

RESEARCH NOTE ON UNREGISTERED TYPE-I NBFCs

RESERVE BANK OF INDIA (NON-BANKING FINANCIAL COMPANIES – REGISTRATION, EXEMPTIONS AND FRAMEWORK FOR SCALE BASED REGULATION) AMENDMENT DIRECTIONS, 2026

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I. INTRODUCTION

The Reserve Bank of India (“RBI”) has issued the Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026 (“Amendment Directions”) dated April 29, 2026, creating a new regulatory perimeter for low-risk Non-Banking Financial Companies (“NBFCs”) in India.

Under the Amendment Directions, an NBFC shall qualify for exemption from registration under Section 45IA of the Reserve Bank of India Act, 1934 (“RBI Act”) if it satisfies all of the following conditions:

- do not avail “public funds”; and
- have no “customer interface”; and
- have asset size below ₹1,000 crore, as per the latest audited balance sheet.

Such NBFCs shall also be exempted from the requirement of transfer of profits to Reserve Fund as prescribed under Section 45IC of the RBI Act.

The Amendment Directions:

- Formalises a Certificate of Registration (CoR) taxonomy.
- Defines Type-I NBFC as an NBFC having “no public funds and no customer interface” that holds a CoR as Type-I NBFC.

- Defines Type-II NBFC as any NBFC with a CoR other than Type-I NBFC i.e. the ordinary registered NBFC universe, including customer-facing and/or publicly funded NBFCs.
- Defines Unregistered Type-I NBFC as an NBFC having “no public funds and no customer interface” exempted from Section 45IA and 45IC of the RBI Act i.e., exempt from registration and transfer to Reserve Fund, but not free from being regulated by RBI.

It may be noted that earlier the RBI had set up a Working Group (WG) under the chairmanship of Smt. Usha Thorat, former Deputy Governor, RBI, to review the extant regulatory framework of NBFCs. The WG submitted its report in August 2011 and, inter alia, recommended that the following categories of NBFCs be exempted from the requirement of registration:

- NBFCs with asset size below Rs. 25 crore whether accepting public funds or not.
- NBFCs with asset size below Rs. 500 crore and not accepting public funds, directly or indirectly.

However, the aforesaid recommendations of the Working Group did not see light of the day.

To understand the RBI’s intention of introducing the Amendment Directions we need to first understand the main responsibilities of RBI which are as under:

- Prevention of systemic risk

Systemic risk means a situation where the failure of one financial company can have ripple affect other institutions and create a chain reaction in the financial system. This usually happens when a company has borrowed money from banks or raised funds from the public. If it fails, banks suffer losses, depositors get worried, markets react, and confidence falls. That is systemic risk.

But suppose a company uses only its own capital and does not borrow. It simply invests the promoter’s own money in shares, bonds or group companies. If such a company loses money the only group that suffers are the shareholders. There is no spillover. There is no contagion.

- Protection of customers and addressing grievances

The second concern of RBI is customer protection. RBI regulates NBFCs because many of them deal directly with customers. They distribute financial products by giving loans to individuals, MSMEs and businesses. They interact with the public. If the customers are treated unfairly, RBI must provide a grievance redressal mechanism for which reason the RBI Ombudsman Scheme exists.

But if a company does not deal with customers at all and there are no borrowers, no depositors and no retail clients, there is no question of customer grievance.

Therefore, if a company neither creates systemic risk nor deals with customers, RBI's two core concerns are largely absent. It is not simply about reducing burden, but about aligning regulation with actual risk. RBI is effectively saying that if you do not touch public money and you do not deal with customers, the intensity of regulation can be lighter. However, this does not mean free freedom. Safeguards are clearly built in.

For example, if the company's asset size grows beyond ₹1,000 crore, registration becomes mandatory. Size itself can create wider impact, even if no public funds are used. Similarly, if a company starts borrowing from banks or even takes a loan from its own promoter / director / shareholder, it will be treated as accessing public funds. What matters is the structure i.e. equity is different from a loan. Further, RBI has clearly stated that any money availed through margin trading facility shall also be classified as public funds.

Another safeguard is indirect funding. A company cannot avoid regulation by saying it has not borrowed, while its group company borrows from a bank and passes the money to it. RBI has clearly stated that due to use of leverage, multiple layers and fungibility of money, it is difficult to establish with reasonable assurance whether the equity infusion by Group entity is from their owned funds and therefore indirect public funds will also be examined. The intention is to prevent misuse or clever structuring.

There are also governance safeguards. The Amendment Directions provides that the Board must pass annual resolutions, at the beginning of the financial year, confirming that the company the company will not avail public funds and will also not have customer interface during the year. In addition, the Amendment Directions have entrusted on the auditor the responsibility to report violations to RBI. If conditions are breached, the exemption collapses

and penal consequences may follow. Therefore, the relaxation cannot be treated as a casual relaxation but a conditional and monitored relaxation.

It is also important to understand that “unregistered” does not mean “free from compliance.” Even these Unregistered Type-I NBFCs will continue to have obligations such as they must ensure that they:

- do not access public funds;
- do not deal with customers;
- pass annual Board resolutions confirming compliance;
- disclose their status properly in financial statements; and
- ensure auditors report any breach to RBI.

If at any time they cross the asset threshold or change their business model, registration becomes mandatory. While the registration burden may reduce, governance discipline and structural compliance remain very much in place.

With the coming into effect of the Amendment Directions, the responsibility of the professionals will change in nature. While the routine compliance filings and regulatory reporting may reduce, if the registration is surrendered, the responsibility, in such cases, will shift toward stronger certification, documentation and judgement.

Therefore, this reform is not deregulation, it is rationalisation. It is not withdrawal of supervision, it is calibrated supervision.

It may be noted that although the RBI mandated, in 1997, that every company carrying on the business of a financial institution must obtain registration, the concept of Type-I and Type-II NBFCs was introduced by RBI vide its Press Release 2015-2016/2935 dated June 17, 2016.

For Type-II NBFCs, the Amendment Directions is not a direct tightening of prudential norms; rather, it changes boundary conditions and incentives. It potentially creates a deregistration / de-licensing pathway for some currently registered NBFCs that meet the low-risk profile, but requires re-registration as Type-II before taking public funds or customer interface.

II. KEY DEFINITIONAL CHANGES

The Amendment Directions introduces/clarifies several definitions that are material for boundary classification:

- NBFC not availing public funds and not having any customer interface is defined as an NBFC registered with RBI “as Type-I NBFC or otherwise” that:
 - (i) does not accept public funds; and does not intend to accept them; and
 - (ii) does not have customer interface and does not intend to have it.
- The Amendment Directions adds an explanation to the definition of public funds stating that “Indirect receipt of public funds” means funds received not directly but through associates and group entities which have access to public funds.

The FAQs on “All you wanted to know about NBFCs”, as updated on April 29, 2026, clarifies that “customer interface” include lending/guarantees to entities in the group, shareholders and directors, and other customer-oriented activities. However, employee loans on non-commercial employment terms are carved out.

III. CONDITIONS FOR AVAILING EXEMPTION AND CLASSIFICATION AS AN UNREGISTERED TYPE-I NBFC

- (a) From July 1, 2026, an eligible NBFC, not availing public funds and not having any customer interface, with asset size < ₹1,000 crore, as per the latest audited balance sheet, would be exempt from Sections 45IA and 45IC of the RBI Act.
- (b) An eligible NBFC shall have a “conscious and long-term” business model of operating without public funds and without customer interface on a long-term basis.

- (c) Eligible NBFC shall pass an annual Board Resolution, at the beginning of the financial year, that the company will not avail public funds and will also not have customer interface during the year.
- (d) Adequate disclosure shall be made in the Notes to Accounts to the financial statements that it is an 'Unregistered Type-I NBFC'.
- (e) Statutory Auditors to submit an exception report to RBI, if conditions are violated.
- (f) The Amendment Directions clarifies that exemption is only from Sections 45IA and 45IC i.e. registration requirement and transfer to Reserve Fund, respectively. It states that such NBFCs remain subject to other provisions of Chapter IIIB of the RBI Act and RBI retains power to take action under Chapter V of the RBI Act.

IV. TIMELINES, TRANSITIONAL ARRANGEMENTS AND IMPLEMENTATION FLOW

- (a) The Amendment Directions provides that the same shall come into force with effect from July 01, 2026.
- (b) Existing eligible NBFCs having "no public funds and no customer interface", including those holding Type-I CoR as on July 01, 2026, may apply for deregistration within six months, i.e., by December 31, 2026.
- (c) The application for deregistration shall be made through PRAVAAH Portal along with the following documents:
 - Original Certificate of Registration (to be submitted physically to the Reserve Bank).
 - Audited financials of the company for the last three financial years.
 - Status of public funds and also of customer interface in the last three financial years.
 - Statutory Auditor's Certificate certifying that the company does not have public funds and also not have customer interface as on date.
 - Board Resolutions.

- Undertaking to disclose 'Unregistered Type-I NBFC' status in Notes to Accounts to the financial statements.

V. INTERPRETATION AND OTHER CHALLENGES

- (a) The Amendment Directions explicitly provides a deregistration route for eligible existing NBFCs having no public funds and no customer interface. The Amendment Directions' definition of eligible NBFCs i.e. "registered as Type-I NBFC or otherwise" raises a plausible interpretation that Type-II NBFCs could also be eligible to apply for deregistration if they genuinely satisfy the conditions and RBI is satisfied that the business model is "conscious" and "long-term".
- (b) Going forward, effective July 01, 2026, it seems that companies with asset size of less than ₹1,000 crore and without recourse to public funds and customer interface can carry out NBFI business without Certificate of Registration. It is expected that the Registrar of Companies would take cognizance the said change in regulation and allow such companies to be incorporated. However, this should be with a conscious business model and meet the twin NBFC criteria.
- (c) The Amendment Directions relies on RBI's statutory exemption power i.e. Section 45NC of the RBI Act, while stating Unregistered Type-I NBFCs remain subject to other Chapter IIIB provisions and RBI can act under Chapter V of the RBI Act. This raises a legal-operational questions as to:
 - which "Directions" apply by default to an entity that is legally an NBFC by principal business criteria but is exempt from registration; and
 - what standard of due process and supervisory pathway would be used to issue "specifically addressed" instructions.

- (d) RBI makes deregistration “subject to satisfaction” that the NBFC is functioning with a “conscious and long-term business model” to operate without public funds and without customer interface. This phrase is a key gatekeeper but is not defined which may be a subject matter of varied interpretation.
- (e) The FAQ explicitly treats lending and guarantees (including to group entities, shareholders or directors) as customer interface. This is a strong anti-avoidance stance but may be hard for groups where intra-group guarantees are integral to credit structuring. RBI, while responding to stakeholder feedback proposing that equity infusion from group entities be excluded from the definition of ‘indirect public funds’ subject to certification, has declined to accept such an approach. RBI has clarified that, owing to leverage, multi-layered structures, and fungibility of funds, it is not feasible to establish with reasonable assurance whether such funds are genuinely free from public borrowings. Possibly this could have been carved out and may be a deterrent for companies to surrender their registration.
- (f) Auditors are expected to submit exception reports to RBI if the conditions on public funds/customer interface are violated. This can translate into tighter audit procedures around funding sources and counterparties, and potential disputes about judgement calls e.g., whether a transaction in the nature of temporary accommodation / current account is “customer interface”.
- (g) The Amendment Directions creates clear triggers requiring re-registration if:
- The asset size of a company exceeds ₹1,000 crore, whether on a standalone basis or aggregated with other Unregistered Type-I NBFCs in the group.
 - The company intends to avail public funds or have customer interface.
- Operationally, this requires continuous monitoring of balance-sheet size and business activity classification.

A practical challenge will arise in case of companies following IND-AS, where the asset size fluctuates on year-to-year basis due to fair valuation. RBI has, in its response to

stakeholder feedback on the draft Amendment Directions, clarified that for Ind AS-compliant entities, asset size shall be determined based on audited financial statements prepared in accordance with applicable accounting standards, including Ind AS. Accordingly, in such a scenario, companies may be required to seek fresh registration upon crossing the prescribed threshold.

VI. COMPARITIVE ANALYSIS

Particulars	Applicability Status		
	Unregistered Type-I NBFC	Type-I NBFC	Type-II NBFC
Registration under Section 45-IA of the RBI Act, 1934	No	Yes	Yes
Maintenance of Reserve Fund under Section 45-IC of the RBI Act, 1934	No	Yes	Yes
Other Provisions of Chapter IIIB of the RBI Act, 1934 (Section 45-IB, etc.)	Yes	Yes	Yes
Consolidation for the purpose of determination of Total Asset Size of the group (Multiple NBFCs)	No	Yes	Yes
Consolidation for the purpose of determination of Total Asset Size of the Unregistered Type-I NBFCs in the group	Yes	NA	NA
Compliance with Principal Business Criteria	Yes	Yes	Yes
Net Owned Fund Requirement	No	Rs. 2 crore	Rs. 10 crore by March 31, 2027

Prior permission for Acquisition of Shareholding or Control of NBFCs	No	Yes	Yes
Prior permission for Change in Director / Management of NBFCs	No	Yes	Yes
Appointment of at least one of the directors having relevant banking/NBFC experience	Yes	Yes	Yes
Constitution of Risk Management Committee	No	Yes	Yes
Guidelines for Declaration of Dividend	No	Yes	Yes
Prior approval for amalgamation with NBFC or any other entity	No	Yes	Yes
Submission of information with respect to change of address, directors, auditors, etc.	No	Yes	Yes
Contribution to capital of partnership firms, including LLPs	Yes	No	No
Reckoning of Fixed Deposits with banks as Financial Assets	Yes	No	No
Passing of Board Resolution, every year, with respect to non-acceptance of public deposits	No	Yes	Yes

Passing of Board Resolution, every year, to the effect that the company will not avail public funds and will not have customer interface	Yes	No	No
Formulation of outsourcing policy for outsourcing of financial services	No	Yes	Yes
Have in place a governance structure for Fraud Risk Management	No	Yes, in cases where asset size is more than Rs. 500 crores	Yes, in cases where asset size is more than Rs. 500 crores
Have in place an IT governance structure	No	Yes, in cases where asset size is more than Rs. 500 crores	Yes, in cases where asset size is more than Rs. 500 crores
Formulation of IT Policy	No	Yes	Yes
Formulation of Information Security Policy	No	Yes, in cases where asset size is more than Rs. 500 crores	Yes, in cases where asset size is more than Rs. 500 crores
IS Audit	No	Yes, in cases where asset size is more than Rs. 500 crores	Yes, in cases where asset size is more than Rs. 500 crores
Formulation of Business Continuity Planning (BCP) Policy	No	Yes	Yes
Filing of supervisory returns	No	Yes	Yes
Compliance with Prevention of Money Laundering Act,	Yes	Yes	Yes

2002 (Registration and Appointment of Principal Officer and Designated Director)			
Compliance with Section 186 – Passing of Resolution for making investment or providing loans, etc. in excess of limits prescribed therein)	Yes	No	No
