DNBS (PD) CC.No. /03.10.001/2009-10 **April 21, 2010**

<u>Proposed Regulatory Framework for Systemically Important Non Deposit Accepting Core Investment Companies(CICs-ND-SI)</u>

Core Investment Companies (CICs) were not considered as carrying on the business of acquisition of shares and securities in the following circumstances, namely,

i) not less than 90% of their assets were in investments in shares for the purpose of holding stake in the investee companies;

ii) they were not trading in these shares except for block sale (to dilute or divest holding);

iii) they were not carrying on any other financial activities; and

iv) they were not holding / accepting public deposits.

As such, such companies were not required to obtain Certificate of Registration (COR) from RBI under Section 45 IA of the RBI Act 1934.

<u>2. Systemically Important NBFCs</u>

In 2006, in view of the systemic risk arising from access to public funds such as bank borrowings, CPs, etc, by NBFCs, and their interconnectedness with the financial system, the focus of regulatory concern widened to include non deposit taking NBFCs also. Accordingly, non deposit taking NBFCs with an asset size of Rs. 100 crore and more as per the last audited balance sheet were defined as systemically important, (NBFC-ND-SI) and a regulatory framework was put in place for them vide Circular No 86 dated December 12, 2006.

<u>3. Systemic Importance of Core Investment Companies</u>

Since CICs also acquire shares and securities, they may be regarded as carrying on the business of acquisition of shares and securities and as such, are NBFCs. In view of systemic implications of access to public funds by Core Investment Companies, (public funds being defined as funds raised either directly or indirectly through public deposits, Commercial Paper, debentures, inter-corporate deposits, bank finance and other borrowings), it has been decided to bring CICs under RBI's regulatory framework as well.

4. Constraints faced by Core Investment Companies

It has been expressed that, in view of the peculiar business model of CICs, viz: holding stake in group companies and also aiding their funding requirements, the CICs find it difficult to comply with extant NOF requirements and exposure norms for NBFCs. These issues have been considered while formulating the regulatory framework for CICs.

5. Regulatory Framework for Core Investment Companies

(i) CICs with asset size of less than Rs 100 crore would be exempted from the requirement of registration with RBI, provided 90 per cent of their total assets are in investments in shares of investee companies for the purpose of holding stake in the said investee companies

(ii) All CICs having an asset size of Rs.100 crore or more will be considered as Systemically Important Core Investment Companies (CICs-ND-SI) and would be required to obtain COR from the RBI, even if they have been advised in the past that registration was not required.

(iii) 90 per cent of the total assets of CICs-ND-SI should be in investments in equity, debt, or loans in group companies, provided that the investment in equity shares of Group companies for the purpose of holding stake in these companies is not less than 60% of total assets;

(iv) CICs, including CICs-ND-SI, should not trade in shares except for block sale to dilute or divest the holding;

(v) CICs, including CICs-ND-SI, should not accept or hold public deposits; and

(vi) CICs including CICs-ND-SI should not carry on any other financial activities referred to in Section 45 I (c) and 45 I(f) of the Act, ibid, except investments in bank deposits, Govt. securities, loans to and investments in debt issuances of group companies, or guarantees issued on behalf of group companies;

(vii) Capital requirements: Every CIC-ND-SI shall ensure that at all times it maintains a minimum Capital Ratio whereby its Adjusted Net Worth shall not be less than 30% of its aggregate risk weighted assets on balance sheet and risk adjusted value of off balance sheet items as on the date of the last audited balance sheet.

(viii) Leverage ratio: The Outside liabilities of a CIC-ND-SI shall not exceed 2.5 times of its Adjusted Net Worth calculated as on the date of the last audited balance sheet;

6. Exemptions

CICs-ND-SI adhering to the requirements stipulated in para 5 above may be exempted from:

(i) maintenance of statutory minimum NOF ; and

(ii) requirements of "Non-Banking Financial (Non- Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007" including requirements of capital adequacy and exposure norms.

7. Transition Period

(i) All CICs-ND-SI, irrespective of whether they were specifically exempted in the past from registration with the RBI or not, should apply to the RBI for obtaining the CoR within a period of six months from the date of the Notification.

(ii) In order to operationalize the above dispensation in a non-disruptive manner, companies which apply for CoR within the stipulated time of six months may continue to carry on the existing business till the disposal of their application by RBI.

(iii) It is further clarified that the companies which fail to apply within the stipulated period of six months will be regarded as contravening the provisions of Section 45IA if they are regarded as carrying on the business of Core Investment Companies-ND-SI as described above.

(iv) Companies which presently do not meet the above criteria but whose asset size would cross Rs 100 crore at a later date, would be required to apply to RBI for COR within three months of crossing such limit.

8. Action plan to comply with Conditions

(i) CICs-ND-SI which do not meet the conditions stipulated in para 5 above, may approach the Regional Office of the RBI in whose jurisdiction they are registered, with an action plan for compliance with these conditions, in order to avail the exemptions stated in para 6.

(ii) RBI may examine the action plan of such CICs-ND-SI as have applied for COR and impose such conditions and restrictions as it deems fit.

9. Submission of annual statutory auditors certificate

CICs-ND-SI are required to submit an annual certificate from their statutory auditors regarding compliance with the above guidelines.

10. Definitions

(1) Adjusted Net Worth means:

i) the aggregate of

(A) Owned Funds as defined in Non Banking Financial (Non Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007;

(B) 50% of the amount standing to the credit of the Revaluation Reserve arising from valuation of shares, if any, as per the latest audited Balance Sheet; and

(C) an amount equal to 50% of the appreciation in the book value of quoted investment (calculated as the excess of the aggregate market value[1] of quoted investments over the book value of such investment as appearing in the latest audited Balance Sheet).

ii) reduced by the amount of diminution in the aggregate book value of quoted investments ((calculated as the excess of the book value of such investments as appearing in the latest Balance Sheet over the aggregate market value of such investments).

[1] Aggregate market value shall be calculated scrip-wise based on the daily closing price as on the Balance Sheet date

(2) Outside Liabilities means total liabilities other than paid up capital and reserves but including bank borrowings, all forms of debt, obligations having characteristics of debt whether created by issue of hybrid instruments or otherwise, and value of guarantees issued.

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