

Core Investment Companies

June 25, 2020

Why was it News?

A working group formed by the Reserve Bank of India (RBI) has recommended measures to strengthen Core Investment Companies (CIC). The group is headed by the former Corporate Affairs Secretary – Tapan Ray.

What are core investment companies?

- Core Investment Companies (CICs) are specialized **Non-Banking Financial Companies (NBFCs)**.
- A Core Investment Company registered with the RBI has an **asset size of above Rs 100 crore**.
- Their **main business** is the **acquisition of shares and securities** with certain conditions.
- For e.g. these **should not hold less than 90% of its net assets** in the form of investment in equity shares, preference shares, bonds, debentures, debt or loans in **group companies**.
- **Group companies** are an arrangement involving two or more entities related to each other through any of the following relationships, viz., subsidiary, joint venture, associate, promoter-promotee for listed companies, a related party, common brand name, and investment in equity shares of 20% and above.

Key Recommendations

- Registration: The current threshold of Rs 100 crore asset size and access to public funds for registration as CIC should be retained.
- Related to Group Companies:
 - Every group having a CIC should have a **Group Risk Management Committee**.
 - The **number of layers** of CICs in a group should be

restricted to two. As such, any CIC within a group shall not make investments through more than a total of two layers of CICs, including itself.

- The word “layer”, means subsidiary or subsidiaries of the holding company.

▪ **For Better Governance:**

- CICs need to induct independent directors, conduct internal audits and prepare consolidated financial statements.
- There is a need for ring-fencing boards of CICs by excluding employees/executive directors of group firms from its board.
- CICs should constitute board-level committees – Audit Committee, Nomination and Remuneration Committee and Group Risk Management Committee.