# NiSM UPDATE

Nov 2013 to Jan 2014

Volume 4 / Issue 25

## NCFE – National Financial Literacy Assessment Test (NCFE-NFLAT)

**PGPSM**
Post Graduate Programme in Securities Markets

Admissions 2014-15

**Last Date: April 29, 2014**

**CFERM**
Certificate in Financial Engineering and Risk Management

Admissions 2014-15

**Last date June 16, 2014**

**National Pension System (NPS) Demystified**

**NISM Certified 1,54,000+ market participants available on NISM Skill Registry**

**Induction Programme for SEBI Grade-A Officers**

NCFE NFLAT National Financial Literacy Assessment Test

Supported by: NiSM | Testing Partner: IBPS


Open for students of Classes VIII to X.
Registration through schools

No fee for the test

For further information visit:

www.nism.ac.in | www.facebook.com/ncfeindia | twitter.com/NCFE_India

For any queries: mail us at: nflat@nism.ac.in | Call: 022-66735100-05

# Foreword

I am glad to announce that the past three months have seen NISM grow in significance to various stakeholders in the securities markets be it investors or intermediaries.

National Centre for Financial Education under the aegis of National Institute of Securities Markets (NISM), organized a pan India National Financial Literacy Assessment Test (NCFE-NFLAT) for school students from classes VIII to X on 12th January, 2014 (Swami Vivekananda's Birth Anniversary). An overwhelming 1,00,000 students from 2,000 schools registered for the test.

NISM successfully conducted two Conferences on Ethics and Corporate Governance during December in Kolkata and Chennai. These were part of the series of conferences on Ethics and Corporate Governance being held at various locations across the country in collaboration with ICSI-CCGRT.

NISM conducted induction programs for the newly appointed officers of SEBI in two batches. The first batch of inductees completed their training by 31st of January, 2014 while the second batch is expected to be inducted by 28th of February, 2014. The officers were selected by SEBI following a pan India recruitment process.

We are working with Institute of Company Secretaries of India (ICSI) and National Academy of Direct Taxes (NADT) in designing long-term training programmes across India for their members.

Much has happened in the last few months at NISM and we have made an effort here to bring you the most important developments at our institute.

S Ghose

Sandip Ghose
Director, NISM

## NCFE, under NISM, successfully conducted the National Financial Literacy Assessment Test (NCFE – NFLAT)


## NCFE – National Financial Literacy Assessment Test (NCFE-NFLAT)

National Centre for Financial Education under the aegis of National Institute of Securities Markets (NISM), had invited all school students from classes VIII to X to participate in the NCFE's National Financial Literacy Assessment Test (NCFE-NFLAT), conducted on 12th January, 2014 (Swami Vivekananda's Birth Anniversary).
It is a first of its kind National-level assessment to measure the financial literacy quotient among the students in India in a range of concepts like inflation, compounding and topics such as basic money management, banking, insurance, pension, and so on.

The response to the test was overwhelming with around 1,00,000 students and 2000 schools registering for the test from all over the country within a 30-day registration window. The registrations were on a first come, first serve basisz and had to be closed early as all the seats had been filled up. The results for the test were announced on the Birth Anniversary of Netaji Subhash Chandra Bose (23rd January, 2014).

The test had been conceptualized by the Technical Group on Financial Inclusion and Financial Literacy of the Sub-Committee of the FSDC chaired by Dr.K.C. Chakrabarty, Deputy Governor, RBI. The group includes representatives from all the financial sector regulators, Education Boards and the Ministry of Finance, Government of India.

CBSE had extended its full support in this regard by issuing a circular to all the schools affiliated to the board. Institute of Banking Personnel Selection (IBPS) being the testing partner had not only seamlessly facilitated the process but also waived off their fee for the national cause, charging only the third party fee from the NCFE. ICSE has also shown its willingness to be a part of the exercise from next year.

Given the scale and reach of the test, a number of organizations in the area of financial education have also come forward to offer their voluntary services to coach the students for the NCFE-NFLAT.

Discussions are underway to make the NCFE-NFLAT an annual event in the school calendars. Also, the test would be conducted at a larger scale in the subsequent years to accommodate the demand.

# Activities at NISM

## SCHOOL FOR SECURITIES EDUCATION (SSE)

The School has received excellent testimonials from the alumni of PGPSM. Mr Ajith Bidare has secured admission into the Masters in Finance programme at Columbia University, USA. Mr Shashank Gupta is studying at MDI Gurgaon. Ms Yukti Jain is pursuing PGDM at IIM Rohtak, Ms Bhanupriya Gupta at IIM Raipur and Ms Swati Khera at IIM Ahmedabad. Each of these students has commended the structure and content of the PGPSM curriculum.

The concluding part of a workshop on Organisational Development (OD) was held for PGPSM students. This was a follow-up to earlier workshops on Business Communication and Psychometric Testing. In the first phase of campus placements, the companies that recruited PGPSM students included: LKP Finance, Asit C Mehta Intermediaries, Canara Bank Securities, JP Morgan, Universal Sompo Insurance, Invent Asset Reconstruction Company etc.

SSE continues to work closely in coordination with the Graduate Management Council (GMAC), in making use of the GMAT scores as part of its PGPSM admissions likewise with XLRI Jamshedpur in respect of the XAT scores. SSE has strengthened its relationships with CFA Institute-USA, CISI-UK and CIIA-Switzerland. The school is also working in closer cooperation with Bloomberg on Analytics.

SSE is also entering into cooperative arrangements with the Institute of Company Secretaries of India (ICSI) and National Academy of Direct Taxes (NADT) in designing long-term training programmes for professionals.

## SCHOOL FOR SECURITIES INFORMATION AND RESEARCH (SSIR)

Ms Kavitha Ranganathan has submitted her PhD Thesis on Behavioural Finance, a landmark achievement.

A paper titled Reference Price effect in Indian Mergers and Acquisitions (Ms. Kavitha Ranganathan and Mrs. Poonam Singh) was presented at the Indian Econometric Society Conference held at IGIDR during December 23-24, 2013.

**Other Activities**

NISM worked with CFA Institute on the CFA Annual Conference. It also worked with AIWM on a Conference on Alternate Investments and with SEBI on Conference on Algorithmic trading, High Frequency Trading and co-location. Prof. Andrei Kirilenko of MIT Sloan School of Business delivered a guest lecture at SSE.

# SCHOOL FOR REGULATORY STUDIES & SUPERVISION (SRSS)

## Conference on Ethics and Corporate Governance

NISM in association with Institute of Company Secretaries of India (ICSI) has organised two conferences on 'Ethics and Corporate Governance' in cities Kolkata and Chennai on 11th December 2013 and 27th December 2013 respectively. In the Kolkata Conference, Mr. Sandip Ghose, Director, NISM welcomed the gathering. Mr. Anand Sinha, Dy Governor, Reserve Bank of India inaugurated the programme and narrated the need for adhering to corporate governance principles in financial institutions. M/s M S Sahoo (Secretary, ICSI), P K Chaudhary (Chairman, ICRA), and Prof R P Banerjee made their presentations on Academic Perspectives of Corporate Governance. In the session Practitioners' Perspective, Mr Arun Kaul (Chairman, UCo Bank), Mr B B Chatterjee (ITC Ltd), and Mr. Hemant Kanoria (SREI Infrastructure Finance) made their comments. In the Regulatory Perspective session, Mr. Prashant Saran, Whole Time Member, SEBI chaired the session where Mr. Madhav Reddy (CEO Kolkata stock Exchange) and Ms. Deepali Pant (Executive Director,RBI) made their presentations. Mr. Ashish Chauhan, CEO of Bombay Stock Exchange made the concluding remarks.


The conference in Chennai was inaugurated by Mr. Prashant Saran, Whole Time Member, SEBI. Ms Chitra Ramakarishna, MD & CEO, National Stock Exchange Ltd delivered keynote address. During the three technical sessions at the conference, the speakers provided their perspectives on the concept of Ethics and Corporate Governance and its relevance in the present-day Corporate Culture. In the first technical session chaired by Dr. J. Sadakkadulla, Regional Director, Reserve Bank of India, the panelists Dr. L. S. Ganesh, Professor & Dean, IIT Madras and Mr Koosai Lehery, Director, Accounting Advisory Services, KPMG, provided an Academic Perspective on Ethics and Corporate Governance. In the second technical session chaired by Dr. Bala V Balachandran, Dean – Great Lakes Institute of Management (GLIM), the panelists Mr. M. S. Sundararajan, Former Chairman & Managing Director – Indian Bank and Ms. Asha Nair, Director & General Manager – United India Insurance Company (UIIC) provided a Practitioner`s perspective on the subject of Ethics and Corporate Governance. The panelists elaborated various personal experiences and examples to urge the participants to

maintain ethical behavior and promote healthy corporate culture at their respective organizations. The third technical session focussed on the Regulatory Perspective on Ethics and Corporate Governance and was chaired by Mr M S Sahoo, Secretary – ICSI. The panelists Mr. C R Muralidharan, Former Whole Time Member, Insurance and Regulatory Development Authority (IRDA) and Mr. V S Sundaresan, Chief General Manager, SEBI gave their points of view on the Regulatory Perspective on Ethics and Corporate Governance. Shri Ananthasubramanian, President, ICSI delivered the concluding remarks which marked the closing of the conference.

## SEBI Induction Programme for newly recruited Grade A Officers


NISM has organised a 45 days long workshop for the new recruit officers of Securities and Exchange Board of India. The programme was held in two batches, the first batch during Dec 17, 2013-Jan 30, 2014 and the induction for second batch has commenced from January 16, 2014 and is expected to be completed by February 28, 2014. The workshop provided rich knowledge inputs to the participants on financial market in general and securities markets in particular. There were ten modules spread into 45 days and the program began with the module on Group Dynamics, a team building exercise. Module on Foundation in Economics and Finance dealt with the practical application of economic theories and finance concepts. The module on Financial Markets took care of the topics on banking, insurance, pension, credit rating, credit information, securitisation, corporate finance etc. The modules on Securities Markets Introduction, Market Intermediaries and Securities Market Regulation had a comprehensive view about the functioning of securities markets. Familiarization with SEBI Act 1992 was extended through case studies presented by experts from legal department, SEBI. Exposure Visits were made to stock exchanges, depository institutions and stock brokerage houses. Towards the end, a module on soft skills programme was delivered with inputs on leadership skills, inter personal skills etc. In two batches, 84 newly recruited officers participated in the programme.

Participants of the Batch I of SEBI Induction Program for newly recruited Grade A Officers


Shri Rajeev Agarwal, WTM, SEBI inaugurating the Batch- II Induction Program

Shri U K Sinha, Chairman, SEBI addressing the participants of the SEBI Induction Workshop

Participants of the Batch II of SEBI Induction Program for newly recruited Grade A Officers

## SCHOOL FOR CERTIFICATION OF INTERMEDIARIES (SCI)

### NISM CPE Trainers' Contact Program

NISM, through its Certification Examinations and CPE Programs is consistently striving to enhance the quality of the associated persons in the Securities Markets. The impact of caliber and domain knowledge of the Trainers of the CPE Program in capacity building of the market participants is well realized. Thus to enhance the skills and knowledge of the CPE Trainers, who in-turn train the market participants, NISM had organized a series of two-day **NISM CPE Trainers' Contact Programs** at difference locations. The Contact Programs were aimed in achieving the following objectives:

1. Enhancing the Trainers' knowledge and understanding of various segments of the Securities Markets through interaction with industry veterans
2. Creating a common minimum benchmark of the quality of the CPE Training Programs
3. Update trainers on market developments
4. Enhancing the Trainers' CPE Program delivery and participants engaging skills
5. Creating a medium for exchange of domain knowledge and experience among the Trainers
6. Streamlining the operational issues in the Administration of CPE Program
7. Bridging the gap between NISM and CPE Trainers

The CPE Trainers' Contact Programs were organized in four phases. The first three phases of the NISM CPE Trainers' Contact Program were organized for the CPE Trainers of the Mutual Funds CPE Modules. The Phase IV of the Program was organized for the CPE Trainers of the Currency, Equity and Interest Rate Derivatives CPE Modules.

Shri Sandip Ghose, Director - NISM, Mr. Chirag Shah, Consultant and the CPE Team with participants of NISM CPE Trainers' Contact Program – Phase IV

Senior Industry professionals were engaged in handling highly informative sessions on the Mutual Funds and Derivatives segments of the Securities Markets. There were also sessions for the Participants to share their knowledge and experience in conducting CPE Programs. The Programs hit a total participation of 74 Trainers from different parts of the country.

## NISM Certification Examination

**Consolidated Status Report (Upto January 26, 2014)**

| Sr No. | NISM EXAMINATION | Number of Candidates Enrolled | Number of Candidates Appeared | Number of Candidates Passed |
|---|---|---|---|---|
| 01 | **Currency Derivatives**<br>(Launched on 15/05/2009) | 60,667 | 55,939 | 23,602 |
| 02 | **Currency Derivatives - Gujarati**<br>(Launched on 01/11/2012) | 33 | 37 | 8 |
| 03 | **Currency Derivatives - Hindi**<br>(Launched on 01/11/2012) | 121 | 108 | 18 |
| 04 | **RTA - Corporate**<br>(Launched on 03/08/2009) | 2,450 | 2,239 | 1,557 |
| 05 | **RTA - Mutual Fund**<br>(Launched on 03/08/2009) | 6,984 | 6,549 | 3,962 |
| 06 | **Securities Intermediaries Compliance (Non-Fund)**<br>(Launched on 28/01/2013) | 389 | 333 | 364 |
| 07 | **Interest Rate Derivatives**<br>(Launched on 17/05/2010) | 837 | 614 | 150 |
| 08 | **Mutual Fund Distributors**<br>(Launched on 01/06/2010) | 1,74,792 | 1,61,470 | 75,150 |
| 09 | **Mutual Fund Distributors - Gujarati**<br>(Launched on 01/06/2010) | 886 | 764 | 163 |
| 10 | **Mutual Fund Distributors - Hindi**<br>(Launched on 01/06/2010) | 1,346 | 1,147 | 216 |
| 11 | **Mutual Fund Foundation**<br>(Launched on 14/01/2013) | 358 | 279 | 250 |
| 12 | **Mutual Fund Distributors (Level 2)**<br>(Launched on 16/04/2013) | 263 | 226 | 38 |
| 13 | **Depositories Operations**<br>(Launched on 21/02/2011) | 42,532 | 38,543 | 21,110 |
| 14 | **Securities Operations and Risk Management**<br>(Launched on 22/11/2010) | 21,086 | 19,768 | 14,972 |
| 15 | **Equity Derivatives**<br>(Launched on 08/10/2012) | 24,740 | 23,303 | 12,682 |
| 16 | **Merchant Banking**<br>(Launched on 21/03/2013) | 980 | 846 | 402 |
| 17 | **Investment Adviser (Level 1) Certification Examination**<br>(Launched on 03/06/2013) | 57 | 33 | 12 |
| 18 | **Equity Sales Certification Examination**<br>(Launched on 07/03/2013) | 72 | 70 | 48 |
| 19 | **Securities Markets Foundation**<br>(Launched on 21/03/2013) | 94 | 73 | 59 |
| | **Total** | **338839** | **312462** | **154763** |

## NISM Continuing Professional Education

**Consolidated Report (Upto January 26, 2014)**

| Sr No. | NISM Continuing Professional Education | Cumulative Total Candidates Appeared through NISM & CPE Providers |
|---|---|---|
| 01 | **NISM Mutual Fund Distributors CPE (1 Day Programme)** (Launched on 01/06/2010 and upto 31/05/2012) | 16039 |
| 02 | **NISM Mutual Fund Distributors CPE (Day 1)** (Launched on 01/06/2012) | 14276 |
| 03 | **NISM Mutual Fund Distributors CPE (Day 2)** (Launched on 01/06/2012) | 14268 |
| 04 | **NISM Mutual Fund Distributors CPE (1 Day Programme)** (Launched on 16/06/2012) | 13371 |
| 05 | **NISM RTA Corporate CPE (Day 1)** (Launched on 02/05/2012) | 162 |
| 06 | **NISM RTA Corporate CPE (Day 2)** (Launched on 02/05/2012) | 162 |
| 07 | **NISM RTA Corporate CPE (1 Day Programme)** (Launched on 16/06/2013) | 68 |
| 08 | **NISM RTA Mutual Fund CPE (Day 1)** (Launched on 02/05/2012) | 21 |
| 09 | **NISM RTA Mutual Fund CPE (Day 2)** (Launched on 02/05/2012) | 21 |
| 10 | **NISM RTA Mutual Fund CPE (1 Day Programme)** (Launched on 16/06/2013) | 44 |
| 11 | **NISM Currency Derivatives CPE (Day 1)** (Launched on 05/05/2012) | 3072 |
| 12 | **NISM Currency Derivatives CPE (Day 2)** (Launched on 05/05/2012) | 3065 |
| 13 | **NISM Currency Derivatives CPE (1 Day Programme)** (Launched on 16/06/2013) | 3660 |
| 14 | **NISM Depository Operations Certification Examination CPE (Day 1)** (Launched on 13/07/2012) | 248 |
| 15 | **NISM Depository Operations Certification Examination CPE (Day 2)** (Launched on 13/07/2012) | 248 |
| 16 | **NISM Depository Operations Certification Examination CPE (1 Day Programme)** (Launched on 16/06/2013) | 2977 |
| 17 | **NISM Mutual Fund Foundation CPE (Day 1)** (Launched on 14/01/2013) | 1815 |
| 18 | **Equity Derivative CPE (Day 1)** (Launched on 16/06/2013) | 10446 |
| 19 | **Securities Operations and Risk management CPE (Day 1)** (Launched on 07/12/2012) | 1404 |

# NATIONAL CENTRE FOR FINANCIAL EDUCATION (NCFE)

## NCFE – Financial Literacy and Inclusion Survey (NCFE-FLIS)


Post global financial crisis, Financial Literacy and Financial Inclusion has become a subject of considerable interest among policy makers, researchers and other stakeholders. This heightened interest reflects a better understanding of the importance of financial inclusion for economic as well as social development. Across the nations, both economically rich and fiscally poor, it is being increasingly recognized that access to financial services has a critical role in reducing extreme poverty, boosting shared prosperity, and supporting inclusive and sustainable development. Similarly, financial literacy is rapidly being recognized as a core skill, essential for consumers operating in an increasingly complex financial landscape. It is therefore no surprise that governments around the world are interested in finding effective approaches to improve the level of financial literacy amongst their population and that many are in the process of creating and implementing a national strategy for financial education to provide learning opportunities throughout a person's life.

India, a fast growing economy with focus on inclusive growth and a stable financial system, recognizes the need and has accordingly prepared the National Strategy for Financial Education (NSFE) under guidance of the Technical Group on Financial Inclusion and Financial Literacy of the Financial Stability and Development Council (FSDC), which would cater to all sections of the population in the country.

To implement NSFE, the National Centre for Financial Education (NCFE) is setup as part of NISM, with representatives from all financial sector regulators i.e. Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority (IRDA), Pension Fund Regulatory and Development Authority (PFRDA) and Forward Market Commission (FMC).

Financial education strategies benefit from empirical evidence to indicate the level of need amongst the population and within particular subgroups. The measurement of financial literacy levels is therefore widely recognized as a priority for countries seeking to deliver financial education initiatives. In this regard, NCFE, at the behest of the Technical Group of the Sub-Committee of the Financial Stability and Development Council (FSDC) on Financial Inclusion and Financial Literacy, has appointed Mott MacDonald India, a global management and development consultancy organisation, to carry out a nationwide baseline survey i.e. NCFE-Financial Literacy and Inclusion Survey (NCFE-FLIS) for assessing the state of financial literacy and financial inclusion. Currently, a pilot study is being conducted. The actual survey would commence in April 2014 and would be completed in a span of 8 months.

This study spanning over eight months comprises questions on both financial literacy and financial inclusion covering financial knowledge, behavior and attitudes relating to budgeting and money management, short and long term financial plans, and financial product awareness and usage. There are also questions to provide important socio-economic details of the participants including age, gender and income. This study would also provide comparative analysis of states/ UTs on various aspects of financial literacy and financial inclusion and help evaluate India's standing at the global level.

## NCFE – Financial Education Website (NCFE-FEW)

The NCFE website (www.ncfeindia.org) was recently inaugurated by the Chairman, Technical Group on Financial Inclusion and Financial Literacy of the Sub-Committee of the FSDC and Deputy Governor, RBI. It has been completely developed in-house by the IT team at NISM.

Currently, the website is being enriched to be developed into a one stop repository for all the financial education material and activities. The regulators have been requested to provide the financial education material already developed by them for the NCFE website. The content available from other credible sources is also being made available on it. The website shall have the details of various financial education programmes conducted across the country, financial education material including brochures, FAQs, videos and so on. A separate section for kids is also being developed that contains games, comics and other such material that can be easily understood.

The NCFE website is currently available in English.

## VERIFY AUTHENTICITY OF NISM CERTIFICATES WITH NISM SKILLS REGISTRY

Market Participants such as brokers and sub-brokers, merchant bankers, asset management companies have been consistently facing the challenge of verifying the physical certificates issued by NISM to their employees after successfully passing NISM Certification Examinations. Taking clues from such feedback received from various market participants, NISM has made the task of such verification much easier through the launch of NISM Skills Registry.

NISM Skills Registry is an online database of all NISM Certified Candidates who have successfully passed and obtained NISM Certificates in various market segments. The NISM Skills Registry consists of data pertaining to candidates of all NISM Certification Examinations and Continuing Professional Education (CPE) irrespective of the candidates' location, Test Centres, Test Administrator or CPE Provider. The data is primarily provided for verification purposes against the NISM Certificates issued by NISM both in physical form and/or in soft copy format. Verification can be performed based on Permanent Account Number (PAN) of candidates certified by NISM.

NISM Skills Registry is available for FREE Verification to all after a one-time registration on NISM Skills Registry Portal which can be accessed at https://certifications.nism.ac.in/nismskills

**Salient Features of NISM Skills Registry:**

- More than 1,50,000 Candidates
- Centralized Online Database for verification of NISM Certificates
- Free of Cost verification after one-time registration
- Online verification of NISM Certificates using PAN, thereby reducing the time involved in physical verification
- Enhanced Automated tool to ensure compliance with SEBI (CAPSM) Regulations, 2007

For more information on NISM Skills Registry, please visit www.nism.ac.in/certification/

### How to Build a Career in Securities Markets

Seminar held at Coimbatore for the students of KCT Business School

**In order to increase the talent base entering into the Indian Securities Markets, National Institute of Securities Markets (NISM) facilitates seminars and awareness programmes for the students of various colleges, universities and educational institutions.**

The seminar titled "How to Build a Career in Securities Markets" has interested students from various Graduation and Post-Graduation streams including premier Business schools in India.

If you are an educational institution and would like NISM to conduct such seminars/ awareness programmes/ guest lectures at your campus, contact us at certification@nism.ac.in

List of educational institutions benefitted from the above NISM Seminars:

NISM School for Certification of Intermediaries (SCI)Data as of March 13, 2014

| Sr. No. | College Name | City |
|---|---|---|
| 01 | Goa Institute of Management | Panaji |
| 02 | Indira Institue of Management | Navi Mumbai |
| 03 | DTSS College of Commerce | Malad, Mumbai |
| 04 | KPR School of Business | Arasur, Coimbatore |
| 05 | ITM Business School | Bangalore |
| 06 | ITM Business School | Mumbai |
| 07 | Swami Vivekanand Junior College | Mumbai |
| 08 | Raheja College of Commerce | Mumbai |
| 09 | S K College of Commerce, Nerul | Navi Mumbai |
| 10 | Vivek College of Commerce | Mumbai |
| 11 | RA Poddar College | Mumbai |
| 12 | George College, Goregaon | Mumbai |
| 13 | CHM College, Ulhas Nagar | Mumbai |
| 14 | KCT Business School | Coimbatore |
| 15 | RVS Institute of Management | Coimbatore |
| 16 | Kohinoor Business School | Mumbai |
| 17 | VISHVAKARMA Business School | Mumbai |
| 18 | College of Co-operation, Banking and Management, Thrissur | Thrissur |

## National Pension System (NPS) Demystified

*- Elavarasan. R, Subhrasom De, Swati Verma and Abhikumar Patel*
*[Students of PG Programmes at NISM]*

**Pension – The Micro and Macro**

It is certain that everybody retires. After retirement, it is doubtful that an individual may work with the same energy to lead his life. So, the need for being financially secure has becomes extremely important. The simplest solution is, 'save today'. This is particularly important in a society such as India where the joint-family form of social security is on the wane and nuclear families are the order of the day and age.

Most individuals may not be not good savers or investors. This may have urged the Government to provide an assured-return oriented investment avenue called a 'defined benefit'. Though a defined benefit is good for an employee, it is a tough task for employers in a country like India which is tackling numerous macro issues like inflation, growing population, fiscal deficit, etc. to sustain defined benefit plans.

From 2004, the Government of India had proposed a switch to 'defined contribution' (i.e., the contribution made for pension out of income) which wouldn't give an assured benefit/return). This new form of pension has been named the National Pension System (NPS, from the erstwhile New Pension Scheme) which is managed by pension fund managers approved by the regulator, Pension Fund Regulator and Development Authority (PFRDA) and open for all the citizens, since 2009.

**Design of Pension: – Savings (Accumulation Phase) and Spending (Annuity Phase)**

Many people choose to invest into financial investment products like Provident Funds (PF), Mutual Funds (MF), and products by Insurance companies, believing that such products could safeguard most of the future financial needs like child's education, marriage, retirement planning etc. As the discussion here is on retirement planning, the salient features required for pensions are to be compared across all other financial investment products that are widely considered for retirement planning in the market.

Simply put, a pension plan consists of two phases. First, the **Accumulation** phase, where the money is saved for the sole purpose of retirement in a systematic and disciplined way, handled by Pension Fund managers. Second, the **Annuity** phase, where the money saved during the accumulation phase has to be transferred into an Insurance Company for providing pension. The pension payout will be at regular intervals for life or for the surviving partner or gifting of the balance in the corpus for the next generation after death.

The table below shows the comparison between Provident Funds, Insurance Pension Plans, Mutual Funds and the NPS.

**Table 1: Design of various Financial Products considered for Retirement Planning**

| | Provident Fund (PF) | INSURANCE-PENSION PLAN | | Mutual Fund (MF) | National Pension System (NPS) |
|---|---|---|---|---|---|
| | | Traditional Pension Plan | ULIP Pension Plan | | |
| **Saving / Accumulation Phase** | YES | YES | YES | YES | YES |
| **Spending / Annuity Phase** | NO | YES | YES | NO | YES |
| **Tax Benefit** | EEE | EEE | EEE | No long term capital gain tax | EET |
| **Returns (per annum)** | 8.75% | 6-8% | Market Based | Market Based | Market Based |
| **Cost (per annum)** | NIL | 3-5% | 2.5-4% | 2-3% | 0.25-0.40% |

Many people argue in favour of PF for retirement planning, due to the assured returns and tax benefit while investing or exiting. The arguments in favour of MFs are: ample scope for upside in returns, coupled with zero long term capital gain tax (i.e., investments held for more than 12 months are tax exempted). But the interest rate on PF is determined every year by the Central Board of Trustees (CBT), which means that rate of return for PF is not static. Further, when corpus saved during the accumulation phase in either PF or MF are transferred to an Insurance Company for providing annuities for life, then such annuities received from the Insurance Company will be considered as taxable income. This tax disadvantage rules out Provident Funds and Mutual Funds as vehicles for pension savings. This tax ambiguity leaves two other options as vehicles for pensions: either a pension product offered by an Insurance Company or the NPS offered by a Pension Fund Managers regulated by PFRDA. This leads to further fragmentation of these two products in terms of costs and tax which directly influence investment returns.

## Costs and Taxation

Table 1 clearly demonstrates that NPS is the most cost-effective, as the major cost involved is the management fee which has been fixed at 0.25 % in NPS., in contrast to the high fee charged by Insurance Companies. Conversely, the latter offers the maximum tax benefit due to the status EEE (Exempt-Exempt-Exempt) which means one can claim tax benefit, while investing (up to a limit); while the investment grows due to capital gains; and also while receiving annuity during retirement from an Insurance Company. But there are several developments for moving the country towards Direct Tax Code (DTC) regime and recently, PFRDA has got more power to function as a statutory body for NPS giving signs of optimism for getting the status of EEE from the current EET.

Moreover, NPS has a unique tax advantage, when an employer contributes for employees. As per Section 80CCD (2), when an employer contributes to NPS on behalf of employees, then the employee can avail tax benefit up to 10% upon Basic Salary and Dearness Allowance or Rs. 1,00,000 whichever is lower (Ref. Table 2 below); this section is distinct and in addition to Section 80 C that has been prevalently used for tax savings.

**Table 2: Calculation on Tax Savings due to Employers' Contribution to NPS**

| Employee Salary Break Up | With NPS As per Section 80 CCD (2) | Without NPS As per Section 80 CCD (2) |
|---|---|---|
| Basic salary (Rs. In Lacs) | 10 | 10 |
| Special allowance (Rs. In Lacs) | 1 | 2 |
| NPS (Rs. In Lacs) | 1 | Nil |
| Total income (Rs. In Lacs) | 12 | 12 |
| Deduction (Rs. In Lacs) | 2 | 1 |
| Taxable Income (Rs. In Lacs) | 10 | 11 |
| *Tax (30%) (Rs. In Lacs) | 1.4 | 1.7 |
| Effective Tax Paid (% Total Income) | 11.67% | 14.17% |

*As per 2013-14 Income Tax Rule,
Calculation done after assuming Rs. 1 lac is invested under Section 80C.
Effective Tax payable on taxable income=30% (> 10 lac) + 20% (between 5 lac and 10 lac) + 10% (Less than 5 lac)

Also, the employer can show this contribution towards employees' NPS as a 'Business Expense' and claim it as a deduction from Income, thereby reducing the employer's taxable income.

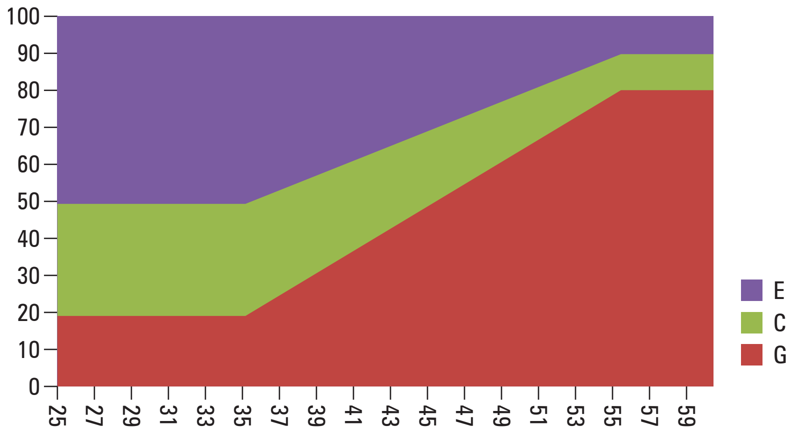
**Asset Allocation – Composition of E/C/G**

Recently, Pension Fund Managers started targeting on many IT and ITES companies to promote this corporate model. As IT and ITES sector employs more young people which gives more tenure for accumulating significant corpus towards retirement. Also, it is probable that most of the employees would be attracted towards this benefit of NPS for more tax benefits from investments. NPS also offers a choice across asset classes from among Equity (E), Corporate Debt (C ) and Government Securities (G).

The return on investment is also dependent on asset allocation. It is upon the full discretion of the investor's interest to opt the composition among E, C and G. There is an option called 'Life-cycle Based Allocation' or 'Automatic Allocation' which automatically allocates amongst the various assets in accordance to age. It begins with 50% of E, 30% of C and 20% of G, and when the investor crosses the age of 35, then every year 2 % of E and 1% of C will be transferred to G. Thereby, at the end of 55th age of the investor and till the vesting age (60 or above) the asset allocation will be 10% of E, 10% of C and 80 % of G (Ref. Chart 1)

The selection of composition in a corporate model lies either with the employer or employee (called as subscriber) and the same in opting for fund manager too.

**Chart 1: Automatic Allocation or Lifecycle Based Allocation**




The disciplined approach in systematic investment with a good asset allocation could help an investor in attaining retirement dreams, but it is also possible that the investor may go for a premature exit, due to certain unfortunate or sudden commitments. This demands the need for a withdrawal facility in NPS, but it comes at a cost.

**Trade-off between flexibility of Redemption/Withdrawal and Tax benefit : Tier – I Versus Tier – II**

| | | |
|---|---|---|
| **Redemption / Withdrawal before Vesting Age (60 or After Retirement)** | If redeemed before 60, maximum 25 % can be withdrawn and should buy annuity with the remaining 75% from an insurance company | Unlimited number of withdrawals. |
| **Withdrawal After Vesting Age (60 or After Retirement)** | Maximum 60% of the corpus could be withdrawn or it can be deferred to a maximum of 10 years after the vesting age, but no contribution to the fund during the deferral period is accepted; and rest 40% should be transferred to buy annuity from Insurance Company. | No specific structure for withdrawals after the vesting age or retirement as the withdrawals is unlimited. |
| **Tax Benefit / Treatment** | EET | TTT |
| **Contribution** | Minimum amount per contribution = Rs.500<br>Minimum contribution per year = Rs.6000<br>Minimum number of contributions = 4 p.a. | Minimum contribution of Rs. 250<br>Minimum balance of Rs 2000 at the end of Financial Year i.e., as on March 31st<br>(Tier II account to be opened with a minimum contribution of Rs. 1000) |
| **Age of Entry** | Between 18 to 60 years | |

From Table 3, it can be noticed that NPS has two accounts in place for servicing the requirement of withdrawals. Since, retirement planning is a long term goal, withdrawals are not entertained. Thus, the Tier II account which allows unlimited withdrawal facility has a tax treatment of TTT (Taxable-Taxable-Taxable) which means no tax claim during investment made; taxable on capital gains; and taxable on annuities received. At the same time, Tier I account satisfies the need of people who are disciplined towards their retirement plan. Though, due to some unforeseen circumstances 25 % of the corpus can be taken by breaking the kitty and remaining 75% should be mandatorily transferred to Insurance Company for buying annuity. It is mandatory to open a Tier I for opening/operating a Tier II account and also the minimum account balance should be met for each year to avoid penalty. At a given point of time, an investor can hold both the accounts and could transfer funds from Tier II to Tier I, but not vice-versa.

These processes are made easy by a Central Record Keeping Agency (CRA), where each investor will be provided with a Permanent Retirement Account Number (PRAN). This makes NPS as a portable investment avenue and PRAN can be used for making transactions across the country. It is also useful in online tracking and verification of transactions with minimum paper work. The setup of NPS is also taken to reach the people working in unorganized sectors and lower middle class, by structuring NPS-Lite to cater them.

**NPS-Lite with / without SWAVALAMBAN**

NPS-Lite account can be opened with nominal subscription of Rs.100 onwards with payment limit under this plan should not exceed Rs.50000 p.a. If the contribution is Rs. 1000 per month and maximum contribution is Rs. 12000 then SWAVALAMBAN benefit will be availed by those investors. Under this scheme the government contribution will be Rs. 1000 for three years. But this scheme is available for contribution from Government till the financial year 2016 – 2017, though an account is opened during the period 2013-2014 to 2016-2017. The SWAVALAMBAN benefit is applicable only for people who are not PF account holders.

Asset allocation is fixed by PFRDA to avoid the risk of volatility and hence lesser weight towards Equities. Above all, NPS-Lite is an ultra-low cost product with an account opening charge of Rs.35 (one time) and AMC Rs.70 p.a under which an account can be opened with a nominal subscription of Rs.100 onwards. This really tailor made to serve the lower middle class.

**Conclusion**

NPS possesses several good features such as prudent investment management, transparent asset allocation, flexibility in investment options and choice of asset managers. It is designed as a low-cost alternative that has the potential for enhancing returns for long term investors, with fool-proof portability, with a dedicated infrastructure in place. Also, it is completely web enabled after-sign up and reflects the adaptation towards technology at its best.

Government also wanted to make NPS reachable to the lower middle class by contributing Rs. 1000 for initial years till 2016-2017. But this kind of incentive has got a gloomy picture internationally and also questions the Government to continue with this subsidy or not, as highlighted by Dr. Susan Thomas and Dr. Renuka Sane in their research study titled, 'In search of inclusion: informal sector participation in a voluntary, defined contribution pension system'. The study also emphasized the importance of credit and insurance availability to deal with economic or other shocks, and behavioral aids such as reminders, financial literacy programs, pre-commitment schemes. Thereby, this experiment wanted to rationalize the subsidy.

Indeed, considering all the factors and features into consideration, the NPS for retirement planning had undergone several trivial changes since its launch. But the vital change that would make the product more attractive is an EEE status for tax treatment. This could make NPS the most attractive among other comparative products that are currently in existence.

# Regulatory Changes

## INITIATED BY SEBI

### Circular on Infrastructure Debt Fund (IDF)

Circular No.: CIR / IMD / DF / 20 / 2013 Dated: November 29, 2013

Reference is drawn to the SEBI circular CIR/IMD/DF/7/2013 dated April 23, 2013. The aforementioned circular has designated the following Foreign Institutional Investors (FIIs) as long term investors for the purpose of IDF:

a) Foreign Central Banks
b) Governmental Agencies
c) Sovereign Wealth Funds
d) International/Multilateral Organizations/ Agencies
e) Insurance Funds
f) Pension Funds

SEBI has decided to henceforth categorize the regulated foreign feeder funds, having at all times, at least 20% of their assets under management held by investors belonging to one or more of the above categories of FIIs, as long term investors for the purpose of IDF.

## Declaration and Undertaking regarding PCC, MCV or equivalent structure by FIIs

CIR/IMD/FIIC/21/ 2013 December 19, 2013

Reference is drawn to SEBI circular CIR/IMD/FIIC/1/2010 dated April 15, 2010. If any applicant is required by its regulator or under any law to ring fence its assets and liabilities from other funds/ sub funds, such applicant shall not be treated as having opaque structure, provided:

a) the applicant is regulated in its home jurisdiction
b) each fund/ sub fund in the applicant satisfies broad based criteria, and
c) the applicant gives an undertaking to provide information regarding its beneficial owners as and when SEBI seeks this information.

The custodians are requested by SEBI to bring the contents of this circular to the notice of their respective FII clients for necessary compliance.

# INITIATED BY RBI

## Import of Gold by Nominated Banks /Agencies/Entities

RBI/2013-14/367 A. P. (DIR Series) Circular No.73 Dated: November 11, 2013

Reference is drawn to Reserve Bank's A.P. (DIR Series) Circular No. 25 dated August 14, 2013 on "Import of Gold by Nominated Banks /Agencies/Entities". It has been decided by RBI to issue the following clarifications in consultation with Government of India:

Any authorisation such as Advance Authorisation (AA) / Duty Free Import Authorization (DFIA) is to be utilised for import of gold meant for export purposes only and no diversion for domestic use shall be permitted. For any AA / DFIA issued prior to 14th August 2013 the condition of sequencing the imports prior to exports shall not be insisted upon.

Notwithstanding any of the foregoing directions, entities/units in the SEZ and EoUs, Premier and Star Trading Houses (irrespective of whether they are nominated agencies or not) are permitted to import gold exclusively for the purpose of exports only. Similarly, exports towards fulfilment of obligation under AA/DFIA scheme shall not qualify as export for the purpose of the scheme of 20:80.

## Participation in Exchange Traded Interest Rate Futures

RBI/2013-14/410 IDMD.PCD.09/14.03.01/2013-14 Dated: December 19, 2013

Reference is drawn to the RBI notification IDMD.PCD.07/ED (RG) - 2013 dated December 5, 2013. These directions were issued superseding the Interest Rate Futures (Reserve Bank) Directions, 2009 dated August 28, 2009 (as amended till December 30, 2011).

In the context of the Interest Rate Futures (Reserve Bank) Directions, 2013 dated December 5, 2013 issued by the Reserve Bank of India, it is clarified that the participation of commercial banks in IRF would be subject to the guidelines issued vide circular DBOD.BP.BC.56/21.04.157/2008-09 dated October 13, 2008 and updated vide circular DBOD.BP.BC 34/21.04.157/2009-10 dated August 28, 2009 i.e. banks are permitted to participate in IRF both for the purpose of hedging the risk in the underlying investment portfolio and also to take trading position. However, banks are not allowed to undertake transactions in IRFs on behalf of clients. Similarly, stand-alone Primary Dealers are allowed to deal in IRF for both hedging and trading on own account and not on client's account as prescribed in paragraph 3 of the guidelines issued vide circular IDMD. PDRD. No.1056 / 03.64.00/2009-10 September 1, 2009.

## Overseas Direct Investments – Rollover of Guarantees

RBI/2013-14/427 A.P. (DIR Series) Circular No.83 Dated: January 3, 2014

Attention of the Authorised Dealer (AD - Category I) banks is drawn to the RBI Notification No. FEMA.120/RB-2004 dated July 7, 2004 [Foreign Exchange Management (Transfer or Issue of any Foreign Security) (Amendment) Regulations, 2004] (the Notification), as amended from time to time.

It has been decided by the BRI to not treat / reckon the renewal / rollover of an existing / original guarantee, which is part of the total financial commitment of the Indian party in terms of Regulation 6 of the Notification ibid, as a fresh financial commitment, provided that :

a) the existing / original guarantee was issued in terms of the then extant / prevailing FEMA guidelines.
b) there is no change in the end use of the guarantee, i.e. the facilities availed by the JV / WOS / Step Down Subsidiary;
c) there is no change in any of the terms & conditions, including the amount of the guarantee except the validity period;
d) the reporting of the rolled over guarantee would be done as a fresh financial commitment in Part II of Form ODI, as hitherto; and
e) if the Indian party is under investigation by any investigation / enforcement agency or regulatory body, the concerned agency / body shall be kept informed about the same.

In case, however, the above conditions are not met, the Indian party need to obtain prior approval of the Reserve Bank for rollover / renewal of the existing guarantee through the designated AD bank.

# INITIATED BY PFRDA

## Accounting Policy for Inflation Linked Bonds

PFRDA/2013/19/PFM/5 Dated: 11th Dec. 2013

Inflation Indexed Bonds (IIB) 2013-14 issued by RBI has a fixed real coupon rate and a nominal principal value that is adjusted against inflation. Coupons will be paid on adjusted principal and on maturity, the adjusted principal or face value (whichever is higher) will be paid. For providing inflation protection, Final Wholesale Price Inflation (WPI) will be used with four months lag.

The Index Ratio (IR) is to be computed by dividing reference index for the settlement date by reference index for issue date. For detailed information and formula, please visit the PFRDA website www.pfrda.gov.in.

For the purpose of accounting IIB in NPS Schemes, the accruals of interest on IIB are to be calculated daily on the inflation adjusted principal (Principal X Index Ratio set date) with the applicable real rate of return and may be valued in accordance with the valuation guidelines issued by FIMMDA. Moreover, if any variances arise due to actual coupons receipts vis a vis the accruals, it should be appropriated to the Schemes on the coupon due date.

## Remittance of NPS funds solely through electronic mode (NEFT/RTGS) from 01st April 2014

PFRDA/2014/01/CSG/1 Dated: 09th January 2014

Reference is drawn to Circulars no. PFRDA/2013/10/CRTB/1 dated 30th April 2013 and PFRDA/2013/12/CRTB/2 dated 31st May 2013.

PFRDA has observed that the following problems are presently being faced on account of remittance of NPS Contribution funds through physical instruments

a) Higher percentage of rejection of Contributions/Funds return
b) Delays due to cheque clearing activity
c) Incidences of cheque rejection due to financial/technical reasons

All the aforementioned issues affect the timely investments of the subscribers thus adversely impacting their pension corpus accumulation. To obviate the aforesaid concerns, and in compliance of CVC instructions issued vide Office Order No. 20/4/04 File no. 98/ORD/1 dated 06-04-2004 PFRDA has decided to discontinue the remittance of NPA Contribution funds through physical instruments and to accept remittance solely through electronic mode from 01st April 2014

Accordingly from 01st April 2014 onwards, all nodal officers remitting NPS Contributions have to mandatorily remit NPS Contributions through electronic mode i.e. NEFT/RTGS only

The overall procedure for remittance of funds to Axis Bank (Trustee Bank), matching & booking of Subscriber Contributions Files (SCFs) and the receipt of funds from it shall remain unchanged.

## INITIATED BY PFRDA

### Implementation of Standard Proposal form for Life Insurance

IRDA/Life/AREG/CIR/045/01/2014 Dated: 29-01-2014

IRDA, having received various representations from life Insurance Industry, the following clarifications are issues.

1. The implementations of obligations under Section 5, 6, 7, 8, 9 & 10 of IRDA Regulations, 2013 have been deferred until further notice to facilitate a more comprehensive debate and consultations on various provisions
2. Micro Insurance Products and Products distributed through CSC Channel are not subjected to IRDA Regulations, 2013

### Standard Format for Filing of Policy Documents with the Authority

IRDA/LIFE/CIR/GDL/034/01/2014 Dated: 21-01-2014

Reference is drawn to the following IRDA regulations.

a) CIR – IRDA/ ACTL/FUP/Ver 2.0/Dec 2001 dtd 12/12/2001
b) CIR – 032/IRDA/ACTL/FUP/Ver 5.0 /Sep 2007 dtd 06/09/2007
c) CIR – IRDA/ACT/CIR PRD/023/02/2013 dtd 14/02/2013
d) CIR – IRDA/Life CIR / Misc /050/03/2013 dtd March 12, 2013

With reference to abovementioned circulars issued from time to time and proviso 6(1) of IRDA (protection of Policyholders` Interests) Regulations, 2002 regarding Life Insurance Policy Documents, it is felt necessary to design a Standard Format for filing of the Policy documents with IRDA at the time of product approval for all categories of products in order to make it convenient for speedy clearance of the products in Product Approval process at IRDA. All the Life Insurance Companies are required to adhere to the same format for filing. The format and the circular can be accessed on IRDA website www.irda.gov.in.

The Standard Format for filing Policy Document with IRDA consists of Part A, B, C, D, E, F and G. Every Life Insurer will file the Texts of the Policy Documents in the Standard Formats in the above parts for each of the below mentioned category of the product and would be finalized/approved by IRDA.

1. Linked -- Individual
2. Linked – Group
3. Linked Riders
4. Non Linked – Individual
5. Non- Linked – Group
6. Non- Linked – Riders
7. VIP
8. Others, if any

The approval for Complete Policy Documents Standard Format / Texts will be granted as and when a product of that category is filed by the Insurer in normal course of File and Use approval. However , the Insurers are advised to take One Time Approval for all categories of the products (as mentioned above from 1 to 8 ) together for specific Parts A, B , F and G in advance and be frozen , depending upon the nature of the Product .

The Appointed Actuary and Authorized legal officer of the Life Insurer can then make use of FROZEN format/Texts for a particular product in 2 ways -

1) By certifying that the standard approved FROZEN format/texts has been used without any changes.
   OR
2) By specifically listing each and every change made against the standard approved FROZEN format/Texts for the particular Part/Product and certifying that rest of the contents in the format are as per standard FROZEN format/Texts.

Normally Part A, Part B, Part F and Part G of the Format/Texts should be drafted for a specific category of the product in such a manner that it would not require frequent changes/modification and hence may be used as an approved FROZEN Part for filing of the same category of the Product in future. However, in Part C, Part D and Part E changes are more likely and would be product specific.

The Certificate of AA and Authorized Legal officer duly countersigned by the CEO would be required to be submitted for each Part in the attached Certification Format (Annexure B) at the time of submission of the filing of draft of the Policy Documents for the new Products in future once a specific category of product Format/Text has been approved and frozen.

The Circular would take effect to use the Specified Format for filing of NEW Products from 01-02-2014 irrespective of approval for Sub Parts A, B, F and G have been taken or not.

However, the Insurers are hereby advised to submit the Policy Documents Texts {Part A, B, F and G} for all the above mentioned categories in the specified Format by 31-03-2014 for specific approval, which may be frozen and used for future approval of the Product of those specific Categories.