However, for monitoring purposes, Pension Fund shall continue to calculate the interest accrued and due on the debt security separately through the system as a mirror account but should not be accounted for in the books of account of scheme.

Interest on such debt security is to be recognized and booked as income only when it is actually received (i.e. on cash basis).

Where the date of redemption of a debt security has lapsed, the amount not redeemed shall be shown as 'Sundry Debtors' (i.e. Redemption Receivable on Investment classified as 'default') and not as investment, provided that where an investment is redeemable by installments, it will be shown as an investment until all installments have become overdue. However, accounting entries should be passed for making provisions against such debt securities shown as 'Sundry Debtors' to reflect the realizable value of security in terms of the valuation guidelines.

Receipt of amounts from debt issuers

- (i) Investment Grade – as per PFRDA (Preparation of Financial Statements and Auditor's Report of Schemes under NPS) Guidelines 2012
- (ii) Below Investment Grade – on the date of receipt;
 - a) to be adjusted 1st towards outstanding interest
 - b) balance amount, if any, to be adjusted towards interest amount accounted as haircut

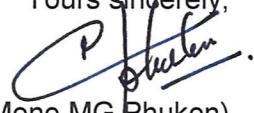
- c) surplus, if any, to be adjusted towards outstanding principal and then towards principal amount accounted as haircut.
- (iii) Default - on the date of receipt;
 - a) Before due date of redemption of debt security
 - to be adjusted 1st towards outstanding interest and then towards interest amount accounted as haircut
 - balance amount, if any, to be adjusted towards outstanding principal and then towards principal amount accounted as haircut.
 - b) After due date of redemption of debt security
 - to be adjusted against outstanding amount i.e Sundry Debtors and corresponding reversal of provision held against such debt security.
 - balance amount, if any to be adjusted towards interest income

Disclosures by Pension Funds in their monthly portfolio details

- a) Security-wise disclosures of debt securities classified as 'Below Investment Grade' and 'Default' in the monthly scheme portfolio details hosted on their website. In the disclosed list of investments an asterisk mark shall be given against such securities.
- b) The total amount due (principal + interest) against the debt securities classified as 'Below Investment Grade' and 'Default' shall be disclosed scheme wise and its proportion to the respective scheme assets under management (AUM).
- c) The total amount of haircut (principal + interest) taken against the debt securities classified as 'Below Investment Grade' and 'Default' shall be disclosed scheme wise and its proportion to the respective scheme assets under management (AUM).

Identification and treatment of 'loss assets':

A 'loss asset' is one which is deemed as un-recoverable or its value has been diminished and has been identified by the Pension Fund or scheme auditors as such. On classifying such investments as loss asset, the asset should be written off by the Pension Fund after obtaining approval from its Board of Directors or its Investment Committee (subject to report to the Board of Directors). For any amounts received on 'loss asset', it shall be adjusted against the written off amount of such asset.

Yours sincerely,

 (Mono MG Phukon)
 Chief General Manager