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Revised Guidelines for Core Investment Companies (CICs)

Reserve Bank of India (RBI) revised the guidelines with respect to Core Investment Companies (CICs)

Background:

Reserve Bank of India (RBI) established a Working Group to review the regulatory and supervisory framework for Core Investment Companies (CICs). After seeking comments from different stakeholders a revised Circular was issued vide RBI/2020-21/24 DoR (NBFC) (PD) CC.NO. 117/03.10.001/2020-21 on 13 August 2020 (the Circular), outlining revised regulations for CICs.

Highlights of the revised the Circular are summarised below:

Provisions	Key Amendments
Revision in definition of Adjusted Net Worth (ANW)	<p>While computing ANW under the Core Investment Companies (Reserve Bank) Directions, 2016 (CIC Directions):</p> <ul style="list-style-type: none"> Direct and indirect contribution by one CIC in other CIC exceeding 10% of Owned Funds of the investing CIC, shall be deducted. The deduction requirement shall take immediate effect for any investment made by a CIC in another CIC after 13 August 2020. Where the investment by a CIC in another CIC is already in excess of 10%, the CIC need not deduct the excess investment from owned funds for computation of its ANW till 31 March 2023.
Group Structure	<p>On and from 13 August 2020:</p> <ul style="list-style-type: none"> The number of layers of CICs within a Group (including the parent CIC) shall be restricted to two, irrespective of the extent of direct or indirect holding/control exercised by a CIC in the other CIC. If a CIC makes any direct/ indirect equity investment in another CIC, it will be deemed as a layer for the investing CIC. <p>Existing entities to reorganise their business structures and adhere to this requirement by 31 March 2023.</p>
Risk Management	<p>Applicability: The following CIC shall formulate Group Risk Management Committee (GMRC):</p> <ul style="list-style-type: none"> Parent CIC, if it exists. CIC with largest asset size, if parent CIC doesn't exist.

	<p>Composition of GMRC:</p> <ul style="list-style-type: none"> • Minimum 5 members including executive member. • At least 2 members shall be Independent Directors, one of whom shall be Chairperson of GMRC. • Member shall have adequate experience in risk management practices. • Such GMRC shall report to the Board of the CIC constituting it and meet once in a quarter. <p>Responsibilities of GMRC :</p> <ul style="list-style-type: none"> • Analyse the material risk to which the group, its businesses and subsidiaries are exposed. It must discuss all risk strategies both at an aggregate level and by type of risk, and make recommendations to the Board in accordance with the group’s overall risk appetite. • Assess whether the corporate governance framework addresses risk management across the group. • Carry out periodic independent formal review of the group structure and internal structure <p>Note:</p> <ul style="list-style-type: none"> • All CICs with assets sizes of more than INR 5000 crore (INR 50 Billion) shall appoint a Chief Risk Officer (CRO) with clearly specified roles and responsibility. • CICs shall submit to the Board, a quarterly statement of deviation certified by CEO/CFO, stating deviations in the use of proceeds of any funding obtained by the CIC from creditors and investors from the stated objects.
<p>Change in Nomenclature</p>	<ul style="list-style-type: none"> • A Systemically Important Core Investment Company (CIC – ND – SI) henceforth be termed as Core Investment Company. • Core Investment Company, which is not required to be registered, will henceforth be termed as ‘Unregistered CIC’ instead of ‘exempted CIC.’
<p>Consolidation of Financial Statement (CFS)</p>	<ul style="list-style-type: none"> • CICs shall prepare CFS for all the entities under the group, as per provisions of Companies Act, 2013. • If for an entity in a group, exemption is provided as per Accounting Standards/statutory provisions from consolidation, disclosure shall be required as specified in the Circular. • The auditors of CIC as principal auditor shall use the work of other auditors with respect to the financial information of other respective entities. • CICs shall adhere to the RBI circular for implementation of Ind AS. All CICs shall adhere to the guidelines on submission of data to Credit Information Companies.

Exceptions to carrying other financial activity	<ul style="list-style-type: none"> • CICs are allowed to invest in money market instruments, including mutual funds, which make investments in money market instruments/debt instruments with a maturity of up to 1 year.
Registration	<ul style="list-style-type: none"> • CICs with an asset size of less than INR 100 crore (INR 1 Billion), irrespective of whether accessing public funds or not and with an asset size of INR 100 crore (INR 1 Billion) and above and not accessing public funds are not required to register with the bank under Section 45IA of the RBI Act, 1934.
Corporate Governance and Disclosure Requirements	<ul style="list-style-type: none"> • Corporate governance requirement as per Companies Act, 2013 • Disclosure as specified in the Circular. • Policy to ascertain “Fit and Proper” status of directors at the time of appointment and on a continuous basis.

Conclusion:

The changes in the CIC circulars are aimed at simplifying structures of existing CICs by eliminating layers of CICs and by making regulatory and supervisory framework more efficient. They are also aimed at making the structures more transparent by robust disclosures to ensure good corporate governance practices.



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