

# A Lighter Touch? RBI's Proposed Recalibration of NBFC Regulation

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On 10 February 2026, the Reserve Bank of India (RBI) released a draft amendment (Draft Amendment) to the RBI (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025 (NBFC Exemptions Master Directions). The release of the Draft Amendment follows the *Statement on Developmental and Regulatory Policies* published by the RBI on 6 February 2026, which indicated the RBI's intention to introduce potential regulatory relaxations for certain low-risk non-banking financial companies (NBFCs), in particular, NBFCs that do not access public funds and do not have a customer interface. In continuation of this, the Draft Amendment aims to: (i) exempt certain NBFCs from the requirement of obtaining registration under the Reserve Bank of India Act, 1934 (RBI Act); and (ii) provide certain regulatory relaxations for such NBFCs. We have set out below our analysis of the key changes introduced under the Draft Amendment.

The Draft Amendment is currently open for public comments till 4 March 2026, which may be submitted to the RBI [here](#).

## Applicability

The Draft Amendment is relevant to companies that fulfil the principal business criteria (*i.e.*, their financial assets are more than 50% of their total assets (netted off by intangible assets) and income from financial assets is more than 50% of their gross income) but: (a) do not avail / intend to avail public funds; and (b) do not have / intend to have any customer interface (**Type I NBFCs**). The provisions of the Draft Amendment, if notified, will come into force from 1 April 2026 (**Effective Date**).

At present, 'public funds' are defined to include funds raised either directly or indirectly through public deposits, inter-corporate deposits, bank finance and all funds received from outside sources such as funds raised by issue of commercial papers, debentures, etc. but excluding funds raised by issue of instruments which are compulsorily convertible into equity shares within a period not exceeding 5 years from the date of issue. 'Customer interface' means interactions between an NBFC and its customers while carrying on its business.

## Regulatory Exemptions for Certain Type I NBFCs

The Draft Amendment aims to exempt Type I NBFCs having asset size of less than INR 1,000 crore from the requirement of obtaining a certificate of registration (CoR) as an NBFC with the RBI (Unregistered Type I NBFC). In addition, such NBFCs would be excluded from the applicability of the NBFC Exemptions Master Directions and certain other RBI directions, unless specifically made applicable. This signals a clear shift towards nuanced risk-based regulation and moving away from a one-size-fits-all compliance framework, an era that was ushered in with scale-based regulations for NBFCs in 2021. The regulatory intent indicates supervisory attention on entities that pose relatively higher systemic or customer risk as the Indian financial system matures.

Further, a clarification in the frequently asked questions annexed to the Draft Amendment (FAQs) indicates that while the asset size of registered Type I NBFCs will continue to be considered for group-level aggregation to determine 'Middle Layer' classification, the asset size of Unregistered Type I NBFCs will be excluded from such computation. This provides structuring flexibility to groups, enabling small, closed-loop

entities (such as captive or treasury vehicles) to qualify as Unregistered Type I NBFCs without inflating group asset size for the purposes of scale-based regulation, and thereby optimising regulatory exposure, ring-fencing certain entities and reducing compliance burdens, while remaining aligned with the overall regulatory framework.

In relation to NBFCs not availing public funds and not having any customer interface and having asset size of INR 1,000 crore or more, the registration requirement as a 'Type I NBFC' is mandatory. The existing exemptions available to Type I NBFCs, such as lower net owned funds requirement, shall only apply to such NBFCs which have registered as a 'Type I NBFC'.

## Limitations to the Exemption to Unregistered Type I NBFCs

Existing Type I NBFCs with asset size of less than INR 1,000 crore will not be automatically exempt from registration requirements as set out above. They will be required to make an application for deregistration in the manner detailed below, within a period of 6 months from the Effective Date (i.e., 30 September 2026).

Unregistered Type I NBFCs will also be required to adhere to certain compliance such as: (a) passing an annual board resolution on not availing public funds or having customer interface during the year; (b) disclosure of its exempt status in its financial statements; and (c) submission of an exception report to the RBI in case of violation of any such conditions. Further, an Unregistered Type I NBFC will continue to be classified as an NBFC. While they will be exempt from registration and the net owned fund requirement, all other requirements under Chapter IIIB of the RBI Act will continue to apply to them, and the RBI may also issue specific guidelines applicable to Unregistered Type I NBFCs. This in turn aims to balance easing compliance burden with regulatory oversight.

Additionally, while Unregistered Type I NBFCs are exempt from registration for domestic operations, this exemption does not apply if the company intends to make overseas investments in the financial services sector. In such cases, the NBFC must first obtain a CoR from the RBI, ensuring regulatory oversight of cross-border exposure. Overseas investments carry additional prudential and risk considerations and by requiring registration, RBI ensures its oversight on foreign exchange outflows, maintains macroeconomic and financial stability, ensures supervisory visibility over cross-border risks and leverage, prevents regulatory arbitrage through offshore structures, and mitigates jurisdictional risks that could have spillover effects on the domestic financial system.

## De-Registration by Type I NBFCs

The Draft Amendment allows existing Type I NBFCs have asset size of less than INR 1,000 crore to make a de-registration application with the RBI on the PRAVAAH portal. The de-registration process will include the submission of, *inter alia*, the following prescribed documents on the portal, on the letterhead of the company seeking such de-registration:

- (a) original CoR (to be submitted physically to the RBI);
- (b) audited financial statements of the company for the last 3 financial years;
- (c) status of public funds and customer interface for the last 3 financial years;
- (d) auditor's certificate certifying that the company does not have public funds and any customer interface as on date;
- (e) board resolution stating that the company neither has nor intends to have access to public funds or any customer interface, and shall obtain registration as a Type II NBFC if it intends to access public funds and/or have a customer interface, or as a Type I NBFC if its asset size reaches INR 1,000 crore or more;
- (f) undertaking from the board of directors of the company that the NBFC shall disclose its status as an Unregistered Type I NBFC and also disclose the status of public funds and customer interface as part of 'Notes to Accounts' to its financial statements.

The RBI may accept the deregistration if it is convinced that the conscious business model of the applicant is to operate without availing public funds and without having customer interface.

However, the Draft Amendment does not provide any clarity on the manner in which Type I NBFCs with asset size of less than INR 1,000 crore will be dealt with after the Effective Date. It is not clear whether existing NBFCs may manage their liability profiles to meet the exemption conditions and apply for exemption in future. While not explicitly stated, it appears that a new NBFC entity meeting the NBFC

categorisation test on a date after the Effective Date may seek categorisation as an Unregistered Type I NBFC, without any application to this effect, by satisfying other eligibility requirements. This would represent a significant shift in the regulatory regime as such entities, while technically meeting the principal business criteria, would no longer be required to undergo the registration process.

Under the Draft Amendment, existing Type I NBFCs *“including those holding Certificate of Registration as ‘Type I NBFC’”* may apply for deregistration. This appears to create an opportunity for currently unregistered entities falling within the category of Type I NBFCs with assets less than INR 1,000 crore despite not having a CoR under the present regime to get regularised. Further, several NBFCs that have been registered with the RBI before the concept of Type I NBFCs was introduced in 2016 may not have the CoR as a Type I NBFC in spite of the fact that as on date they do not have access to public funds or customer interface. Such NBFCs will also have the option to apply for de-registration.

## Risk Mitigation by RBI

The RBI uses customer interface and access to public funds as risk filters to determine the extent of regulatory oversight required for an NBFC. Entities that neither deal with external customers nor raise public funds are considered to pose minimal consumer and systemic risk. While providing exemptions for lower asset-sized Type I NBFCs, the RBI under the Draft Amendment also proposes to balance the exemption with expanding its regulatory overreach by expanding the scope of these terms:

### (i) Scope of ‘indirect receipts of public funds’

The Draft Amendment also goes onto clarify that any funds received through associate or group entities of the concerned NBFC that themselves have access to public funds may be considered (indirect) access to public funds. Further, the FAQs annexed to the Draft Amendment clarify that loans received from directors and/or shareholders will also be treated as public funds.

Accordingly, NBFCs would no longer be able to avoid being regarded as accessing “public funds” by routing borrowings through group entities or accepting loans from directors or shareholders. While the objective appears to be to prevent regulatory leakage, the expanded interpretation may be seen as broad, particularly given that deposits from directors and shareholders are treated differently under the Companies Act, 2013 framework. Borrowings from promoters or intra-group entities do not, in the ordinary sense, carry the attributes of ‘public’ funds, and traditionally such arrangements have been viewed as internal capital or support mechanisms rather than transactions engaging wider public interest considerations.

### (ii) Scope of ‘customer interface’

Notably, the Draft Amendment extends the scope of customer interface to lending or guarantees to group entities, shareholders or directors. While the intention is clearly to capture customer-facing activities, the scope appears quite broad. For instance, isolated intra-group loans or guarantees, particularly those on the asset side, may not reflect the NBFC’s core business model. Further, the exact audience for the exemptions granted under the label of Unregistered Type I NBFCs are often companies that are used as treasury management vehicles for a group and therefore may fall foul of these expansive interpretations of public funds and customer interface.

Given the broad scope of ‘public funds’ and ‘customer interface’ it is likely that companies desirous of availing the exemptions proposed in the Draft Amendment will have to tighten balance sheets and group transactions. At present, for the purposes of de-registration, the RBI is seeking to look at financials for past 3 years. The current framing seems tied to historical balance sheets, with no clear path for a continuing exemption.

## FEMA Implications

Under the extant exchange control regulations in India, undertaking any financial activity which is not regulated by a financial sector regulator, will be treated as an ‘unregulated financial service’ and is not eligible to receive foreign direct investment without prior government approval. Although the Draft Amendment proposes to remove the registration requirement for Unregistered Type I NBFCs, this does not place them outside the RBI’s regulatory ambit. Such entities would continue to be governed by Chapter IIIB of the RBI Act, and the RBI retains the power to issue directions to such entities. In that sense, they

may not readily be characterised as 'unregulated'. That said, how this position will be viewed for foreign direct investment eligibility purposes by different stakeholders and authorities, remains to be seen.

## Concluding Remarks

The changes proposed under the Draft Amendment, if implemented, may meaningfully reduce compliance obligations for certain classes of NBFCs (such as small-scale captive NBFCs, family-owned NBFCs, entities established to facilitate group restructurings and inter-se funding within the promoter group, treasury vehicles, etc., who have met the principal business criteria due to exceptional or non-recurring income or profits), provided they fall within the prescribed parameters. At the same time, the widened interpretation of 'public funds' and 'customer interface' indicates the RBI's intent to prevent regulatory arbitrage and ensure that only genuinely low-risk, closed-loop entities benefit from the exemption.

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