



**Reserve Bank of India (RBI's) Framework on Exemption for Pure Investment
NBFCs: A Practical Perspective**

**- Dr. C. V. Madhusudhanan
Partner**

The RBI's Scale-Based Regulation (SBR) for Non-Banking Financial Companies (NBFCs) evolved from a simple deposit-based classification to a risk-based, four-layered framework (effective 01st October 2022) to manage systemic risk. Accordingly, RBI (NBFC-Scale Based Regulations), Directions 2023 was notified. It categorizes NBFCs into Base, Middle, Upper, and Top layers, increasing regulation intensity based on asset size, perceived risk, nature of activity and regulatory complexity. This was followed by the notification of RBI (NBFC– Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025 mandating registration for most NBFCs and covering prudential norms, governance, and activity-based compliance while repealing the earlier framework of 2023.

On April 29, 2026, the RBI issued the RBI (NBFC – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026 (Amendment Directions). These amendments, which will come into force on July 1, 2026, provide for certain NBFCs, particularly pure investment entities, to exit the regulatory regime. The amendments mark an important shift in regulatory thinking by recognising those entities which do not use public funds and customer-facing activities may not warrant registration and full-scale supervision. This is a welcome move towards reducing unnecessary compliance burden while retaining regulatory oversight where it truly matters.

The amendments classify NBFCs into two broad categories – **Type-I** and **Type-II**.

Type-I NBFCs are those which do not have access to public funds and customer interface and whose asset size is Rs.1,000 crore or more. Such Type-I NBFCs require registration and they can operate only after obtaining Certificate of Registration (CoR).

A sub-category is now created out of Type-I NBFCs called "**Unregistered Type I" Category (UT-I)**. This newly classified NBFCs are those which can operate without a Certificate of Registration (CoR), if they comply with the following:

- **Registration Exemption:** UT-I NBFCs are the ones which do not have access to public funds or customer interface and with an asset size under Rs. 1,000 crores.
- **De-registration Option:** Existing registered NBFCs meeting UT-I criteria can surrender their registration by December 31, 2026.
- **Restriction on Overseas Investment (OI):** UT-I are restricted from undertaking OI in financial sectors. Registration is compulsory if they intend to invest in financial services abroad.

NBFCs which are not Type-I are all clubbed under Type-II. Type II NBFCs, are the ones which access public funds or have customer interface and are therefore subject to stricter regulatory oversight.

The focus of the amendments is to reduce the regulatory burden on low risk NBFCs. Holding companies being Core Investment Companies (CICs), passive investment vehicles, and captive finance companies, subject to meeting the twin criteria can avail of the said exemption and convert them to UT-I.

It is important to note that the exemption is not automatic. Even if an NBFC satisfies all the prescribed conditions for UT-I, it must make a formal application to the RBI seeking deregistration. This application must be supported by audited financial statements and an auditor's certificate. The exemption window opens on 1 July 2026 and remains available until 31 December 2026. However, the framework also allows applications



to be made at a later stage if the eligibility conditions are fulfilled subsequently, thereby providing ongoing flexibility.

The eligibility conditions form the backbone of the framework and are quite stringent. First, the NBFC must have no access to public funds. Public funds include borrowings or funds raised from banks, financial institutions, debentures, deposits, inter-corporate borrowings etc. The definition of public funds has been expanded to include borrowings from group entities and associates having access to public funds. Thus, acceptance of deposits from group companies which have accessed public funds can fall within the definition of public funds.

Secondly, the NBFC must not have any customer interface. The RBI has clarified that customer interface includes not only dealings with external parties but also transactions with group entities, shareholders, and directors. Activities such as lending, providing guarantees, or offering financial products or services would fall within this definition. Consequently, even intra-group lending arrangements could disqualify an entity from seeking exemption.

Another important condition relates to asset size. To qualify, the NBFC must have total assets below Rs.1,000 crore. Importantly, this threshold is to be assessed on a consolidated basis across group entities. The framework explicitly prevents companies from splitting assets across multiple entities to fall within the eligibility limit. This reinforces the regulator’s intent to look at the substance of operations rather than legal form.

From a practical standpoint, one of the most critical aspects is the requirement of a “clean balance sheet.” Since applications will be based on audited financial statements, the financials for FY 2025–26 will be particularly relevant.

Corporate governance continues to play an important role even after availing the exemption. UT-I entities must pass an annual board resolution affirming that they will not access public funds or undertake customer-facing activities during the year. Appropriate disclosures must also be made in the financial statements. This reflects the RBI’s reliance on internal governance mechanisms supported by external audit oversight.

The framework also includes specific provisions relating to group structures and overseas investments. Assets of multiple UT-I entities within a group will be aggregated to determine eligibility, thereby preventing regulatory arbitrage.

It is also important to note that exemption from registration does not imply a complete exit from regulatory oversight. UT-I will continue to be governed by the relevant provisions of the RBI Act, and the regulator retains the authority to issue directions if any concerns arise. Therefore, the exemption should be viewed as a relaxation of entry and compliance requirements, rather than a total deregulation.

The framework offers multiple strategic options for NBFCs depending on their current status and future plans.

In conclusion, the Amendment Directions represents a pragmatic step towards rationalising regulation for NBFCs that do not pose systemic risks. For pure investment companies operating without leverage or customer interaction, this presents a valuable opportunity to reduce compliance burden. However, the conditions are stringent, the documentation requirements are rigorous, and the ultimate decision rests with the RBI. NBFCs should therefore approach this as a strategic decision, carefully weighing the benefits of deregistration against the advantages of remaining within the regulated framework.
