

Draft Norms Ease Upper-Layer NBFC Identification; Increase Assets Under Enhanced Supervision

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Synopsis

The Reserve Bank of India (RBI) has issued draft amendments to the Scale-Based Regulation (SBR) for NBFCs, which, under an ownership-neutral approach, propose to simplify coverage based on a Rs 1,00,000-crore threshold on total assets for inclusion in the Upper Layer of NBFCs. This will also bring in government-owned NBFCs into the Upper Layer, which were earlier excluded from this framework. CareEdge Ratings expects that, if these draft amendments are finalised without any changes, the total assets of Upper Layer-NBFCs would be ~70% of the total assets of NBFCs in India (as of September 2025), as compared to ~30% under existing guidelines.

Overview

With the growing importance of NBFCs in India’s financial system, the RBI introduced the SBR framework effective October 1, 2022, to strengthen supervision in proportion to an NBFC’s size and systemic risk. The framework was aimed at mitigating risks arising from the increasing interconnectedness of NBFCs with other financial service providers, including banks. Under SBR, NBFCs were classified into four layers – Base Layer, Middle Layer, Upper Layer and Top Layer based on parameters such as size, interconnectedness, and complexity. The classification was based on a parametric scoring methodology. Additionally, the top ten eligible NBFCs by asset size were automatically classified into the Upper Layer. While the Top Layer was envisaged to remain largely empty, large NBFCs were placed in the Upper Layer and subjected to stricter regulation and oversight than those in the Base and Middle Layers. However, government-owned NBFCs were initially excluded from being classified into Upper Layer.

As part of a regulatory review, RBI has recently issued draft amendments titled the “Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Second Amendment Directions, 2026.” These proposed changes aim to simplify the methodology for identifying Upper Layer NBFCs by primarily linking it to asset size and to extend the Upper Layer framework to include government-owned NBFCs under an ownership-neutral approach.

Table 1: Criteria for Classification as Upper Layer NBFC (NBFC-UL)

Aspect	Existing guidelines – SBR Directions, 2025	Draft amendment directions, 2026
Methodology for identifying UL-NBFC	Two-pronged approach: (i) Top NBFCs by asset size, and (ii) Parametric scoring model (quantitative + qualitative indicators)	Single, absolute criterion: NBFCs with asset size \geq ₹1,00,000 crore as per the latest audited balance sheet No parametric scoring model
Treatment of government-owned NBFCs	Generally placed in the Base or Middle Layer, even if large, ownership is considered in layering.	Eligibility extended to Government-owned NBFCs for NBFC-UL classification on asset-size basis (ownership-neutral regulation)
No. of entities	15 entities were classified as Upper Layer NBFCs	19 entities are likely to be classified as Upper Layer NBFCs

The criteria for identifying NBFC-UL shall be reviewed periodically, and the asset size threshold for identifying NBFC-UL shall be reviewed every five years.

Further, the draft guidelines state that exposure with an offsetting guarantee from State Government shall continue to attract a risk weight of 20%, and the exposure shall shift to the State Government, without any cap on the shifting of the exposure. Given that government-owned NBFCs have such exposures on their balance sheets, the amendment is unlikely to have a material impact on their operations.

The entities currently in the Middle Layer but likely to transition to the Upper Layer will now be subject to stricter guidelines, including a minimum common equity tier (CET) I capital of 9%, compulsory listing on stock exchanges within 3 years, and enhanced disclosures & risk management. However, the likely new additions are already listed with a stronger balance sheet structure. Further, a large exposure framework (LEF) would be applicable, reducing the individual and group exposure caps compared to the Middle Layer classification.

CareEdge View

According to Sanjay Agarwal, Senior Director, CareEdge, "RBI's draft amendments to the framework for classification of NBFCs into the Upper Layer (UL), which entails relatively stricter regulatory and supervisory oversight, are a significant step towards rationalising and simplifying the identification criteria. The proposed changes are also expected to materially expand the asset coverage under the Upper Layer, thereby strengthening systemic oversight and enhancing regulatory clarity for market participants. Under the draft framework, NBFCs are estimated to account for approximately 70% of the total NBFC sector assets as of September 2025, more than double the asset coverage under the extant regulatory framework. This represents a meaningful broadening of regulatory supervision over systemically significant NBFCs. However, certain aspects of the framework warrant further regulatory clarity. In particular, it remains unclear whether the asset size threshold for Upper Layer classification will include off-balance-sheet exposures & PTCs and whether it will be measured on a standalone or consolidated basis. NBFCs currently have the flexibility to sell-downs of loan portfolios or securitisation transactions, which could be used as short-term measures to remain below the prescribed asset size threshold."

According to Aditya Acharekar, Associate Director, CareEdge, "From a preparedness standpoint, the majority of NBFCs likely to fall under the revised Upper Layer framework are already compliant with minimum capitalisation requirements, and most are listed entities. Nevertheless, the revised framework will entail enhanced governance and disclosure standards, including stricter caps on group-level and single-counterparty exposures, as well as stronger risk management and compliance requirements. However, a carve-out has been made for sector-specific Government NBFCs to approach the RBI for exemption from asset exposure norms. While these measures may lead to incremental compliance costs, they are expected to strengthen balance sheet resilience, improve transparency, and enhance overall financial stability within the NBFC sector over the medium term."

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