PF DEPARTMENT REFUSES TO INVEST FUNDS IN DEBT MKT

NEW DELHI: The Employees Provident Fund (EPF) on Thursday rejected a proposal to invest funds in debt instruments such as rupee bonds.

Sometime last month, the government began tentatively exploring the possibility of convincing the Central Board of Trustees of EPF to invest in private bonds and mutual funds in the equity market to ensure better returns on investments.

The decision to soften up EPF on the debt market came after CBT flatly rejected the option to invest 5% of its corpus in the capital markets. The proposal to invest in private bonds is being posited as a viable option for investment on the contention that it would insulate, to some extent, from the constant upheavals in the stock markets.

In November-end, the Sensex lost 678 points (3.52%), the third biggest drop in a single day. and it is this yo-yo-ing that trade unions have pointed to time and again as a deterrent to investment of funds. Against this background, a meeting of CBT, chaired by Union labour minister Oscar Fernandes, turned down the proposal to park funds in the debt market citing safety and security factors in the investment pattern.

Private bonds, as opposed to government bonds, offer a higher interest rate but also spell a higher risk. Mutual funds usually give assured returns, on shorter term investments particularly, of anywhere between 7-10% on the conservative side.

Despite this, Citu and CBT member Varadharajan said, "We do not think that this proposal is a safe option. (Even if the money is invested in blue-chip stocks) it is still not safe. The trust factor is certainly a crucial and important thing to be taken into consideration."

Thursday's meeting was to also to discuss multiple fund managers for the EPF corpus. State Bank of India is currently the only bank doing fund management. However, CBT put off the decision for now, asking instead a three-member panel to work on the guidelines for fund management.