

Core Investment Companies
(Updated as on December 20, 2016)

FOREWORD

The Reserve Bank of India is entrusted with the responsibility of regulating and supervising the Non-Banking Financial Companies by virtue of powers vested in Chapter III B of the Reserve Bank of India Act, 1934. The regulatory and supervisory objective, is to:

- a) ensure healthy growth of the financial companies;
- b) ensure that these companies function as a part of the financial system within the policy framework, in such a manner that their existence and functioning do not lead to systemic aberrations; and that
- c) the quality of surveillance and supervision exercised by the Bank over the NBFCs is sustained by keeping pace with the developments that take place in this sector of the financial system.

Over last some years, RBI has carved out some specialized NBFCs like Core Investment Companies (CICs), NBFC- Infrastructure Finance Companies (IFCs), Infrastructure Debt Fund- NBFCs, NBFC-MFIs and NBFC-Factors being the most recent one.

It has been felt necessary to explain the rationale underlying the regulatory changes and provide clarification on certain operational matters for the benefit of the NBFCs, members of public, rating agencies, Chartered Accountants etc. To meet this need, the clarifications in the form of questions and answers, is being brought out by the Reserve Bank of India (Department of Non-Banking Supervision) on Specialized NBFCs with the hope that it will provide better understanding of the regulatory framework.

The information given in the FAQ on Systemically Important Core Investment Companies (CICs-ND-SI) is of general nature for the benefit of the public and the clarifications given do not substitute the extant regulatory directions/instructions issued by the Bank to the specialized NBFCs.

Core Investment Companies (CICs)

1. What is a Systemically Important Core Investment Company (CIC-ND-SI)?

Ans. A CIC-ND-SI is a Non-Banking Financial Company

- (i) with asset size of Rs 100 crore and above
- (ii) carrying on the business of acquisition of shares and securities and which satisfies the following conditions as on the date of the last audited balance sheet :-
- (iii) it holds not 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;
- (iv) its investments in the equity shares (including instruments compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue) in group companies constitutes not less than 60% of its net assets as mentioned in clause (iii) above;
- (v) it does not trade in its investments in shares, bonds, debentures, debt or loans in group companies except through block sale for the purpose of dilution or disinvestment;
- (vi) it does not carry on any other financial activity referred to in Section 45I(c) and 45I(f) of the RBI act, 1934 except investment in bank deposits, money market instruments, government securities, loans to and investments in debt issuances of group companies or guarantees issued on behalf of group companies.
- (vii) it accepts public funds

2. Will existing Core Investment Companies (CICs) which had previously been exempted from registration and whose asset size is less than Rs. 100 crore again be required to submit application for exemption?

Ans: Existing CICs which were exempted from registration in the past and have an asset size of less than Rs 100 crore are exempted from registration in terms of section 45NC of the RBI Act 1934, as stated in [Notification No. DNBS.\(PD\) 220/CGM\(US\)-2011 dated January 5, 2011](#), and as such are not required to submit any application for exemption.

3. Would existing CICs which had previously been exempted from registration and whose asset size is less than Rs. 100 crore be required to submit Statutory Auditor's Certificate with reference to position as on March 31 of each year to the effect that the company continues to comply with the earlier norms based on which it was treated as a 'Core Investment Company'.

Ans: No, Existing CICs which have been exempted from registration in the past and have an asset size of less than Rs 100 crore are exempted from registration as stated in Notification No. DNBS.(PD) 220/CGM(US)-2011 dated January 5, 2011. As such they are not required to

submit any auditor's certificate that they comply with the requirements of the Notification.

4. A single group is having under its fold four to five prospective Core Investment Companies with an aggregate asset size of more than Rs. 100 crore. In such a situation, which company among the group companies is required to seek registration as CIC with the Bank.

Ans: All companies in the group that are CICs would be regarded as CICs-ND-SI (provided they have accessed public fund) and would be required to obtain a Certificate of Registration from the Bank.

5. A single group is having under its fold various prospective Core Investment Companies with an aggregate asset size of more than Rs. 100 crore. One of the entities has raised / holds public funds (one of the pre requisites for qualifying as a CIC-ND-SI). In such a situation, whether every CIC within the group or only the parent CIC or the specific entity that has raised/ holds public funds would be regarded as CIC-ND-SI, and thus would be required to seek registration as CIC-ND-SI with the Bank.

For Example: HCo is the parent group CIC holding 100 per cent equity capital of A, B and C, all of which are also CICs . In case C has accessed public funds, whether HCo as well as A, B and C must seek registration as CIC-ND-SI or will just C need registration?

Ans: In such a case only C will be registered, provided C is not funding any of the other CICs either directly or indirectly.

6. Whether the investment of a company in its subsidiary's subsidiary (step down subsidiary) will be taken into account for determining not less than ninety percent of its net assets.

Ans: All direct investments in group companies, as appearing in the CICs balance sheet will be taken into account for this purpose. Investments made by subsidiaries in step down subsidiaries or other entities will not be taken into account for computing 90 percent of net assets.

7. Would Current Liabilities also form part of Outside Liabilities? What will be the treatment of DTL, Advance Tax Due and Provision for Income Tax? Will they be Outside Liabilities?

Ans: Anything that has to be repaid will be an outside liability.

8. In case an existing NBFC-ND-SI is converted into a CIC-ND-SI after fulfilling the stipulated criteria, will the existing CoR continue or will a fresh application need to be made?

Ans: As there would be a separate application form for CICs-ND-SI, they would have to apply afresh.

9. What items are included in the 10% of Net assets which CIC's/CIC's-ND-SI can hold outside the group?

Ans: These would include real estate or other fixed assets which are required for effective functioning of a company, but should not include other financial investments/loans in non group companies.

10. Is there an enabling provision for use of statutory accounts based on some date other than 31st March, such as December 31st?

Ans: While such accounts could be taken into account in view of the fact that developments after balance sheet date are also taken into account, all NBFCs including CICs-ND-SI would mandatorily have to finalise their accounts as on March 31 of the year, and submit annual auditors certificate based on this figure.

11. Whether investments in a group entity other than a Company, say partnership firms, LLPs, Trusts, Association of Persons, etc by CICs-ND-SI could be regarded as investments in Group Companies for the purpose of calculating 90% investment in Group Companies.

Ans: No, only investments in companies registered under Section 3 of the Companies Act 1956 would be regarded as investments in Group companies for the purpose of calculating 90% investment in Group companies. Moreover, CICs are prohibited from contributing capital to any partnership firm or to be partners in partnership firms including Limited Liability Partnerships (LLPs) or any association of person similar in nature to partnership firms.

12. Are CICs-ND-SI exempt from the Systemically Important Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2015?

Ans: No, they are only exempt from norms regarding submission of Statutory Auditor Certificate regarding continuance of business as NBFC, capital adequacy and concentration of credit / investments norms.

13. Would CICs-ND-SI require NOC in terms of Regulation 7 of FEMA (Transfer or Issue of Any Foreign Security) Amendment Regulations Act 2004 in case they want to invest abroad?

Ans: Yes, as they are regulated by RBI, they would require NOC from Department of Non-Banking Supervision (DNBS) for making investments in the financial sector. However, a registered CIC making investments in the non-financial sector need not obtain prior approval from the Department of Non-Banking Supervision (DNBS), RBI. It will only need to report such investments to the Department within 30 days of such investment.

14. Do CICs which are exempt from registration, and investing overseas need NOC from DNBS?

Ans: Exempted CICs desirous of making overseas investment in financial sector shall first need to hold a Certificate of Registration (CoR) from

Reserve Bank of India (the Bank) and will have to comply with all the regulations applicable to registered CIC-ND-SI. However, they need not obtain NOC from the Bank if their investments overseas are in the non-financial sector.

15. Whether NBFCs already registered with the Bank as category “B” company whose asset size is below Rs. 100 crore, but fulfilling the CIC criteria, can seek voluntary deregistration (as such companies are not otherwise required to get registered with the Bank under the new norms)? If so, which source should be relied upon viz certificate from Statutory auditor or audited balance sheet for one year or more?

Ans: Yes, CICs presently registered with the Bank but fulfilling the criteria for exemption under Notification No 220 dated January 05, 2010 can seek voluntary deregistration. Both audited balance sheet and auditors certificate are required to be submitted for the purpose.

16. Whether CICs having asset size below Rs. 100 crore are regulated by the Reserve Bank?

Ans: CICs having asset size of below Rs 100 crore are exempted from registration and regulation from the Reserve Bank, except if they wish to make overseas investments in the financial sector.

17. As per the definition of CIC, only investment/loans/debt in group companies is eligible for computing 90% exposure? What treatment is to be given to company’s investment in group’s partnership concerns?

Ans: CICs are prohibited from contributing capital to any partnership firm or to be partners in partnership firms including Limited Liability Partnerships (LLPs) or any association of person similar in nature to partnership firms.

18. If a company is unlisted, would the terms of block deals apply? What is the minimum number/value of shares transferred for it to be defined as a block deal/block sale?

Ans: The term used in the CIC circulars is block sale and not block deal which has been defined by SEBI. In the context of the circular, a block sale would be a long term or strategic sale made for purposes of disinvestment or investment and not for short term trading. Unlike a block deal, there is no minimum number/value defined for the purpose.

19. Can CICs/CICs-ND-SI accept deposits?

Ans: No, CICs/ CICs-ND-SI cannot accept deposits. That is one of the eligibility criteria.

20. What does the term public funds include? Is it the same as public deposits?

Ans: Public funds are not the same as public deposits. Public funds include public deposits, inter-corporate deposits, bank finance and all funds received whether directly or indirectly from outside sources such as funds raised by issue of Commercial Papers, debentures etc. However, even though public funds include public deposits in the general course, it may be noted that CICs/CICs-ND-SI cannot accept public deposits.

21. In the definition of public funds, what do the term “indirect receipt of public funds” mean?

Ans: Indirect receipt of public funds means funds received not directly but through associates and group entities which have access to public funds.

22. Can CICs issue guarantees and will this be considered part of definition of public funds?

Ans: Yes, CICs may be required to issue guarantees or take on other contingent liabilities on behalf of their group entities. Guarantees per se do not fall under the definition of public funds. However, it is possible that CICs which do not accept public funds take recourse to public funds if and when the guarantee devolves. Hence, before doing so, CICs must ensure that they can meet the obligation there under, as and when they arise. In particular, CICs which are exempt from registration requirement must be in a position to do so without recourse to public funds in the event the liability devolves. If unregistered CICs with asset size above Rs. 100 crore access public funds without obtaining a Certificate of Registration (CoR) from RBI, they will be seen as violating Core Investment Companies (Reserve Bank) Directions, 2011 dated January 05, 2011.

23. What is a Group company?

Ans: For the purposes of determining whether a company is a CIC/CIC-ND-SI, ‘companies in the group’ have been exhaustively defined in para 3(1) b of [Notification No. DNBS. \(PD\) 219/CGM\(US\)-2011 dated January 5, 2011](#) as “an arrangement involving two or more entities related to each other through any of the following relationships, viz., Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), Promoter-promotee [as provided in the SEBI (Acquisition of Shares and Takeover) Regulations, 1997] for listed companies, a related party (defined in terms of AS 18) Common brand name, and investment in equity shares of 20% and above).”

24. How can a company register as a CIC-ND-SI?

Ans: The application form for CICs-ND-SI available on the Bank’s website can be downloaded and filled in and submitted to the Regional Office of the DNBS in whose jurisdiction the Company is registered along with necessary supporting documents mentioned in the application form.

25. A CIC-ND-SI should have 90% investment within the group, and in terms of current exposure norms, NBFCs-ND-SI are permitted only

40% of both lending and investment within any group. Therefore, no NBFC as it stands, would be able to become a CIC without breaching the NOF, CRAR or Concentration Norms, since its entire business is in a subsidiary. However, an NBFC may voluntarily seek to become a CIC-ND-SI since it brings clarity to the holding structure in their organization. How would this issue be resolved? Could NBFCs-ND-SI be provided exemption from Capital adequacy/exposure norms during the transition period, just as unregistered CICs-ND-SI are given 6 months time.

Ans: The NBFC would have to apply to RBI with full details of the plan and exemptions could be considered on a selective basis on the merits of the case.

26. A company has investments in Group companies but does not meet the criteria of principal business as defined in terms of asset-income criteria to be as an NBFC. Can the company still be registered as a CIC or does it need to first register as an NBFC?

Ans: CICs need not meet the principal business criteria for NBFCs.

27. If a company is a CIC but does not exactly meet the criteria specified, does the company need to register as an NBFC?

Ans: A holding company not meeting the criteria for a CIC laid down in para 2 of Notification No DNBS. (PD) 219/CGM(US)-2011 dated January 5, 2011 would require to register as an NBFC. However, if such company wishes to register as CIC-ND-SI/ be exempted as CIC, it would have to apply to RBI with an action plan achievable within the specific period to reorganize its business as CIC. If it is not able to do so, it would need to comply with NBFC requirements and prudential norms.

28. Whether a Holding Company which is not able to comply with the CIC criteria (all four conditions), would still need to comply with NBFC requirements and prudential norms even in the event that it is not satisfying the asset-income criteria. (For example: the holding company owns 60 per cent equity in another group company and is not meeting other three conditions Therefore, it does not qualify as a CIC. Further, the income from financial assets is also less than 50 per cent of total income. Whether such a company would require compliance with NBFC norms).

Ans: No, since the Company is not fulfilling the Principal Business Criteria (asset-income pattern) of an NBFC i.e. more than 50 % of its total assets should be financial assets and the income derived from these assets should be more than 50% of the gross income, it is not required to register as an NBFC under Section 45 IA of the RBI Act, 1934. However it should register itself as an NBFC as soon as it fulfills the criteria of an NBFC and comply with the NBFC norms.

29. A group would like to set up a CIC-ND-SI in the group to rationalize the set up. However, no company can commence the business of NBFI without COR from RBI. Therefore the proposed company would have to apply for COR before transferring shares from different companies to the CIC-ND-SI. But at that time the company would not be eligible in terms of the requirements, as it would not have 90% of net assets as investment in group companies. What should the company do?

Ans: The company would have to apply for COR to RBI, giving a business plan within a prescribed time period of one year in which it would achieve CIC-ND-SI status. In case the company is unable to do so, the exemptions would not apply and the company would have to comply with NBFC capital adequacy and exposure norms.

30. Whether CICs that are exempt from registration either because they have an asset size of less than Rs 100 crore or are not accessing public funds are required to register as NBFCs?

Ans: CICs that (a) have an asset size of less than Rs.100 crore irrespective of whether they are accessing public funds or not and (b) have an asset size of Rs. 100 crore and above and are not accessing public funds have been exempt from registration with the Bank under Section 45IA of the RBI Act, 1934 in terms of [notification No. DNBS.PD.221/CGM\(US\) 2011 dated January 5, 2011](#). Thus, they are not required to register with the Bank at all. As this is an exemption given under Section 45NC of the RBI Act, 1934, they are not required to approach the Bank at all.

31. Would a similar benefit apply to NBFCs i.e. would NBFCs with an asset size of less than Rs 100 crore and not accessing public funds be exempted from registration with the Bank?

Ans: No, this exemption is specifically given to CICs only. NBFCs other than CICs are not covered by this or any other aspect of the CIC Directions and would have to register with the Bank and comply with all applicable Directions of the Bank as issued from time to time.

32. Should Net assets include operating assets?

Ans: Net assets have been defined in Notification No. DNBS.(PD) 219/CGM(US)-2011 dated January 05, 2011 (para3(1)e) specifically for the purpose of defining a CIC. As such they will only include the items specifically mentioned therein, irrespective of whether any of these qualify as operating assets or not.

33. Definition of Group Companies should include LLPs and Partnerships in the Group?

Ans: Neither LLPs nor Partnerships are companies and hence have been deliberately excluded from the definition of Group Company. Further, in view of the loose structure and regulatory framework for these entities, it is felt that they should not be included in the definition.

34. While instruments that are compulsorily convertible into equity shares within a period not exceeding 10 years from the date of issue are excluded from Outside Liabilities, in terms of the Companies Act such instruments are excluded from the definition of 'public deposit' if they are convertible with a period of 20 years?

Ans: The period of 10 years was specified as a prudential measure not necessarily in alignment with a provision of the Companies Act. Moreover, the issue here is not public deposits but Outside Liabilities.

35. Unlike other NBFCs, can CICs ND-SI (a) no longer make overseas investment or (b) raise ECB or (c) obtain bank finance for acquisition of shares?

Ans: The Directions on CIC-ND-SIs have not restricted them from making overseas investment. Such investment will be governed by the provisions of Chapter VII of Master Direction-Core Investment Companies (Reserve Bank) Directions, 2016. Similarly, presently CIC-ND-SI can raise funds through ECB. The same would be governed by the instructions contained in the ECB Policy issued by Foreign Exchange Department of the Reserve Bank. Lending to NBFCs/ CICs by banks will be governed by the provisions as applicable to banks and specifically contained in the instructions on 'bank finance to NBFCs' issued by Department of Banking Regulation of the Reserve Bank.

36. If one of the small CICs in a group does not access public funds why should it register based on the condition of aggregate asset size?

Ans: As already clarified in the FAQs, a CIC that does not access public funds is exempt from registration irrespective of having other CICs in the Group that access public funds. Illustratively, if A is a CIC and B and C are also CICs and Group Companies of A provided A does not access any form of public funds including any funds from any Group Company including B and C, it would not require to register as a CIC. If A, B and C do not access public funds in any form none of them would be required to register as a CIC.

37. Will adjusted net worth of all the CICs in the Group also be aggregated for compliance purposes ?

Ans: Adjusted net worth (ANW) is a concept akin to capital requirement wherein the ANW should not be less than 30% of the risk weighted assets (RWA). In cases where asset size is aggregated, all the CICs within the group will be registered as CIC-ND-SI ANW will be applicable individually.

38. There is an apparent anomaly in the definition of 'public funds' as the moment public deposits is included in the definition of 'public funds' and CICs will be deemed to have raised public deposits and will therefore become an NBFC subject to exposure norms?

Ans: Even though public funds include public deposits in the general course, it may be noted that CICs cannot accept public deposits. It may further be reiterated that no NBFC can accept public deposits without specific permission of the Bank even if it holds a CoR from the Bank.

39. Would para 7 of the revised regulatory framework for NBFCs issued vide CC [DNBR \(PD\) CC.No. 002/03.10.001/ 2014-15 dated November 10, 2014](#) on multiple NBFCs in a group also apply to Core Investment Companies (CICs) in the group?

Ans: No. CICs in a group would not be considered for aggregating the assets of multiple NBFCs in a group under the circular. Instructions contained in the Core Investment Companies (Reserve Bank) Directions, 2011 dated January 5, 2011 shall be applicable to CICs in this regard.

40. What are the asset classification norms applicable to CICs?

Ans: Registered CICs with assets < Rs.500 crore shall follow the asset classification norm as specified in the Non-Systemically Important Non-Banking Financial (Non-Deposit accepting or holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 and those with assets \geq Rs.500 crore shall follow the asset classification norm applicable to NBFCs with assets \geq Rs. 500 crore as specified in the Systemically Important Non-Banking Financial (Non-Deposit accepting or holding) Companies Prudential Norms (Reserve Bank) Directions, 2015.

41. What are the standard asset provisioning norms applicable to CICs?

Ans: Registered CICs with assets < Rs. 500 crore shall maintain standard asset provisioning of 0.25% as specified in the Non-Systemically Important Non-Banking Financial (Non-Deposit accepting or holding) Companies Prudential Norms (Reserve Bank) Directions, 2015 and those with assets \geq Rs.500 crore shall maintain standard asset provisioning of 0.40% which would be applicable as specified in the Systemically Important Non-Banking Financial (Non-Deposit accepting or holding) Companies Prudential Norms (Reserve Bank) Directions, 2015.

42. Are Core Investment Companies (CICs) permitted to invest in Liquid Fund Schemes (Mutual Funds) with maturity of less than 91 days?

Ans: Yes. As per the present directions for CICs, they are permitted to make investments in money market instruments, including money market mutual funds. Since Liquid Funds are also mutual funds with the underlying being money market instruments; CICs are permitted to invest their surplus funds in Liquid Fund Schemes also.

43. CICs which presently have an asset size of less than Rs. 100 crore are required to apply to the Bank within three months of the date of achieving a balance sheet size of Rs. 100 crore. Would the date of achieving balance sheet size of Rs. 100 crore be the date of the last audited balance sheet ?

Ans: Yes, company which is a CIC and has achieved the balance sheet size of Rs.100 crore as per its last audited annual financial statement is required to apply to the Bank for registration as a CIC-SI, subject to its meeting the other conditions for being identified as systemically important CIC.