Draft Reserve Bank of India (Non-Banking Financial Companies – Undertaking of Financial Services) Directions, 2025

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Reserve Bank of India (Non-Banking Financial Companies – Undertaking of Financial Services) Directions, 2025

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In exercise of the powers conferred by Sections 45JA, Section 45K, 45L, and 45M of the Reserve Bank of India Act, 1934 and all other provisions / laws enabling the Reserve Bank of India ('RBI') in this regard, RBI being satisfied that it is necessary and expedient in the public interest to do so, hereby issues the Directions hereinafter specified.

Chapter I - Preliminary

A. Short Title and Commencement

1. These Directions shall be called the Reserve Bank of India (Non-Banking Financial Companies – Undertaking of Financial Services) Directions, 2025.
2. These Directions shall come into force with immediate effect.
   Provided that, the provisions contained in paragraphs 8 to 14 shall come into effect from January 1, 2026, or from an earlier date as may be decided by an NBFC as per its internal policy.

B. Applicability

3. These Directions shall be applicable to Non-Banking Financial Companies (hereinafter collectively referred to as 'NBFCs' and individually as 'an NBFC') excluding Housing Finance Companies (HFCs).
   Provided that, (1) the provisions given in paragraph 16 to 34 shall apply (unless specified otherwise) to the following:
   (i) Every NBFC-D registered with the RBI under the provisions of the RBI Act, 1934;
   (ii) Every NBFC-ICC registered with the RBI under the provisions of the RBI Act, 1934;
   (iii) Every NBFC-Factor registered with the RBI under Section 3 of the Factoring Regulation Act, 2011 and every NBFC-ICC registered with the RBI under Section 3 of the Factoring Regulation Act, 2011;
   (iv) Every NBFC-MFI registered with the Res RBI under the provisions of the RBI Act, 1934;
   (v) Every NBFC-IFC registered with the RBI under the provisions of the RBI Act, 1934;
   (vi) Every IDF-NBFC registered with the RBI under the provisions of the RBI Act, 1934;

(2) The provisions contained in paragraphs 16 to 34 shall be applicable to NBFCs of the above-mentioned categories for all layers i.e. Base Layer and above;

(3) The provisions contained in paragraphs 35 to 39 shall be applicable to NBFCs of the above-mentioned categories for Middle Layer and above;

(4) The provisions contained in paragraphs 40 to 42 shall be applicable to IDF-NBFC only; and

(5) The provisions contained in paragraphs 7 to 15 shall be applicable to all NBFCs.

C. Definitions

4. In these directions, unless the context otherwise requires, the terms herein shall bear the meanings assigned to them below:

(i) **'Debtor company'** means any company to which the NBFC currently has or previously had a loan or investment exposure (excluding equity instruments) anytime during the preceding twelve months;

(ii) **'Equity instrument'** means equity shares, compulsorily convertible preference shares (CCPS) and compulsorily convertible debentures (CCD);

(iii) **'Financial Services Company**' means a company as defined in the Reserve Bank of India (Commercial Banks – Undertaking of Financial Services) Directions, 2025;

(iv) **'Infrastructure Debt Fund-NBFC (IDF-NBFC**)' shall have the same meaning as defined in the Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Guidelines, 2025;

(v) **'Joint Venture**' shall have the same meaning as defined in terms of the Accounting Standards of the Institute of Chartered Accountants of India;

(vi) **'Mutual Fund**' shall have the same meaning as defined in SEBI (Mutual Funds) Regulations, 1996;

(vii) **'Non-Financial Services Company'** means a company engaged in businesses other than those specified in clause (iii) above; and

(viii) **‘Subsidiary’** means a subsidiary as defined in terms of the Accounting Standards of the Institute of Chartered Accountants of India.

5. All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Reserve Bank of India Act, 1934, or any statutory modification or re-enactment thereto, or Glossary of Terms published by RBI or as used in commercial parlance, as the case may be.

Chapter II - General Guidelines

A. Role of the Board

6. The Board of an NBFC intending to undertake distribution of mutual fund products shall approve a comprehensive policy regarding undertaking mutual funds distribution, customer appropriateness and suitability as well as grievance redressal mechanism in addition to fulfilling the other terms and conditions as prescribed in paragraphs 33 and 34.

B. Investments in Alternative Investment Funds (AIFs)

B.1 General Requirements

7. An NBFC's investment policy shall have suitable provisions governing its investments in an AIF Scheme, compliant with extant law and regulations.

B.2 Limits on Investments and Provisioning

8. An NBFC shall not individually contribute more than 10 percent of the corpus of an AIF Scheme.

9. The aggregate contribution by all regulated entities (REs) in any AIF Scheme shall not be more than 20 percent of the corpus of that scheme.
   In this context, 'RE' shall mean:
   (i) Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks);
   (ii) Urban Co-operative Banks;
   (iii) State Co-operative Banks / Central Co-operative Banks);
   (iv) All-India Financial Institutions; and
   (v) Non-Banking Financial Companies (including Housing Finance Companies)

10. Where an NBFC contributes more than five percent of the corpus of an AIF Scheme that has downstream investment (excluding equity instruments) in a debtor company of the bank, the NBFC shall be required to make 100 percent provision to the extent of its proportionate investment in the debtor company through the AIF Scheme, subject to a cap equivalent to NBFC's direct loan and / or investment exposure to the said debtor company.

11. Notwithstanding the provisions of paragraph 11 above, where an NBFC's contribution is in the form of subordinated units, it shall deduct the entire

investment from its capital funds – proportionately from both Tier-1 and Tier-2 capital (wherever applicable).

B.3 Exemptions

12. Any outstanding investment or commitment made by an NBFC with the prior approval of the RBI, under the extant provisions before the commencement of these Directions, are excluded from the scope of paragraphs 9 and 10 above.

13. The RBI may, in consultation with the Government of India, by way of a notification, exempt certain AIFs from the scope of the provisions of the existing circulars and the revised Directions, except for paragraph 8 above.

14. The provisions of paragraphs 8 to 14 above shall come into force with effect from January 1, 2026, or from an earlier date as decided by an NBFC in line with its internal policy (referred to as the 'effective date' for the provisions of paragraphs 8 to 14 above). Until such commencement, NBFCs shall continue to be guided by the provisions of the existing circulars, contained in Annex I. These circulars shall stand repealed from the effective date of these Directions. Any new commitment by a NBFC towards contribution to an AIF scheme, made after the effective date, shall be governed by these Directions.

15. Notwithstanding the above provisions:
    (i) Outstanding investment by an NBFC, as on July 29, 2025, in an AIF Scheme in which it has fully honoured its commitment, shall be governed by the provisions mentioned in Annex I.
    (ii) In respect of any investment made by an NBFC in an AIF Scheme in terms of an existing commitment as on July 29, 2025, or in terms of a new commitment entered into before the effective date, the NBFC shall follow, in toto, either the provisions of Annex I or these Directions.

Chapter III - Financial Services

A. Opening Subsidiary / Joint Venture / or Undertaking Investment Abroad

A.1 General Instructions

16. These Directions shall be read in conjunction with the guidelines issued by the Foreign Exchange Department (FED) of the RBI and shall apply to an NBFC intending to open a branch, subsidiary, joint venture, representative office or undertake investment abroad.

17. An NBFC shall obtain prior approval of the RBI for opening of subsidiary / joint venture or undertaking investment abroad. The application from the NBFC seeking No Objection shall be considered subject to compliance with general and specific conditions prescribed in paragraphs 18, 19 and 20.

A.2 General Conditions

18. An NBFC, intending to open a branch, subsidiary, joint venture, representative office or undertake investment abroad, shall comply with the following general conditions:
    (i) Investment in non-financial service sectors shall not be permitted;
    (ii) Direct investment in activities prohibited under FEMA or in sectoral funds shall not be permitted;
    (iii) Investments shall be permitted only in entities whose core activity is regulated by a financial sector regulator in the host jurisdiction;
    (iv) The aggregate overseas investment shall not exceed 100 percent of the NBFC's Net Owned Fund (NOF). The overseas investment in a single entity, including its stepdown subsidiaries, by way of equity or fund-based commitment shall not be more than 15 percent of the NBFC's owned funds;
    (v) Overseas investment shall not involve multi-layered, cross jurisdictional structures and at most only a single intermediate holding entity shall be permitted;
    (vi) The CRAR / leverage of the NBFC, post investment in subsidiary abroad shall be not less than the regulatory prescriptions;
    (vii) An NBFC shall continue to maintain the required level of NOF after accounting for investment in the proposed subsidiary / investment

abroad as prescribed in the explanation to Section 45-IA of the RBI Act, 1934;

(viii) The level of Net Non-Performing Assets of the NBFC shall not be more than five percent of the net advances;

(ix) An NBFC shall have been in profit for the last three financial years and shall have demonstrated satisfactory performance during the period of its existence;

(x) An NBFC shall comply with the regulations issued under FEMA,1999 from time to time;

(xi) An NBFC's overall regulatory compliance, including servicing of public deposits, if held by the NBFC, shall be satisfactory;

(xii) An NBFC shall comply with the KYC guidelines;

(xiii) SPVs set up abroad or acquisition abroad shall be treated as investment or subsidiary / joint venture abroad, depending upon percentage of investment in overseas entity;

(xiv) An NBFC shall submit annual certificate from the statutory to the Regional Office of Department of Supervision of the RBI where it is registered, certifying that it has fully complied with all the conditions stipulated under these Directions for overseas investment; and

(xv) The RBI reserves the right to withdraw the permission granted for overseas investment in case any adverse feature comes to its notice. All approvals for investment abroad shall be subject to this condition.

A.3 Specific conditions

A.3.1 For subsidiaries abroad:

19. An NBFC proposing to establish a subsidiary abroad shall comply with all the conditions as stipulated above in paragraphs 18 and 19 above. The issuance of a No Objection Certificate (NoC) by the RBI is independent of the overseas regulators' approval process. In addition, the following conditions shall apply:

(i) The parent NBFC shall not extend implicit or explicit guarantee to or on behalf of such subsidiaries;

(ii) No request for issuance of a letter of comfort in favour of the subsidiary abroad from any institution in India shall be permitted;

(iii) The liability of the NBFC in the proposed overseas entity shall be limited to its either equity or fund-based commitment to the subsidiary;

(iv) The overseas subsidiary shall not be a shell company. However, companies undertaking activities such as financial consultancy and advisory services with no significant assets shall not be considered as shell companies;

(v) The overseas subsidiary shall not be used as a vehicle for raising resources for creating assets in India for the Indian operations;

(vi) The parent NBFC shall obtain periodical reports / audit reports about the business undertaken by the subsidiary abroad and shall make them available to the RBI and inspecting officials of the RBI;

(vii) If the overseas subsidiary fails to undertake any activity or if the required reports are not submitted, the RBI may review or withdraw the approval given for setting up a subsidiary abroad;

(viii) The subsidiary shall make disclosure in its Balance Sheet to the effect that liability of the parent entity in the proposed overseas entity is limited to its either equity or fund-based commitment to the subsidiary; and

(ix) All the operations of the subsidiary abroad shall be subject to regulatory prescriptions of the host country.

A.3.2 Joint Ventures abroad

20. All overseas investments by an NBFC, other than in subsidiaries, shall be governed by the same guidelines as applicable to subsidiaries established abroad, as specified in these Directions.

B. Expansion of activities through automatic route

21. An NBFC receiving Foreign Direct Investment (FDI) under the automatic route shall be permitted to undertake only those activities that are permissible under the automatic route.

22. Diversification into any other activity shall require the prior approval of the Foreign Investment Promotion Board (FIPB).

23. A company which has entered into a permissible FDI activity (e.g., software) and later seeks to diversify into the NBFC sector shall comply with all applicable regulations including minimum capitalization norms.

C. Entry into Insurance Business

24. An NBFC shall make an application for entry into the insurance business, along with necessary particulars duly certified by its statutory auditors, to the Regional Office of the RBI in whose jurisdiction the registered office of the NBFC is situated.

25. An NBFC shall not be allowed to conduct such business departmentally. A subsidiary or company in the same group of an NBFC or of another NBFC engaged in the business of a non-banking financial institution or banking business shall not normally be allowed to join the insurance company on a risk participation basis.

26. An NBFC registered with the RBI shall be permitted to set up a joint venture (JV) company for undertaking insurance business with risk participation subject to the following conditions:

    (i) An NBFC shall not hold more than 50 percent of the paid-up capital of the JV insurance company. The RBI may, on a selective basis, permit a higher equity contribution by a promoter NBFC initially, subject to divestment of equity within the prescribed period [see Note (1) below].

    (ii) In case more than one company (irrespective of doing financial activity or not) in the same group of the NBFC wishes to take a stake in the insurance company, the contribution by all companies in the same group shall be counted for the limit of 50 percent prescribed for the NBFC in an insurance JV.

    (iii) In case of capital infusion calls by IRDAI, into the Insurance JV company, the RBI may, on a case-to-case basis, consider need-based relaxation of the 50 percent group limit as specified. Relaxation, if permitted, shall be subject to compliance by the NBFC with all regulatory conditions as prescribed in these Directions and such other conditions as may be necessary in the specific case. Application for such relaxation along with supporting documents shall be submitted by the NBFC to the Regional Office of the RBI under whose jurisdiction its registered office is situated.

(iv) An NBFC shall meet the following eligibility criteria for the joint venture:

(a) The owned fund of the NBFC shall not be less than ₹500 crore,

(b) The CRAR of the NBFC shall be not less than 15 percent,

(c) The level of net non-performing assets shall be not more than five percent of the total outstanding leased / hire purchase assets and advances taken together,

(d) An NBFC shall have made net profit in the preceding three consecutive financial years,

(e) The track record of the performance of the subsidiaries, if any, of the concerned NBFC shall be satisfactory,

(f) Compliance with regulatory requirements and servicing of public deposits, if held. The provisions of the RBI Act, 1934 shall be applicable for such investments while computing NOF of the NBFC.

27. In case where a foreign partner contributes 26 percent of the insurance JV's equity with the approval of IRDAI / Foreign Investment Promotion Board, participation by more than one NBFC in the equity of the insurance JV may be permitted. Only NBFCs satisfying the criteria given in paragraph 27 above, shall be eligible to participate in such cases.

28. An NBFC not eligible to participate as JV partner, as above can make investments up to 10 percent of the owned fund of the NBFC or ₹50 crore, whichever is lower, in the insurance company, subject to the following conditions:

(i) The CRAR of the NBFC shall not be less than 15 percent;

(ii) The level of net NPA shall be not more than five percent of total outstanding leased / hire purchase assets and advances;

(iii) NBFC shall have been in net profit in the preceding three consecutive financial years.

29. Such participation shall be treated as an investment and shall be without any contingent liability for the NBFC.

Note:

- *(i) Holding of equity by a promoter NBFC in an insurance company or participation in any form in insurance business shall be subject to compliance with any rules and regulations laid down by the IRDAI / Central Government. This will include compliance with Section 6AA of the Insurance Act as amended by the IRDAI Act, 1999, for divestment of equity in excess of 26 percent of the paid-up capital within a prescribed period of time.*
- *(ii) The eligibility criteria shall be reckoned with reference to the latest available audited balance sheet for the previous year.*

30. An NBFC may take up insurance agency business on fee basis and without risk participation, without obtaining the approval of the RBI subject to the following conditions:

    (i) An NBFC shall obtain requisite permission from IRDAI and comply with the IRDAI regulations for acting as ‘composite corporate agent' with insurance companies.

    (ii) An NBFC shall not adopt any restrictive practice of compelling its customers to opt for a particular insurance company in respect of assets financed by the NBFC. The customers shall be allowed to exercise their own choice.

    (iii) All publicity materials of the NBFC shall prominently disclose that availing insurance products is purely on a voluntary basis. There shall be no ‘linkage’ either direct or indirect between the provision of financial services offered by the NBFC to its customers and use of the insurance products.

    (iv) The premium shall be paid by the insured directly to the insurance company without routing through the NBFC.

31. The risks, if any, involved in insurance agency business shall not get transferred to the business of the NBFC.

D. Distribution of Mutual Fund products

32. An NBFC desirous of undertaking distributing mutual funds, shall be required to adhere to the following stipulations:

D.1 Operational Aspects

(i) An NBFC shall comply with the SEBI guidelines / regulations, including its code of conduct, for distribution of mutual fund products;

(ii) An NBFC shall not adopt any restrictive practice of compelling its customers to opt for a particular mutual fund product sponsored by it. Its customers shall be allowed to exercise their own choice;

(iii) All publicity materials shall prominently state that the participation by its customers in mutual fund products is purely on a voluntary basis. There shall be no 'linkage' either direct or indirect between the provisions of financial services offered by the NBFC to its customers and distribution of the mutual fund products;

(iv) An NBFC shall only act as an agent of its customers, forwarding their applications for purchase / sale of MF units together with the payment instruments, to the Mutual Fund / the Registrars / the transfer agents. The purchase of units shall be at the customers' risk and without the NBFC guaranteeing any assured return;

(v) An NBFC shall neither acquire units of mutual funds from the secondary market for sale to its customers, nor shall it buy back units of mutual funds from its customers; and

(vi) In case the NBFC is holding custody of MF units on behalf of its customers, it shall ensure that its own investments and the investments belonging to its customers are kept distinct from each other.

D.2 Other Aspects

(i) An NBFC shall put in place a comprehensive Board approved policy regarding undertaking mutual funds distribution, customer appropriateness and suitability as well as grievance redressal mechanism. The services relating to the same shall be offered to its customers in accordance with this policy. The code of conduct prescribed by SEBI, as amended from time to time and as applicable, shall be complied with by the NBFC undertaking this activity; and

(ii) An NBFC shall be adhering to KYC guidelines and provisions of Prevention of Money Laundering Act, 2002.

33. An NBFC shall comply with other terms and conditions as the RBI may specify in this regard from time to time.

E. Appointment of Non-Deposit Accepting NBFCs as sub-agents under Money Transfer Service Schemes (MTSS)

34. A non-deposit accepting NBFC may act as sub-agent under MTSS without prior approval of the RBI. Deposit accepting NBFC shall not undertake such activity.

F. Undertaking of Point of Presence Services under Pension Fund Regulatory and Development Authority for National Pension System

35. An NBFC in the Base Layer shall not undertake Point of Presence (PoP) services for National Pension System (NPS) under Pension Fund Regulatory and Development Authority.

36. An NBFC (other than Base Layer NBFC) complying with the prescribed CRAR and have made net profit in the preceding financial year shall be permitted to undertake PoP services under PFRDA for NPS after registration with PFRDA.

37. An eligible NBFC extending such services shall deposit the NPS subscription collected by them from the public on the day of collection itself (T+0 basis; where T is the date of receipt of clear funds, either by cash or any other mode) into the designated Trustee Bank account, opened for this purpose under the regulations framed by PFRDA for NPS.

38. An NBFC conducting PoP services shall strictly adhere to the guidelines framed by PFRDA.

39. Any violation of the above instructions shall invite supervisory action, including but not limited to cancellation of permission to undertake PoP services.

G. Infrastructure Debt Funds (IDFs) – Non-Banking Financial Company (IDFs-NBFC)

40. An Infrastructure Debt Fund (IDF) shall be established either as:

(i) a trust, registered as an IDF-Mutual Fund and regulated by the Securities and Exchange Board of India (SEBI); or

(ii) a company, registered as an IDF–Non-Banking Financial Company (IDF–NBFC) and regulated by the RBI.

Guidelines governing sponsorship of IDF-MFs by NBFCs

41. An NBFC shall be eligible to sponsor (sponsorship as defined by SEBI Regulations for Mutual Funds) IDF-MFs with prior approval of the RBI subject to the following conditions (based on the audited financial statements), in addition to those prescribed by SEBI:

    (i) An NBFC shall have a minimum NOF of ₹300 crore and CRAR of 15 percent;

    (ii) Its net NPAs shall be less than three percent of the net advances;

    (iii) It shall have been in existence for at least five years;

    (iv) It shall be earning profits for the last three years and its performance shall be satisfactory;

    (v) The CRAR of the NBFC post investment in the IDF-MF shall not be less than the regulatory minimum prescribed for it;

    (vi) An NBFC shall continue to maintain the required level of NOF after accounting for investment in the proposed IDF-MF; and

    (vii) There shall be no supervisory concerns with respect to the NBFC.

42. An NBFC that fulfils the eligibility criteria as above shall approach the Department of Regulation of the RBI, for prior approval to sponsor IDF-MFs.

Chapter IV - Repeal and Other Provisions

A. Repeal and saving

43. With the issue of these Directions, the existing Directions, instructions, and guidelines relating to undertaking of financial services as appliable to Non-Banking Financial Companies stand repealed as communicated vide notification dated XX, 2025. The directions, instructions, and guidelines repealed prior to the issuance of these Directions shall continue to remain repealed.

44. Notwithstanding such repeal, any action taken or purported to have been taken, or initiated under the repealed Directions, instructions, or guidelines shall continue to be governed by the provisions thereof. All approvals or acknowledgments granted under these repealed lists shall be deemed as governed by these Directions.

B. Application of other laws not barred

45. The provisions of these Directions shall be in addition to, and not in derogation of the provisions of any other laws, rules, regulations, or directions, for the time being in force.

C. Interpretations

46. For the purpose of giving effect to the provisions of these Directions or in order to remove any difficulties in the application or interpretation of the provisions of these Directions, the RBI may, if it considers necessary, issue necessary clarifications in respect of any matter covered herein and the interpretation of any provision of these Directions given by the RBI shall be final and binding.

Annex I

Directions on Investments in Alternative Investment Funds (AIFs)

(refer paragraphs 15 and 16 of these Directions)

1. In order to address concerns relating to possible evergreening through this route, it is advised as under:

(i) An NBFC shall not make investments in any scheme of AIFs which has downstream investments either directly or indirectly in a debtor company of the NBFC.

Note: Downstream investments shall exclude investments in equity shares of the debtor company of the NBFC, but shall include all other investments, including investment in hybrid instruments.

Explanation: The debtor company of the NBFC, for this purpose, shall mean any company to which the NBFC currently has or previously had a loan or investment exposure anytime during the preceding 12 months.

(ii) If an AIF scheme, in which an NBFC is already an investor, makes a downstream investment in any such debtor company, then the NBFC shall liquidate its investment in the scheme within 30 days from the date of such downstream investment by the AIF. If the NBFC has already invested into such schemes having downstream investment in their debtor companies as on date, the 30-day period for liquidation shall be counted from December 19, 2023. The NBFC shall forthwith arrange to advise the AIFs suitably in the matter.

(iii) In case an NBFC is not able to liquidate their investments within the above-prescribed time limit, it shall make 100 percent provision on such investments.

Note: Provisioning shall be required only to the extent of investment by the NBFC in the AIF scheme which is further invested by the AIF in the debtor company, and not on the entire investment of the NBFC in the AIF scheme.

2. In addition, investment by an NBFC in the subordinated units of any AIF scheme with a ‘priority distribution model’ shall be subject to full deduction from the NBFC’s capital funds. Herein,

(i) the proposed deduction from capital shall take place equally from both Tier-1 and Tier-2 capital.

(ii) reference to investment in subordinated units of AIF Scheme includes all forms of subordinated exposures, including investment in the nature of sponsor units.

Note: Paragraph (2) shall only be applicable in cases where the AIF does not have any downstream investment in a debtor company of the NBFC. If the NBFC has investment in subordinated units of an AIF scheme, which also has downstream exposure to the debtor company, then the NBFC shall be required to comply with paragraph 1 of this Annex.

Explanation: 'Priority distribution model' shall have the same meaning as specified in the SEBI circular SEBI/HO/AFD-1/PoD/P/CIR/2022/157 dated November 23, 2022.

3. Investments by an NBFC in AIFs through intermediaries such as fund of funds or mutual funds are not included in the scope of these instructions contained in this Annex.