

Core Investment Companies (CICs)

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Source: *Monthly Policy Review, PRS*

RBI released the report of the Working Group to review the regulatory and supervisory framework for Core Investment Companies (CICs)

What is a Core Investment Company?

- A Core Investment Company **is a non-banking financial company (NBFC) that engages in the business of acquisition of shares and securities.**
- It should have at least 90% of its net assets in the form of investment in equity shares, bonds, debentures, debts or loans in group companies.
- It should also have at least 60% of its assets as investment in equity shares in group companies.

Key observations of the working group

- The Working Group observed that the **structure of group companies becomes complex due to large companies with multiple layers.**
- It noted that the provision of Companies Act, 2013 which restricts the group structure of companies to two layers does not apply to NBFCs (and therefore, does not apply to CICs).
- It also observed that, **unlike NBFCs, the exposure (in the form of equity or loan) of CICs in a group company is not deducted from its capital.**
- This, along with a lack of restriction on the number of layers, may lead to over-leveraging (high exposure) by CICs.
- Further, the group observed that corporate governance

guidelines are not explicitly applicable to CICs.

Key recommendations

Considering the above, the working group made the following key recommendations:

- Capital contribution by a CIC in a step-down CIC (a subsidiary of a subsidiary), above 10% of its owned funds, should be deducted from its adjusted net worth, The number of layers of CICs in a group should be restricted to two.
- A step-down CIC may not be permitted to invest in any other CIC.
- Every group having a CIC should have a Group Risk Management Committee.
- Two Board level committees (Audit Committee, and Nomination and Remuneration Committee) should be mandatorily constituted.
- RBI may conduct a periodic onsite inspection of CICs.