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The Chief General Manager
Department of Regulation
Reserve Bank of India

Subject: Feedback on the draft 'Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026'

Dear Sir/ Madam,

We take the liberty of placing before the Reserve Bank of India certain suggestions relating to the draft 'Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026' placed on the RBI website.

Our submissions have been provided under [Annexure A](#) below. These submissions have been structured in the form of specific issue statements accompanied by possible solutions and are based on our wide experience as consultants to Non-Banking Financial Companies across various layers and business models. Our suggestions draw from our continuous engagement with regulatory, compliance, and implementation challenges encountered by NBFCs in the course of their operations.

These submissions aim to address broader structural and implementation-related considerations that may merit attention from a system-wide perspective. Our objective in making this submission is to contribute constructively to the evolution of a regulatory framework that achieves clarity, proportionality, and ease of compliance, while fully preserving prudential discipline and supervisory oversight. We would be grateful for an opportunity to provide any further clarifications or engage in discussions, should the RBI consider it useful.

Thanks and regards,

For and on behalf of Vinod Kothari Consultants Pvt. Ltd.

Anita Baid
Senior Vice President

Annexure - A

1. Definition of Customer Interface

Provisions of Law

Para 6(4) of Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025 defines “Customer Interface” as:

(4) ‘Customer interface’ means interaction between the NBFC and its customers while carrying on its business.

FAQ No. 8 of Draft - Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026 states:

Q8. What is the coverage of the term ‘customer interface’? Does engaging in non-fund based activities with Group companies or customers like guarantees, or grant of loans to ‘entities in the Group’, its shareholders, directors or staff constitute ‘customer interface’?

*Ans: ‘Customer interface’ means interaction between the NBFC and its customers while carrying on its business. Customer interface can be through an account-based relationship, lending relationship or interaction with the customers as part of business of the NBFC. Any customer-oriented activity like lending or providing guarantee, **including to ‘entities in the Group’, its shareholders, its directors**, or providing any other product or service to a customer would constitute ‘customer interface’. However, loans to employees as per terms of employment condition/ contract and not on commercial terms, shall not be treated as customer interface.*

Problem Statement

In statutory usage as also in RBI’s own regulations on customer service, the term “customer” has consistently been interpreted as a person who “customarily” engages in transactions with a business in the ordinary course of that business, with the expectation as a customer would usually seek similar services from a similar entity, say, a bank or an NBFC. By analogy, the customers of an NBFC must be external parties who approach the NBFC to avail credit facilities or financial services on a customary or habitual basis.

In the case of intra-group financial transactions, the transaction is in the nature of an accommodation. Mostly, these transactions are mutual in nature - there cannot be an expectation of customer service when, say, a subsidiary company approaches a holding company in case of a shortfall of funds. These transactions cannot be equated to public-facing, customer centric transactions.

The obvious intent of bringing “customer interface” as a subject matter in regulatory intensity is the possibility of customer service, public interest or similar grievances in case of a customer-centric engagement. Such issues are absent in case of intra-group transactions.

Intra-group lending arrangements are internal in nature, do not involve outreach to the public, and are rarely profit-oriented in the sense of a lending business. Instead, they serve strategic or treasury functions within the corporate group, such as capital support, liquidity management, or restructuring. It may be noted that the terms of lending to group entities, directors or shareholders are already governed as per the related party transaction norms under Companies Act, 2013, applicable listing regulations and even RBI regulations to ensure that such transactions are at arm's length.

Recognising these boundaries is critical because the existence of a customer interface is the very trigger for applying customer-protection norms. The Fair Practices Code is designed to safeguard the interests of external borrowers, ensuring transparency of terms, access to grievance redressal, and protection against coercive recovery practices. Applying the same requirements to intra-group transactions, where information symmetry, common control, and strategic alignment already exist, would serve no regulatory purpose. On the contrary, it would amount to over-regulation by imposing obligations on entities that are essentially performing internal treasury functions rather than carrying on a customer-facing business.

Our Comments

It is recommended to draw a clear distinction between intra-group exposures, loans to directors/shareholders and genuine customer-facing activities to ensure that regulatory focus remains proportionate, protecting external customers where risks truly arise, while excluding internal arrangements that fall outside the spirit of the definition of customer interface.

2. Definition of Public Funds

Provisions of Law

Para 6(18) of Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Directions, 2025 defines “Public Funds” as:

*(18) ‘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.*

FAQ No. 7 of Draft - Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026 states:

Q7. Are loans from directors or shareholders also classified as public funds?

*Ans: Any funds received from outside sources and which constitute outside liability are treated as public funds for ‘Type I NBFCs’. **As such, loans from directors and/ or shareholders will be classified as public funds.***

Problem Statement

The proposed inclusion of borrowings from shareholders and directors within the definition of “Public Funds” appears to depart from the basic understanding of the term. “Public funds” ordinarily refers to monies raised from the public at large, where concerns of public confidence, depositor protection, and regulatory oversight justifiably arise. Funds brought in by shareholders and directors do not share these attributes. They are provided by persons who are closely connected with the company, are aware of its financial position, and assume risks in an informed capacity.

This distinction is also recognised under the Companies Act, 2013, which excludes monies received from shareholders and directors from the regulatory framework applicable to public deposits. The underlying rationale is that insider funding is fundamentally different from raising money from external and unrelated persons.

In practical terms, borrowings from shareholders and directors are typically extended as internal financial support, whether for capital strengthening, liquidity management, or strategic requirements. They do not involve solicitation from the public, nor do they raise concerns of protecting uninformed stakeholders. The regulatory objective behind the concept of “public funds” is to safeguard external participants and maintain systemic stability. These considerations are ordinarily not triggered in the case of insider borrowings. Accordingly, classifying such funds as “public” would extend the scope of the term beyond its intended purpose.

Our Comments

We respectfully submit that a clear distinction be maintained between funds raised from the public at large and monies received from shareholders and directors. The regulatory framework relating to “Public Funds” should be confined to situations where there is genuine public participation and corresponding concerns of depositor protection and systemic stability.

3. Aggregation of asset size for Type 1 NBFC classification

Problem Statement

The Draft - Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026 is silent on whether the asset size of all entities within a group that independently meet the criteria for an Unregistered Type 1 NBFC is required to be aggregated for the purpose of determining the registration threshold. In the absence of an express clarification, there remains uncertainty as to whether entities in the same group with individual asset sizes below the prescribed limit would be required to seek registration solely because their aggregate asset size exceeds the threshold.

In our view, if the asset sizes of all entities within a group that qualify as Unregistered Type 1 NBFCs are not aggregated, it may create scope for regulatory arbitrage. A group could potentially distribute similar financial activities across multiple entities, each remaining individually below the prescribed threshold, while collectively carrying on operations of a scale that would otherwise warrant registration and regulatory oversight.

Our Comments

We recommend that RBI, while releasing the final version, provides necessary clarification with respect to the aggregation of asset sizes of all the entities satisfying the criteria for Unregistered Type 1 NBFC to determine the registration requirement.