Indian Economy · GS - III

The regulation of Core Investment Companies (CICs) is essential for maintaining financial stability and transparency in India's corporate sector. Examine the rationale behind RBI's regulatory framework for CICs and the significance of mandatory listing requirements for large CICs.

EXAM YEAR	PAPER	SUBJECT
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MARKS	WORD LIMIT
10	~150 words

Answer Hint

RBI regulation, systemically important NBFCs, interconnected corporate structures, financial transparency, public disclosure, corporate governance, investor protection, regulatory arbitrage, financial stability, accountability.

Model Answer

Introduction

Core Investment Companies are specialised NBFCs primarily engaged in acquiring shares and securities of group companies. Large CICs can influence financial stability because of their interconnected corporate structures and substantial investments.

Rationale Behind RBI Regulation

- **Financial stability:** Oversight helps monitor risks arising from interconnected group entities and excessive leverage.
- **Prudential regulation:** Capital adequacy, exposure limits and governance requirements reduce the possibility of financial distress.

- **Transparency:** Regulatory disclosures improve understanding of financial positions and intra-group transactions.
- **Systemic risk management:** Large CICs can transmit financial stress across multiple companies within a corporate group.

Significance of Mandatory Listing

- **Public accountability:** Listing subjects companies to greater disclosure and corporate governance requirements.
- **Investor protection:** Market disclosures enable investors to make informed decisions.
- **Transparency in valuation:** Public trading can improve price discovery and visibility of corporate financial structures.
- **Regulatory compliance:** Listing requirements reinforce the principle that large systemically important entities must follow applicable prudential norms.

Challenges and Way Forward

Compliance may increase costs and require restructuring of complex ownership arrangements. However, regulatory exemptions should not undermine financial stability. The RBI must ensure proportionate supervision, transparent disclosures and effective coordination with SEBI and other regulators.

Conclusion

The regulation and listing of large CICs represent an important step towards accountable corporate finance. Financial stability and transparency must take precedence over regulatory exemptions.

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