

Upper Layer NBFC Rules: RBI's Revised Upper Layer NBFC Rules and the Tata Sons IPO Question

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Upper Layer NBFC Rules Latest News

- The Reserve Bank of India (RBI) has issued revised guidelines on what qualifies a company as an Upper Layer NBFC (NBFC-UL).
- The change is significant because it could remove the main regulatory trigger that has kept alive the possibility of a mandatory IPO by Tata Sons, the holding company of the \$180 billion Tata group. As of now, the RBI has not clarified whether Tata Sons will still qualify.

Upper Layer NBFC under the Scale-Based Regulation Framework

- The RBI introduced the Scale-Based Regulation (SBR) framework in October 2021 to regulate NBFCs in proportion to their size, activity, and risk.
- The logic is simple: a small NBFC and a systemically large one cannot be regulated identically. The bigger and more interconnected an NBFC, the stricter the rules applied to it.

- The Upper Layer sits near the top of this pyramid. It is meant to capture NBFCs that are so large and interconnected that their failure could threaten the wider financial system — in effect, the NBFC equivalent of “systemically important” institutions.
- These are identified by the RBI through an **annual review** and notified in a published list.
- Once notified, an NBFC-UL remains in that layer for a **minimum of five years**, even if it later falls below the threshold.

Background: Why Tata Sons Faced a Mandatory Listing

- In 2024, the RBI classified Tata Sons as an Upper Layer NBFC under its Scale-Based Regulation (SBR) framework, citing its size and systemic importance.
- Under RBI rules, an NBFC-UL must:
 - List on a stock exchange within three years of being notified, and
 - Comply with stricter governance and disclosure norms.
- This classification put Tata Sons on a path to a public listing from September 2025, unless the RBI changed the rules or granted relief. (In the RBI’s NBFC-UL list, Tata Sons is categorised as a Core Investment Company.)

A Boardroom Split Over Listing

- The IPO question has divided the Tata camp:
 - **In favour of listing:** Two Tata Trusts trustees, Venu Srinivasan and Vijay Singh, back it for greater transparency and accountability. The Shapoorji Pallonji group (18% stake) also wants a listing to monetise its holding.
 - **Against listing:** Noel Tata, Chairman of Tata Trusts (which holds a 66% stake in Tata Sons), wants the company to stay unlisted. Former Tata Sons directors — N.A. Soonawala, R. Gopalakrishnan and Ishaat Hussain — share this view.

What Has Changed Now

- The RBI has replaced its earlier methodology for identifying NBFC-ULs with a **single, simpler criterion**: only NBFCs with **assets of Rs 1 lakh crore or more** will be classified as Upper Layer NBFCs.
- This is a major policy shift. Crucially, the RBI has not exempted Tata Sons outright — instead, it has changed the eligibility threshold.
- If Tata Sons no longer crosses the Rs 1 lakh crore mark, the listing requirement would simply cease to apply, removing the biggest regulatory reason for an IPO.

The Key Concept: Qualifying Assets

- The decisive factor is **qualifying assets** — the specific assets that count towards the Rs 1 lakh crore threshold.
- This is a narrower measure than it might appear:

- It is **not** the total consolidated assets of the Tata group, nor even Tata Sons' total assets as a holding company.
- For Tata Sons, qualifying assets broadly cover the **NBFC business balance sheet** — loans and advances, investments tied to NBFC operations, and other financial assets held by the NBFC.
- It **excludes** the value of Tata Sons' stakes in listed group firms like TCS, Tata Motors, Tata Steel or Titan — unless those holdings are treated as financial assets under the applicable NBFC framework.
- This distinction is central: Tata Sons' headline size is enormous, but its *qualifying* NBFC assets may be far smaller.

What Will Finally Settle Tata's Position

- The deciding event will be the RBI's next annual identification of Upper Layer NBFCs:
 - If Tata Sons appears on the list, it remains an NBFC-UL and the listing requirement stands.
 - If it does not appear, it would signal that the company no longer meets the revised threshold, effectively removing the RBI-driven listing obligation.

Conclusion

- The RBI's shift to a single Rs 1 lakh crore asset threshold simplifies NBFC-UL classification, but it also quietly reshapes a high-profile corporate question.
- Whether Tata Sons must go public now hinges not on group size or politics, but on a technical measure — its qualifying NBFC assets — and on the RBI's next classification list.
- The episode shows how a regulator's calibration of definitions can determine outcomes for even India's largest business houses, and underlines the tension between transparency through listing and the autonomy of unlisted holding structures.

Source: IE

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