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# RBI'S NEW NBFC PLAYBOOK

Type I, Type II, and the First-Ever  
Deregistration Framework

*Decoding the RBI (NBFC – Registration, Exemptions and Framework  
for Scale Based Regulation) Amendment Directions, 2026*

*An Analysis by PNAM & Co. LLP*

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# 1. Introduction & Background

The regulatory architecture governing Non-Banking Financial Companies ("NBFCs") in India has undergone a fundamental transformation over the past five years. What was once a one-size-fits-all compliance framework has progressively evolved into a risk-calibrated, proportionate regulatory model — culminating in the latest amendments that, for the first time in Indian NBFC history, create a formal route for deregistration.

## The pre- Scale Based Regulation (SBR) Era

Prior to October 2021, the RBI regulated NBFCs under two principal sets of Master Directions — one for Systemically Important Non-Deposit Taking NBFCs (NBFC-ND-SI) and another for Non-Systemically Important Non-Deposit Taking NBFCs (NBFC-ND). All NBFCs, regardless of their actual risk profile, business model, or systemic importance, were required to obtain and maintain a Certificate of Registration ("CoR") under Section 45-IA of the RBI Act, 1934 ("the Act"). A passive holding company was subject to the same compliance burden as an active lending institution. There was no exit mechanism, no deregistration route, and no proportionality in regulatory treatment.

## Introduction of Scale Based Regulation (SBR) — October 2021

In October 2021, the RBI published the **Scale Based Regulation (SBR): A Revised Regulatory Framework for NBFCs**, introducing a four-layer classification structure — Base Layer, Middle Layer, Upper Layer, and Top Layer, driven primarily by asset size, deposit-acceptance status, and systemic importance. This was a significant step toward proportionate regulation: Base Layer NBFCs faced lighter compliance requirements, while Upper Layer entities were subjected to bank-like prudential norms. The SBR framework became effective from 01 October 2022.

However, a fundamental question remained unanswered: *should entities that pose zero systemic risk — those that neither borrow from the financial system nor interact with customers — remain within the regulatory perimeter at all?* Even under SBR, passive holding companies, family investment vehicles, and promoter entities continued to bear Base Layer compliance obligations including statutory audits, capital adequacy requirements, supervisory returns, and inspection cycles — without any corresponding regulatory purpose.

## Changes in SBR Framework (2022–2025)

Between 2022 and 2025, the RBI made several incremental amendments to the SBR framework:

- Calibration of capital requirements, large exposure norms, and governance standards across layers
- Introduction of compliance function requirements for Middle and Upper Layer NBFCs
- Enhanced disclosure norms and corporate governance prescriptions
- Updated Master Direction – Reserve Bank of India (Non-Banking Financial Company – Scale Based Regulation) Directions, 2023 consolidating various circulars

On **28 November 2025**, the RBI issued the consolidated Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025 ("**Principal Directions**"), which brought together the registration, exemption, and SBR framework into a single, comprehensive regulatory instrument. This was part of the RBI's broader consolidation drive where 244 new Master Directions were issued and over 9,400 legacy circulars were repealed.

## The April 2026 Amendment — The Game-Changing Shift

On **29 April 2026**, the 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 Principal Directions. Effective **1 July 2026**, the Amendment Directions introduce a fundamental re-categorisation of the entire NBFC universe — creating a binary Type I / Type II distinction overlaid on the existing SBR layers, and for the first time ever, providing a structured deregistration route for NBFCs posing no systemic risk.

**This article unpacks the new framework in detail — what changed, who is affected, and what decisions NBFC promoters and boards need to make before the window closes.**

## 2. Post-Amendment NBFC Categories at a Glance

The Amendment Directions create a clean, binary classification framework for the entire NBFC universe. The following chart provides a simplified overview:

ALL COMPANIES CONDUCTING NON-BANKING FINANCIAL ACTIVITY		
NO Public Funds & NO Customer Interface <b>TYPE I</b>		Public Funds OR Customer Interface <b>TYPE II</b>
<b>UNREGISTERED TYPE I NBFC</b>  <b>Assets &lt; ₹1,000 Cr</b>  No CoR required Exempt from Sec 45-IA & 45-IC Outside SBR Perimeter Ch. IIIB continues to apply	<b>TYPE I NBFC (with CoR)</b>  <b>Assets ≥ ₹1,000 Cr</b> <i>(or voluntary retention)</i>  Holds CoR as 'Type I NBFC' Always Base Layer Lighter compliance regime	<b>TYPE II NBFC</b>  <b>Any Asset Size</b>  Holds CoR as 'Type II NBFC' Full SBR Compliance Base / Middle / Upper / Top Layer All Master Directions applicable

\* CoR – Certificate of Registration | Sec 45-IA (Relates to requirement of registration and net owned fund) | Sec 45-IC (Relates to reserve fund)

## 3. The New Architecture: Three Categories of NBFCs

The following table provides a detailed comparison of the three post-amendment categories:

Parameter	Unregistered Type I NBFC	Type I NBFC (with CoR)	Type II NBFC
<b>Definition</b>	NBFC not availing public funds (PF) and not having any customer interface (CI) — exempted from Sec 45-IA and 45-IC of the RBI Act, 1934	NBFC not availing public funds and not having any customer interface — holding CoR as 'Type I NBFC' issued by the RBI	An NBFC which is granted CoR by the RBI as NBFC other than 'Type I NBFC'
<b>Eligibility</b>	No PF + No CI + Asset size < ₹1,000 Cr	No PF + No CI + Assets ≥ ₹1,000 Cr (mandatory); OR voluntary retention below ₹1,000 Cr	Any entity that avails public funds OR has customer interface, irrespective of its asset size
<b>Registration</b>	Exempt from CoR.	CoR as 'Type I NBFC' mandatory. Cannot	Full CoR as 'Type II NBFC' mandatory.

	Existing eligible NBFCs can opt for de-registration by 31 December 2026.	deregister if assets $\geq$ ₹1,000 Cr	No deregistration route available.
<b>Regulatory Regime</b>	Minimal: Board Resolution + Notes to Accounts + Statutory Auditors to submit Exception Report in case of violation of PF /CI/etc. Exempt from Sec 45-IA & 45-IC. Chapter IIIB* of the Act continues to apply	NOF ₹2 Cr + Reserve Fund (Sec 45-IC) + Board Resolution + SA Exception Report. Exempt from most Master Directions. Always Base Layer	Full SBR: CRAR, IRAC, ALM, Large Exposure, all supervisory returns, RBI inspection. All Master Directions apply
<b>SBR Layer</b>	Outside SBR perimeter entirely	Always Base Layer. Assets counted for group aggregation but entity never reclassified to ML/UL	Base / Middle / Upper / Top Layer depending on asset size, deposit-taking, and RBI identification
<b>Typical Profile</b>	Promoter holding vehicles, family investment companies, estate planning entities, passive SPVs	Large family investment vehicles, significant promoter holding companies with passive portfolios	Active NBFC-ICCs, gold loan NBFCs, microfinance institutions, housing finance companies, deposit-taking NBFCs

\* Chapter III-B of the RBI Act continues to apply even to de-registered NBFCs, meaning that surrender/cancellation of registration does not extinguish past regulatory liabilities, compliance obligations, or RBI's supervisory and enforcement powers.

## 4. Key Definitions: Public Funds & Customer Interface

Two concepts lie at the heart of the new classification framework — "**Public Funds**" and "**Customer Interface**". Whether an NBFC qualifies as Type I or Type II turns entirely on the presence or absence of these two elements. While, at first glance, it may appear that most NBFCs would satisfy these criteria, the RBI has adopted notably broad definitions for both terms, with somewhat ironic consequence that many NBFCs may ultimately fall outside their scope.

### A. Public Funds

The Principal Directions defines "Public Funds" 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 excludes funds raised by issue of instruments compulsorily convertible into equity shares within a period not exceeding five years from the date of issue.

#### What qualifies as Public Funds? Examples:

- A term loan from any bank (e.g., SBI, HDFC Bank) taken to fund investments
- Commercial Papers (CPs) placed with mutual funds or money market participants
- External Commercial Borrowings (ECBs) from foreign lenders
- Inter-Corporate Deposits (ICDs)
- Overdraft facility or cash credit from a bank

- Loans from directors and/ or shareholders of the Company will be classified as public funds
- Money availed through margin trading facility
- Any funds received from outside sources and which constitute outside liability by whatever name called

**Important:** Even indirect access counts. If a group entity borrows from a bank and on-lends those funds to the NBFC, this may constitute indirect availing of public funds, potentially disqualifying the entity from Type I status.

## B. Customer Interface

The Principal Directions define "Customer Interface" as any interaction between the NBFC and its customers in the course of carrying on its business. The RBI's FAQs clarify that this definition operates broadly — it is not confined to traditional lending relationships but extends to any customer-oriented activity undertaken by the NBFC.

Scope of the definition: Based on the FAQs published on the RBI portal; the following activities fall within the ambit of "Customer Interface":

- Any interaction with customers in the ordinary course of the NBFC's business;
- Lending, providing guarantees, or placing inter-corporate deposits — including where the counterparty is an entity within the group;
- Activities directed towards shareholders, directors, or group entities of the NBFC;
- Any account-based relationship, even if confined to group companies; and
- Provision of any product or service to a customer, including distribution of mutual funds, insurance products, credit cards, or PoS services for NPS products.

Conversely, activities such as maintaining a current or savings account with banks, investing in shares or mutual fund units in the NBFC's own name, or accepting share application money are generally not treated as constituting Customer Interface.

### What qualifies as Customer Interface? Examples:

- Lending to any entity — even to a group company. If the NBFC extends a loan or ICD to another entity, this constitutes customer interface;
- Accepting deposits from the public (where permissible under the CoR); and
- Operating branches or employing agents for customer-facing financial services

**Important:** the RBI's approach is substance-driven: even indirect customer-facing activity (for example, through agents or subsidiaries acting on the NBFC's behalf) may constitute customer interface. The form of the arrangement is not determinative; it is the substance of the underlying activity that governs the classification.

### *Indirect Deployment through AIFs — Does it Constitute Customer Interface?*

*A practical question arises where NBFCs invest in or contribute to schemes of SEBI-regulated Alternative Investment Funds (AIFs), which in turn deploy capital into investee entities (including NBFCs). In our view, a mere passive investment by an NBFC into an AIF scheme without any customer-facing activity attributable to the NBFC itself may not, by itself, amount to Customer Interface. The NBFC in such a structure is acting as an investor, not as a provider of financial services to a customer.*

*That said, the ultimate regulatory characterisation would depend on the underlying factual matrix including the nature and extent of the NBFC's involvement in the AIF's deployment decisions, any co-lending or referral arrangements, and the RBI's supervisory assessment on a case-by-case basis.*

## 5. The Deregistration Framework

The Amendment Directions create what is arguably the most significant structural reform in NBFC regulation since the introduction of the registration requirement itself. For the **first time in the history of RBI's NBFC regulations**, a formal and structured deregistration route has been established under Para 38A of the Amendment Directions. This is unprecedented — since the mandatory registration requirement was introduced under Section 45-IA of the RBI Act, there has never been a defined mechanism for an NBFC to exit the regulatory perimeter while continuing to exist as an entity.

### A. Who is Eligible?

An existing registered NBFC (means an NBFC holding valid CoR) may apply for deregistration if it satisfies **all** of the following conditions:

- Does not avail public funds** — as defined above
- Does not have any customer interface** — as defined above
- Asset size below ₹1,000 crore** as per the latest audited balance sheet
- The NBFC's business model is a **conscious and long-term** decision to operate without availing public funds and without having customer interface

Entities that are **not eligible** include: deposit-taking NBFCs, Core Investment Companies (CICs, governed by separate Directions), and any NBFC whose asset size equals or exceeds ₹1,000 crore.

### B. Group Company Aggregation for Eligibility

A critical nuance introduced by the Amendment Directions under **Para 38A(1), Explanation II**: where **multiple Unregistered Type I NBFCs exist within the same Group**, a separate aggregation rule applies. The asset sizes of all such Unregistered Type I NBFCs in the group are aggregated. If this aggregate equals or exceeds ₹1,000 crore, then **all** Unregistered Type I NBFCs in that group must obtain registration as 'Type I NBFC' (i.e., hold CoR) and become subject to applicable RBI instructions.

This means that even if each NBFC individually qualifies for deregistration, the group-level aggregate position may override individual eligibility. Promoter groups with multiple passive investment vehicles must assess their total exposure before applying for deregistration.

#### Illustrative Scenarios

##### Scenario A — Group aggregate below ₹1,000 crore:

	NBFC-A	NBFC-B	NBFC-C	NBFC-D
Status	Registered NBFC	Unregistered Type I	Unregistered Type I	Unregistered Type I
Customer Interface	Yes (GIFT City lending)	None	None	None
Public Funds	Yes	None	None	None
Asset Size	₹ 400 crore	₹ 250 crore	₹ 180 crore	₹ 150 crore
Group Aggregate (Unregistered Type I NBFCs only)		₹ 580 crore		
Outcome	Continues as registered NBFC	Eligible for deregistration	Eligible for deregistration	Eligible for deregistration

Since the aggregate asset size of all Unregistered Type I NBFCs in the group (₹ 580 crore) remains below ₹ 1,000 crore, NBFCs B, C, and D may seek deregistration while NBFC-A continues to operate as a registered NBFC.

**Scenario B — Group aggregate at or above ₹1,000 crore:**

	<b>NBFC-A</b>	<b>NBFC-B</b>	<b>NBFC-C</b>	<b>NBFC-D</b>
Status	Registered NBFC	Unregistered Type I	Unregistered Type I	Unregistered Type I
Customer Interface	Yes (GIFT City lending)	None	None	None
Public Funds	Yes	None	None	None
Asset Size	₹ 400 crore	₹ 500 crore	₹ 350 crore	₹ 200 crore
Group Aggregate (Unregistered Type I NBFCs only)		₹ 1,050 crore		
Outcome	Continues as registered NBFC	Must obtain registration	Must obtain registration	Must obtain registration

Notwithstanding that each individual NBFC's asset size remains below ₹ 1,000 crore, the group-level aggregate of the Unregistered Type I NBFCs (₹ 1,050 crore) breaches the threshold. Accordingly, all Unregistered Type I NBFCs in the group (B, C, and D) are required to obtain registration under the RBI framework.

Note: The aggregation may be triggered under either limb — (i) the combined asset size of registered NBFCs and Unregistered Type I NBFCs, or (ii) the aggregate asset size of all Unregistered Type I NBFCs alone. Either limb, if breached, brings the mandatory registration requirement into effect.

**A practical observation**

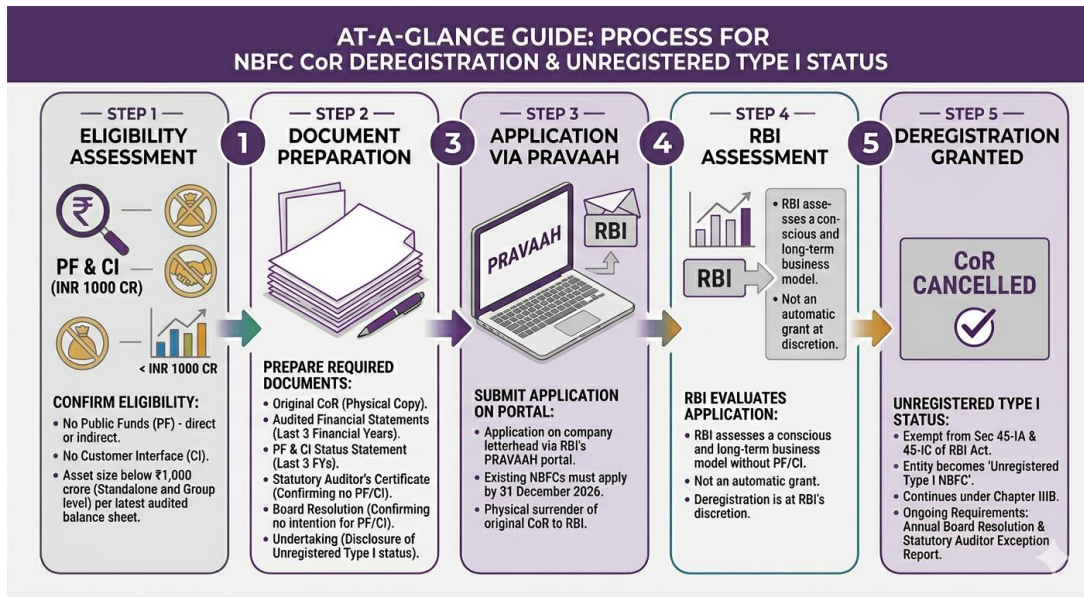
*While the language of Explanation II to Para 38A(1) Amendment Directions is framed as an ongoing aggregation obligation requiring all Unregistered Type I NBFCs within a group to obtain registration once the aggregate asset size equals or exceeds ₹ 1,000 crore, it would be reasonable to expect the RBI to apply this aggregation test at the threshold stage itself, i.e., at the time of processing deregistration applications, and not merely as a post-deregistration surveillance measure.*

*From a regulatory standpoint, permitting individual NBFCs within a group to deregister only to subsequently direct them to re-register upon aggregation would be procedurally inefficient and contrary to the regulatory intent of the provision. It is therefore advisable for promoter groups with multiple NBFCs to undertake the group-level aggregation assessment proactively, before filing any deregistration application, and to be prepared for the RBI to evaluate the aggregate position of all NBFCs within the group as part of its consideration of each individual application.*

*Accordingly, in Illustrative Scenario A above, none of the NBFCs proposed to be classified as Unregistered Type I NBFCs would, in our view, be eligible to seek deregistration, since the aggregate asset size of all NBFCs within the group (including NBFC-A) would be required to be considered by the RBI while assessing eligibility for deregistration and the consequent applicability of the registration framework.*

## C. The Process

The detailed procedure for deregistration is set out in Paragraph 38A of the Amendment Directions. At a broad level, the deregistration framework is structured and involves the following key steps:



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## D. Our Observations

While the RBI has sought audited financial statements for the preceding three financial years as part of the documentation requirement, *in our understanding, greater emphasis may be placed on the latest financial position and the future business model of the NBFC*. The RBI's interest appears to be forward-looking, whether the entity genuinely intends to remain passive, rather than merely having a clean three-year history.

Further, it is important to note that the **final decision for deregistration is subject to the satisfaction of the RBI** that the NBFC is functioning with a conscious and long-term business model to operate without availing public funds and without having customer interface. The RBI retains full discretion in this assessment, and a clean track record alone may not guarantee approval if the RBI has concerns about the entity's stated future intentions or group structure.

## 6. Choices Available to Existing NBFCs with No PF and CI

One of the practical questions arising from the Amendment Directions is the position of existing NBFCs that do not avail public funds ('PF') and do not have any customer interface ('CI'). Such entities may either seek deregistration (if meets eligibility as per para 5 above) or continue to retain their Certificate of Registration ('CoR') under the revised framework. The position may be understood as follows:

### A. Existing NBFCs with Asset Size Below ₹1,000 Crore

Where an existing NBFC does not avail PF, does not have any CI and has an asset size below ₹1,000 crore, it is eligible to apply for deregistration under Paragraph 38A of the Amendment Directions.

A practical question, however, arises where such an NBFC wishes to retain its CoR despite being eligible for deregistration.

Neither the Principal Directions nor the Amendment Directions expressly provide a separate framework dealing with the re-classification of such existing NBFCs into the "Type I NBFC" category. Nevertheless, a harmonious reading of the Directions suggests that the regulatory intent is not to compel such entities to continue complying with the more onerous regulatory framework applicable to Type II NBFCs merely because they choose to retain their registration.

Accordingly, in our view, such NBFCs should be permitted to seek re-classification as a Type I NBFC through the PRAVAAH portal, subject to furnishing the prescribed declarations and supporting documents regarding their PF and CI status. This interpretation appears consistent with the overall objective of the Amendment Directions, namely, to create a differentiated and proportionate regulatory framework for entities that do not access public funds and do not interact with customers.

Pending further clarification from the RBI, however, this position should be regarded as an interpretative view rather than an expressly codified regulatory entitlement.

## **B. Existing NBFCs with Asset Size of ₹1,000 Crore or More**

The position is comparatively clearer for NBFCs with an asset size of ₹1,000 crore or more.

NBFCs with an asset size of ₹1,000 crore or more (whether individually or upon aggregation at the group level, as applicable) are generally expected to remain within the RBI registration framework and obtain/continue to hold a Certificate of Registration as a Type I NBFC. Consequently, the deregistration route is not available to such entities.

These entities would be required to submit the prescribed application and supporting documentation through the PRAVAAH portal and, upon approval, would continue to remain regulated NBFCs within the Base Layer framework.

Importantly, until such re-classification is approved and a Type I NBFC CoR is issued, the entity may not be able to avail the regulatory relaxations specifically made available to Type I NBFCs under the revised framework.

## **7. Aggregation & Consolidation of NBFCs at Group Level**

### **A Brief Background – Why Does the Layer Matter?**

By way of background, the RBI introduced the Scale Based Regulation ("SBR") framework for NBFCs, effective 1 October 2022, replacing the erstwhile activity-based classification with a four-tiered regulatory architecture calibrated to the systemic significance of each entity. The four layers — Base Layer (BL), Middle Layer (ML), Upper Layer (UL), and Top Layer (TL) — represent progressively higher levels of regulatory intensity.

Classification into a particular layer is determined by a combination of factors: asset size, the nature of activities undertaken (deposit acceptance, lending, investment), perceived riskiness, and critically for the present discussion — the aggregate asset size of all NBFCs within the same group. An NBFC that might individually qualify for Base Layer classification may nonetheless be placed in the Middle Layer if the consolidated asset size of all NBFCs in its group equals or exceeds ₹ 1,000 crore. Once classified into the Middle Layer, no subsequent downgrade is permitted, the classification is a one-way ratchet.

The significance of this classification extends far beyond nomenclature. Whether an entity is categorized as an Unregistered Type I NBFC, a registered Type I NBFC, or a Type II NBFC directly determines the regulatory framework applicable to it, including governance standards, prudential norms, capital adequacy requirements, regulatory reporting, disclosure obligations, internal control mechanisms and the degree of supervisory oversight by the RBI. Consequently, as an NBFC moves from an unregistered status to a registered entity, or from the Base Layer to the Middle Layer, it becomes subject to progressively more intensive compliance and regulatory requirements, making classification one of the most critical determinants of an NBFC's ongoing regulatory burden.

## Treatment of Assets under the Amended Framework

Under the SBR framework, the total assets of all NBFCs within a group are aggregated to determine whether any NBFC within the group qualifies for Middle Layer classification.

NBFC Category	Included in SBR Group Aggregation?	Can Trigger ML for Affiliates?	Own Classification Affected?	Remarks
Unregistered Type I NBFC	No	No	Not Applicable (outside SBR)	Assets excluded from group-level SBR aggregation. Unregistered Type 1 NBFC remains outside SBR framework.
Type I NBFC (with CoR — Base Layer)	Yes	Yes (indirectly)	No — Always Base Layer	Assets form part of group aggregation and may affect classification of other group NBFCs. However, Type I entity itself always remains in the Base Layer.
Type II NBFC (Base Layer)	Yes	Yes	Yes	Subject to normal SBR aggregation and may be classified as Middle Layer upon crossing prescribed thresholds.

### Special Aggregation Rule for Unregistered Type I NBFCs

The Amendment Directions introduce an important anti-arbitrage measure through Explanation II to Paragraph 38A (1). Where multiple Unregistered Type I NBFCs exist within the same group, their assets must be aggregated separately. If the aggregate asset size of such Unregistered Type I NBFCs equals or exceeds ₹1,000 crore, all such entities become ineligible to remain outside the registration framework and are required to obtain registration as Type I NBFCs.

**This appears to be a deliberate policy measure intended to prevent promoter groups from fragmenting assets across multiple deregistered entities solely to remain outside the RBI's regulatory perimeter.**

## 8. Critical Distinction: Unregistered Type I vs. Surrender of Licence

A common misconception is that 'deregistration' under the Amendment Directions is equivalent to 'surrender of licence' as it existed previously. **This is incorrect.** The two concepts are fundamentally distinct.

Parameter	Unregistered Type I NBFC (Deregistration)	Surrender of Licence
Legal Basis	Structured route under Para 38A(1) read with Para 65A of the Amendment Directions. Formal legal framework with defined criteria.	Administrative process, no formal basis in Directions. Powers conferred upon RBI u/s 45 IA of the RBI Act. Informal route at RBI's discretion.
NBFC Status Post-Action	Entity REMAINS an NBFC under Chapter IIIB. Only exempted from Sec 45-IA and 45-IC.	Entity CEASES to be an NBFC. Must wind up NBFC activities entirely.

<b>Continuing RBI Oversight</b>	RBI retains powers under Ch. IIIB and Ch. V for penal action. May issue directions.	No continuing oversight. Entity exits RBI jurisdiction entirely.
<b>Re-entry Mechanism</b>	Defined: Assets reach ₹1,000 Cr → Type I CoR; Wants PF/CI → Type II CoR. Structured.	Fresh registration as new applicant. No structured re-entry. Discretionary.
<b>Financial Activities</b>	May continue financial activities (holding investments, receiving dividends) as long as no PF/CI.	Must discontinue all NBFC activities. Cannot conduct financial business.
<b>Disclosure Requirements</b>	Must disclose status in Notes to Accounts. Annual Board Resolution. SA Exception Report.	No continuing disclosure obligations. Relationship with RBI terminates.

### **Strategic Alternatives Where Deregistration is Unavailable**

Where an NBFC within a promoter group is ineligible for deregistration — whether on account of the group-level aggregation threshold under Explanation II, the existence of customer interface, or acceptance of public funds — and the group does not wish to maintain multiple registered NBFCs, two alternative routes merit consideration:

First, the group may consider consolidating its NBFCs through a merger or amalgamation into a single registered entity, subject to prior approval of the RBI under the applicable framework for mergers of NBFCs. This route permits the group to retain the ability to conduct financial activities while rationalising the number of licensed entities and the attendant compliance burden. The surviving entity would continue to hold the Certificate of Registration and remain subject to the SBR framework at its applicable layer.

Second, where the group is willing to entirely cease NBFC activities in one or more entities, it may apply for surrender of the Certificate of Registration of those entities. However, as the comparative table above illustrates, surrender is a fundamentally different outcome from deregistration — it requires a complete wind-down of all financial business, terminates the entity's relationship with the RBI entirely, and offers no structured re-entry mechanism should the group's requirements change in future.

The choice between these alternatives carries material consequences for the continuity of financial activities, the extent of continuing regulatory oversight, and the group's optionality to re-enter the NBFC space at a later stage. It is therefore a decision that warrants evaluation against the group's long-term commercial and structuring objectives, rather than being treated as a purely administrative exercise.

## **9. Questions Every NBFC Promoter Should Ask**

The Amendment Directions offer unprecedented flexibility — but with flexibility comes complexity. As you evaluate the right course of action for your NBFC, consider the following questions that may not have straightforward answers:

### **To Deregister or to Retain?**

- **If my NBFC deregisters, what regulatory credibility do I lose?** The decision is not merely about reducing compliance. Beyond the loss of the “RBI-registered NBFC” tag, promoters should evaluate whether deregistration could affect the entity's eligibility for certain regulatory benefits, exemptions and legal positions available to registered NBFCs under laws such as the Companies Act, 2013 and the Insolvency and Bankruptcy Code, 2016. In some cases, the strategic value of retaining the Certificate of Registration may outweigh the compliance savings.

- **If I deregister today and need to access public funds or develop customer interface tomorrow, what happens?** I would need to apply for fresh registration as a Type II NBFC — a process that involves full RBI assessment and is neither automatic nor guaranteed. Is the compliance cost savings today worth the optionality I give up?
- **What about overseas investment routes?** Certain outbound investment structures may require the investing entity to be an RBI-registered NBFC. Deregistration may close this door.

#### If I Continue to Hold — What's the Compliance Reality?

- **As a retained Type I NBFC (with CoR), will I face enhanced compliance obligations?** While the Type I regime is lighter, it still involves NOF maintenance, Reserve Fund requirements, and periodic filings. Is my entity equipped for ongoing compliance?
- **Do my other group NBFCs get dragged into the RBI's net?** If my Type I NBFC's assets are counted toward group aggregation, could this push my other Type II group companies from Base Layer into Middle Layer — triggering significantly higher compliance costs for the entire group?
- **What about the group aggregation trap?** If I have multiple passive investment vehicles in my group, their combined assets could cross ₹1,000 crore — forcing all of them to register as Type I, even though each individually would have qualified for deregistration.

#### The Bigger Strategic Picture

- **How does this affect my group's overall RBI exposure?** Every NBFC in the group — whether Type I or Type II — contributes to the group's regulatory profile. The decision to deregister one entity cannot be made in isolation; it must be evaluated in the context of the entire group structure.
- **What if my NBFC's asset size grows beyond ₹1,000 crore in the future?** An Unregistered Type I NBFC whose assets touch ₹1,000 crore must obtain CoR as Type I. Planning for growth trajectories is essential.

*These are not academic questions — they require careful, entity-specific analysis of your NBFC's business model, group structure, growth plans, and risk appetite. The window is limited, and the decisions made now will shape your regulatory landscape for years to come.*

## ABOUT OUR NBFC PRACTICE

PNAM & Co. LLP advises NBFCs, fintech entities, and financial services groups across the full spectrum of RBI regulatory matters – from registration and structuring, to ongoing compliance, regulatory strategy, and representation before the Reserve Bank. Our team brings deep domain expertise in NBFC regulations, Scale Based Regulation advisory, deregistration and conversion applications, corporate restructuring involving NBFCs, and group-level regulatory planning. Whether you are evaluating whether to deregister, retain, or restructure your NBFC holding, we can help navigate the nuances.

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