

## **NBFC Registration Exemption: Much Ado, Limited Impact**

In February 2026, the Reserve Bank of India (RBI) issued a press release, along with a draft of the Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026 (**Amendment**) proposing exemption from registration for certain categories of Non-Banking Financial Companies (**NBFC**), details of which are set out in the table below. The intent behind the Amendment appears to be to achieve alignment with the scale-based regulation approach taken by the RBI in the last 3 years, with the goal to reduce regulation for NBFCs carrying on business that pose little to no risk to consumers.

| <b>Summary of Key Amendments</b>      |  |
|---------------------------------------|--|
| Date of issuance of Amendment         | February 10, 2026  |
| Nature of Amendment                   | Exemption for certain NBFCs from mandatory registration under Section 45IA of the Reserve Bank of India Act, 1934.   |
| De-registration Criteria              | <ul style="list-style-type: none"> <li>(i) Assets below INR 1,000 crore</li> <li>(ii) Entity must not avail public funds</li> <li>(iii) Entity must not have customer interface</li> <li>(iv) Entity must meet the principal business criteria</li> <li>(v) Entity should not make overseas investments in financial services sector</li> </ul> <p><b>(Unregistered Type I NBFC)</b></p> |
| Period for testing for existing NBFCs | Last 3 financial years   |
| Timeline                              | Existing registered NBFCs fulfilling the criteria may apply for de-registration by September 30, 2026.   |
| RBI Supervisory Power                 | The RBI may issue directions to such NBFCs on a case-to-case basis or all of such entities.  |
| Deadline for comments                 | Deadline for public comments till March 4, 2026  |

### **What NBFCs will benefit from the Amendment**

While the ‘no access to public funds’ criteria is generic (considering there are many NBFCs operating historically that do not access public funds), the ‘no customer interface’ test significantly limits the nature of NBFCs that will benefit from the Amendment. It appears that primarily only captive finance companies

(lending to their group entities), investment holding companies (including some family offices) are likely to be eligible, pursuant to the proposed criteria.

Considering the above, the Amendment seeks to de-regulate to a certain extent, such NBFCs that lend within the group from their balance sheet (rather than external funds).

### **Customer interface test**

Basis the definition of 'customer interface', being any interaction between an NBFC and its customers while carrying on its business, any NBFC that lends outside its own group is likely to be considered customer facing. Accordingly, even NBFCs that only lend to other NBFCs or that act as financial guarantors, may be considered as NBFCs having customer interface, even though such NBFCs have almost no exposure to retail customers and their exposure is limited to well-represented corporate entities.

### **Public funds test**

The term 'public funds'<sup>1</sup> includes debt availed from other NBFCs, banks and also private equity investments. While not all such funds qualify as 'public' in the larger context of tapping public funds, basis the existing definition, such entities will also not be eligible for deregistration.

### **Conscious business model test**

With respect to existing NBFCs that seek to deregister, in addition to the NBFCs providing a declaration that they do not intend to access public funds and have customer interface in the future, RBI also has to be satisfied that such NBFC is functioning with a *conscious business model* to operate without availing public funds and without having customer interface.

Similarly, future NBFCs that may intend to carry on business, and seek to avoid registration as they meet the De-registration Criteria need to provide a declaration to this effect with respect to future business as well.

With business models evolving in the NBFC space, it is unclear as to how RBI will assess which business model has the goal of no customer interface and no public funds as a conscious and durable decision. For existing NBFCs seeking to deregister, this call will be taken by the RBI; however, with respect to NBFCs to be incorporated in the future, the decision on whether or not they fulfil the conscious business model test, will need to be taken by the NBFCs themselves.

### **Interplay with the FDI policy**

The foreign exchange regulations in India (**FDI Policy**) do not define 'financial services'. However, as per the FDI Policy, 100% FDI is permitted under the automatic route in 'financial services activities' regulated by financial sector regulators. Now with some NBFCs being eligible for deregistration, would such entities be considered to be regulated by the RBI?

The liberal view suggests that Unregistered Type I NBFCs are still considered as NBFCs and are subject to RBI regulatory oversight; however, they may not necessarily be subject to prudential guidelines, fair practices code etc. considering: (a) the provisions of only Chapter IIIB of the Reserve Bank of India Act, 1934 (primarily dealing with transfer to reserve funds and powers of the RBI) are applicable to Unregistered Type I NBFC; and (b) RBI has merely retained the right to issue directions to such NBFCs on a case-by-case basis or as a whole. Lack of clarity regarding this may put Unregistered Type I NBFCs

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<sup>1</sup> 'Public funds' includes 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 excludes funds raised by issue of instruments compulsorily convertible into equity shares within a period not exceeding five years from the date of issue.

with existing foreign investment or proposing to raise foreign money, potentially in the grey.

The Amendment is clear that any Unregistered Type I NBFC that intends to undertake overseas investment in the financial services sector shall require registration. Considering this and the lack of clarity on FDI in financial services, it may not be surprising if NBFCs caught in the grey continue to hold on to their registration, if this would be permitted.

### **Suggestions**

The expansive definitions of 'public funds' and 'customer interface' are not truly reflective of NBFCs that are per-se leveraging 'public money' or pose a risk that involves retail customers and accordingly, NBFCs that would actually be eligible for de-registration may be very limited.

If the aim is to reduce regulatory burden on NBFCs and clear up bandwidth for RBI to focus on more consumer facing issues, a few tweaks to the Amendment may be considered, such as (a) narrower definition of 'public funds' to exclude private capital and intra-group borrowings; (b) tighter definition of 'customer interface' to exclude wholesale lending between institutions/corporates and indirect customer interface where entities only provide securitization or fintech partnership services; and (c) clearer guidance on how de-registration will work with entities that have received or propose to receive foreign investment. These tweaks would help achieve meaningful compliance relief for low-risk entities without creating interpretational uncertainty, supervisory gaps or a systemic risk.

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