

RBI Notifies Regulations on Exempted NBFCs

5 May 2026

Introduction

On 29 April 2026, the Reserve Bank of India (RBI) issued the Reserve Bank of India (Non-Banking Financial Companies-Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026 (Amendment Directions), amending the Reserve Banking of India (Non-Banking Financial Companies-Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025. The Amendment Directions are set to come into force on 1 July 2026.

At its core, the Amendment Directions seek to relax the regulatory compliances required from non-banking financial companies (NBFCs) that do not access public funds and do not have a customer interface. These entities, by their very nature, pose limited systemic and consumer risk.

We set out below our analysis of the key features of the Amendment Directions.

Analysis

Categorisation of NBFCs: The Amendment Directions have introduced a three-category definitional framework for NBFCs.

The RBI, firstly, reiterates the regulatory distinction between NBFCs that engage with public funds or those which have a customer interface (Type II) and those that do not take public funds or don't have a customer interface (Type I).

Secondly, within the Type I category, it sets down the distinction between registered and unregistered entities:

CATEGORY	PUBLIC FUNDS / CUSTOMER INTERFACE	ASSET SIZE	REGISTRATION REQUIREMENT
Type I (unregistered)	No public funds / customer interface	Less than INR 1000 Crore	Exempt
Type I NBFC	No public funds / customer interface	Asset size greater than INR 1000 Crore	Registration required
Type II NBFC	Yes (either / both)	Any Size	Registration required

Key Definitions: The RBI has clarified the definition of 'public funds' and 'customer interface':

- A clarification has been added to the term "public funds" stating "Indirect receipt of public funds means funds received not directly but through associates and Group entities which have access to public funds." Therefore, the RBI has clarified the term to mean any type of borrowings irrespective of their source. In its Press Release, the RBI has also clarified that the money availed through margin trading facility will constitute public funds.

- b) The term 'customer interface' has been defined to mean interaction between the NBFC and its customers while carrying on its business. In its FAQs, issued along with the Amendment Directions, the RBI has clarified that customer interface can be through an: (i) account-based relationship; (ii) lending relationship; or (iii) interaction with the customers as part of business of the NBFC.
- c) Any customer-oriented activity like lending or providing guarantee, or placing inter-corporate deposits, including to 'entities in the Group', its shareholders, its directors, or providing any other product or service to these entities would constitute 'customer interface'. Therefore, Type I NBFCs are *inter alia* restricted from providing any loans / subscription to debt instruments in its group entities.

Exemption from Registration: To qualify as an unregistered type I NBFC, an entity must satisfy all four of the following conditions on an ongoing basis:

- a) It operates without public funds and without customer interface as its *conscious and long term business model*;
- b) Its asset size is less than INR 1,000 crore as per the latest audited balance sheet;
- c) It passes an annual board resolution at the beginning of each financial year confirming that it will not avail public funds and will not have customer interface during the year; and
- d) It discloses in its notes to accounts that it is an unregistered Type I NBFC, along with status of public funds and customer interface.

The requirement that the exemption reflect a "conscious and long-term business model", rather than a transient or opportunistic position signals that the RBI intends the exemption to benefit genuinely passive or smaller NBFCs and not entities that are temporarily restructuring their balance sheets to avail regulatory relief. As such, in case any such NBFC intends to access public funds and / or have customer interface, it will have to mandatorily seek registration with the RBI.

Further, statutory auditors of the Unregistered Type I NBFC should also submit an exception report to the RBI in case of violation of conditions on public funds or customer interface or any other condition for the exemption prescribed by the RBI.

Group-Level Asset Aggregation: The Amendment Directions introduce an important group-level aggregation rule for Unregistered Type I NBFCs. Therefore, in case of multiple Unregistered Type I NBFCs in the group, the asset size of all such entities will be aggregated, and they will be required to register with the RBI if the aggregate asset size is INR 1,000 crore or above.

This provision may have significant implications for large promoter groups that may hold multiple passive or treasury NBFCs. Groups with multiple such entities will need to carefully map their NBFC footprint and assess whether the combined asset size triggers the mandatory registration threshold.

Deregistration Process: Existing NBFCs eligible for deregistration can apply to the RBI by 31 December, 2026. The deregistration application is to be made through the PRAVAAH portal and must be accompanied by the following:

- a) Original Certificate of Registration (to be submitted physically to the RBI);
- b) Audited financials for the last three financial years;
- c) A statement on status of public funds and customer interface for the last three financial years;
- d) A statutory auditor's certificate confirming the absence of public funds and customer interface as on date;
- e) A board resolution confirming the entity's current status and future intent; and
- f) A board undertaking to disclose the entity's unregistered Type I NBFC status in the notes to account.

The RBI retains discretion to approve deregistration only if it is satisfied that the applicant's conscious and long term business model is to operate without public funds and without customer interface. Existing

NBFCs that do not currently satisfy the eligibility criteria but do so in the future may also apply for deregistration at that point in time.

Overseas Investment: Unregistered Type I NBFCs that intend to undertake overseas investment in the financial services sector are required to mandatorily register with the RBI as Type I NBFC. Further, Unregistered Type I NBFC will not be permitted to make overseas investment in non-financial sector.

Therefore, existing NBFCs that qualify for deregistration that hold overseas investment will not be permitted to deregister under the Amendment Directions.

Practical Implications and Structuring Considerations

The Amendment Directions will have practical consequences for several categories of entities:

- a) Group treasury and captive NBFCs: Entities that have historically been registered as NBFCs solely because they met the principal business criteria but in practice operate as group treasury vehicles or internal funding entities, now have a formal pathway to deregister. However, they will need to carefully assess whether their intra-group transactions, particularly, ICDs extended to group entities and guarantees in favour of subsidiaries constitute customer interface.
- b) Large promoter groups: Groups with multiple passive NBFC entities must undertake a consolidated mapping exercise to determine whether aggregate Unregistered Type I NBFC assets exceed INR 1,000 Crore. Where the threshold is breached at group level, all such entities within the group will be required to registered as Type I NBFCs, a material consequence that requires proactive analysis.

Comments

The Amendment Directions represent a meaningful step towards a more calibrated, risk proportionate regulatory framework for NBFCs. The exemption to Unregistered Type I NBFCs, the structured deregistration pathway, and the group aggregation rule collectively reflect a thoughtful attempt by the RBI to reduce compliance burden on low-risk, closed loop entities while preserving adequate supervisory oversight.

As next steps, entities evaluating whether to apply for deregistration should undertake a rigorous assessment of their historical and prospective balance sheets, intra-group transaction profile, ODI arrangements, and group-level NBFC footprint, before the 31 December 2026 application deadline.

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