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# The RBI Retains Tata Sons in NBFC Upper Layer While Listing Requirement Remains Subject to De-registration Decision

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## Recent Developments:

- **The Reserve Bank of India (RBI)** has classified **Tata Sons Ltd.** as an **Upper Layer Non-Banking Financial Company (NBFC-UL)** for **2026–27**, while clarifying that the company's pending application for **de-registration as an NBFC** remains under examination.
- The decision has revived the debate on whether **Tata Sons** will be required to undertake **mandatory stock exchange listing** under the **Scale Based Regulation (SBR)** framework if its de-registration request is not approved.
- The **RBI** has expanded the list of **NBFC-Upper Layer (NBFC-UL)** entities for **2026–27**, strengthening risk-based supervision of systemically important non-banking financial institutions.

## Non-Banking Financial Company – Upper Layer (NBFC-UL):

### *Meaning:*

- **NBFC-Upper Layer (NBFC-UL)** is a regulatory category created by the **Reserve Bank of India (RBI)** for **large, systemically important Non-Banking Financial Companies (NBFCs)** whose size, interconnectedness and potential impact require enhanced regulatory oversight.
- These entities are subjected to prudential regulations that are broadly comparable to those applicable to **commercial banks**, as their financial distress could pose risks to overall financial stability.

### *Classification Criteria:*

- Under the revised framework applicable for **2026–27**, any standalone **NBFC** having an **asset size of ?1 lakh crore or more** qualifies for **NBFC-Upper Layer (NBFC-UL)** classification.
- **Public Sector Financial Institutions** crossing the prescribed asset threshold are also included within the **Upper Layer**.

### *Lock-in Period:*

- Once classified as an **NBFC-Upper Layer (NBFC-UL)**, an entity remains under enhanced regulatory requirements for a minimum period of **five years**, even if its asset size subsequently falls below the prescribed threshold.

## Regulatory Implications of NBFC-UL Classification:

### *Stricter Prudential Norms:*

- **NBFC-Upper Layer (NBFC-UL)** entities are required to maintain a **higher Capital Adequacy Ratio (CAR)**.
- These entities must comply with mandatory **Common Equity Tier-1 (CET-1)** capital requirements.
- Higher provisioning norms are applicable to strengthen financial resilience.

***Corporate Governance Standards:***

- Mandatory **Board-level Committees** and stronger **Board oversight** are required.
- Risk-based compensation policies are mandatory for senior management.
- Enhanced governance standards align with those applicable to major commercial banks.

***Disclosure Requirements:***

- **NBFC-Upper Layer (NBFC-UL)** entities are required to make more extensive regulatory disclosures.
- Greater transparency is ensured through enhanced public reporting and supervisory reporting.

***Mandatory Listing:***

- Private **NBFC-Upper Layer (NBFC-UL)** entities are generally required to list their equity shares on recognised stock exchanges within **three years** of classification.

***Risk Management Framework:***

- Risk management systems, internal audit mechanisms and disclosure practices are expected to follow standards comparable to those applicable to large scheduled commercial banks.

**RBI's Decision Regarding Tata Sons:**

***Classification for 2026–27:***

- **Tata Sons Ltd.** has been included in the **NBFC-Upper Layer (NBFC-UL)** list for **2026–27**.
- The inclusion has been made **without prejudice** to the final outcome of its pending application seeking **de-registration as a Non-Banking Financial Company (NBFC)**.

***Possible Regulatory Outcomes:***

- If the **Reserve Bank of India** approves the de-registration application, **Tata Sons** may not be required to undertake mandatory stock exchange listing.
- If the application is rejected, **Tata Sons** will continue as an **NBFC-Upper Layer (NBFC-UL)**, comply with enhanced prudential regulations and undertake listing within the prescribed regulatory timeline.

***Other NBFC-UL Entities:***

- Other important **NBFC-Upper Layer (NBFC-UL)** entities include **Tata Capital**, **Bajaj Finance**, **Aditya Birla Capital**, **Shriram Finance**, **Mahindra & Mahindra Financial Services**, **L&T Finance**, **LIC Housing Finance**, **HUDCO**, **REC Limited**, **Power Finance Corporation (PFC)** and **Indian Railway Finance Corporation (IRFC)**.

**Scale Based Regulation (SBR) Framework:**

***About:***

- The **Reserve Bank of India** introduced the **Scale Based Regulation (SBR)** framework to regulate **Non-Banking Financial Companies (NBFCs)** according to their **size, complexity and systemic importance**.

- The framework adopts a **risk-based supervisory approach**, ensuring proportionate regulation instead of a uniform regulatory structure for all NBFCs.

*Regulatory Layers:*

- **Base Layer (NBFC-BL):** Covers smaller NBFCs subject to basic prudential regulation.
- **Middle Layer (NBFC-ML):** Covers larger deposit-taking NBFCs and other systemically significant NBFCs requiring enhanced regulation.
- **Upper Layer (NBFC-UL):** Covers systemically important NBFCs requiring regulatory standards broadly comparable to commercial banks.
- **Top Layer (NBFC-TL):** Reserved for NBFCs identified by the RBI as posing exceptional systemic risks requiring intensive supervision.

*Revised Identification Framework:*

- From **2026–27**, the RBI has simplified identification by adopting an **asset-size-based criterion**, under which NBFCs having assets of **?1 lakh crore or more** qualify for **NBFC-Upper Layer (NBFC-UL)** status.

**Debate Over Tata Sons Listing:**

*Reasons for NBFC-UL Classification:*

- Although **Tata Sons** repaid its public borrowings during **2024**, the **Reserve Bank of India** continues to treat it as an **indirect recipient of public funds**.
- Several listed **Tata Group** companies, including **Tata Steel**, **Tata Power** and **Tata Chemicals**, continue to hold equity investments in **Tata Sons**.
- The company possesses assets exceeding the revised **?1 lakh crore** threshold.
- **Tata Sons** functions as the principal holding company of one of India's largest business conglomerates.

*Arguments Against Listing:*

- Some trustees, including **Noel Tata**, believe that **Tata Trusts** should retain greater control over the holding company.
- Public listing could dilute the traditional governance structure.
- Existing promoter control should remain substantially unchanged.

*Arguments Supporting Listing:*

- Several trustees and the **Shapoorji Pallonji Group**, which holds nearly **18%** equity, support listing.
- Public listing could unlock value for minority shareholders.
- Listing would improve transparency, corporate governance and regulatory oversight.
- Easier access to capital markets could support future expansion while strengthening market discipline.

**Significance of NBFC Classification:**

*Financial Stability:*

- Enhanced supervision strengthens oversight of systemically important **shadow banking institutions**.
- Stronger regulation reduces systemic risks arising from interconnected financial institutions.
- Prudential standards become more closely aligned with those applicable to scheduled commercial banks.

*Corporate Governance:*

- Mandatory disclosures improve transparency and market discipline.
- Greater accountability towards public shareholders strengthens governance.
- Higher disclosure standards improve investor confidence.

***Financial Sector Development:***

- The framework reflects the RBI's transition towards **risk-based regulation**.
- Regulation is aligned with the growing importance of NBFCs in India's credit intermediation process.
- Proportionate regulation improves financial sector resilience without imposing unnecessary compliance burdens on smaller NBFCs.

**UPSC Value Addition:**

***Related Legislations:***

- **Reserve Bank of India Act, 1934**
- **Banking Regulation Act, 1949**
- **Companies Act, 2013**

***Important Regulatory Concepts:***

- **Systemically Important Financial Institution (SIFI)**
- **Shadow Banking**
- **Capital Adequacy Ratio (CAR)**
- **Common Equity Tier-1 (CET-1)**
- **Scale Based Regulation (SBR)**

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