3. RBI Panel Moots Tighter Norms for CICs

Prelims: Banking

Mains: GS-III Indian Economy

Why in News?

- In 2018, Infrastructure Leasing and Financial Company (IL&FS), a core Investment company (CIC) with over 300 subsidiaries, defaulted on its payment following which over Rs 90000 crore worth of combined banking sector exposure was declared as non-performing or bad asset in the subsequent months.
- Experts have been seeking a review of CIC guidelines ever since.
- A working group formed by Reserve Bank of India has now suggested simplified structure for CICs.

Core Investment Companies (CIC):

- A core investment company is a non-banking financial company (NBFC) which carries on the business of acquisition of shares and securities and holds not less than 90 per cent of its net assets in the form of investment in equity shares, preference shares, bonds, debentures, debt or loans in group
- In August 2019, there were 63 CICs registered with RBI.

Concerns:

- Unlike NBFCs which are required to constitute board level committees, no such standards are mandated for CICs.
- The same director could be part of boards of multiple companies in a group, including CICs.
- In a few cases, the working group said, “it has been observed that the CIC had lent funds to group companies at zero percent rate of interest with bullet repayment of 3-5 years and without any credit appraisal”.

Rules for Core Investment Companies as suggested by the RBI Panel:

- It is suggested that such entities should only have a two-tier structure, and stronger boards, with at least 50% independent directors.
- The group has also recommended formation of board level committees for audit and remuneration for CICs as well as group risk management committees to address the concerns over corporate governance that were compromised over the years with opaque ownership structures in large conglomerates.

- At least one third of the board should comprise of independent members if chairperson of the CIC is non-executive, otherwise at least half of the board should comprise of independent member.
- It was also suggested that Audit Committee of the Board should be chaired by an independent director and the committee should meet at least once a quarter.
- It is suggested that capital contribution by a CIC in a step-down CIC, over and above 10% of its owned funds, should be deducted from its adjusted net worth.
- Step-down CICs should not be permitted to invest in any other CIC, but can ‘freely’ invest in other group companies. The number of layers of CICs in a group should be restricted to two. As such, any CIC within a group shall not make investment through more than a total of two layers of CICs, including itself.