Standard Committee Report Summary

The Pension Fund Regulatory and Development Authority Bill, 2007

- The Standing Committee on Finance submitted its 21st Report on 'The Pension Fund Regulatory and Development Authority Bill, 2005' on July 25, 2005. The Chairperson was Maj. Gen (Retd.) B.C. Khanduri.
- The Committee approved the Bill "for enactment subject to the modifications/amendments/recommendations" detailed in the report. The report also contains dissent notes from six of its 27 members, who state that the Bill should be withdrawn.
- The Bill states that the PFRDA should have a chairman and five members, of which at least three would be whole-time members. The Committee recommends that the selection of all members should be confined to persons having experience in economics or finance or law only.
- The Committee recommends that the duties of PFRDA should include (a) ensuring safety of subscribers' contribution to various pension schemes and funds under the New Pension System (NPS); (b) ensuring payments of benefits or returns in accordance with any guarantees attached to the schemes or investment options chosen; and (c) ensuring that intermediation and other operational costs under the NPS do not have an adverse bearing on the returns to subscribers.
- The Bill refers to a government notification on NPS. The Committee recommends that while the notification may need to be amended from time to time for operational or other reasons, the basic or essential features of NPS should not be permitted to be alterable.
- NPS permits two tiers of investments for government servants. Tier-I is not withdrawable till maturity; anyone who wants a withdrawable facility has to also invest in Tier-II. The Committee suggests that flexibility should be provided in Tier-I too to permit withdrawals in case of unforeseen and urgent expenses (listed by regulations).
- The Committee recommends that (a) the option of 100% investments in government securities should be provided as part of the Bill; (b) preference be given to pension fund managers who offer guaranteed returns; (c) one pension fund should be from the public sector.
- The Committee opined that the minimum criteria for selection of pension fund managers such as those relating to capital structure and experience should be spelt out in the Bill. Similarly, the criteria for selection of other intermediaries such as the central recordkeeping agency also need to be specified.
- Unlike the insurance sector, the PFRDA Bill does not specify any restrictions on Foreign Direct Investments. The Committee felt that any decisions on FDI should not be at variance to those applicable to the insurance sector. Also, any decision should be implemented only by suitable amendment to this legislation.
- The Bill permits PFRDA to supersede the governing board of an intermediary under certain conditions. The Committee recommends that the Bill be amended to enable the appointment of an Administrator in such an instance.
- The PFRDA is authorised to make regulations for implementing the provisions of the Bill. The Committee suggests the constitution of an Advisory Committee with representation from employees and subscribers, similar to the Advisory committee in the insurance sector.
- The Bill authorises PFRDA to form committees and delegate powers and functions. The Committee recommends that representatives of employee associations and subscribers should be co-opted in these committees.

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