NBFCs, Holding Companies Rejig Financial Books to Evade RBI Scrutiny

Several non-banking financial companies and core investment companies are altering balance sheets to avoid RBI registration and compliance.

Core Investment Companies and NBFCs use the Principal Business Test criteria to adjust asset-income mix and bypass strict regulatory oversight.

KEY EXAM POINTS

- Companies tweak balance sheets to fail the **Principal Business Test** (PBT) and avoid **RBI** registration.
- An entity is classified as an **NBFC** if financial assets exceed **50%** of total assets and financial income exceeds **50%** of gross income.
- **Core Investment Companies** (CICs) must hold at least **90%** of net assets in group companies and **60%** in equity shares.
- Non-compliant entities conduct **commodity trading** to artificially inflate non-financial income above the **50%** threshold.
- **RBI** has issued notices asking non-registered entities why they have not complied with mandatory registration procedures.

DID YOU KNOW..!?

Reserve Bank of India was established on **April 1, 1935** under the **Reserve Bank of India Act, 1934**.

RBI was **nationalised** on **January 1, 1949** under the RBI Transfer to Public Ownership Act, 1948.

NBFCs are incorporated under the **Companies Act, 1956** or 2013 and regulated by RBI under **Chapter III-B** of RBI Act, 1934.

Core Investment Companies with asset size of ₹**100 crore** or above are classified as **Systemically Important CICs**.

Unlike commercial banks, NBFCs cannot accept **demand deposits** or issue **cheques** drawn on themselves.

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An NBFC meets the 50-50 test if financial assets and financial income both exceed 50% of total assets and income.

Syllabus Relevance: High relevance for Group 1 and Group 2 exams under Unit 6 (Indian Economy) focusing on RBI, NBFCs, and financial sector governance.

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