RBI Classifies Tata Sons as NBFC-Upper Layer (NBFC-UL)

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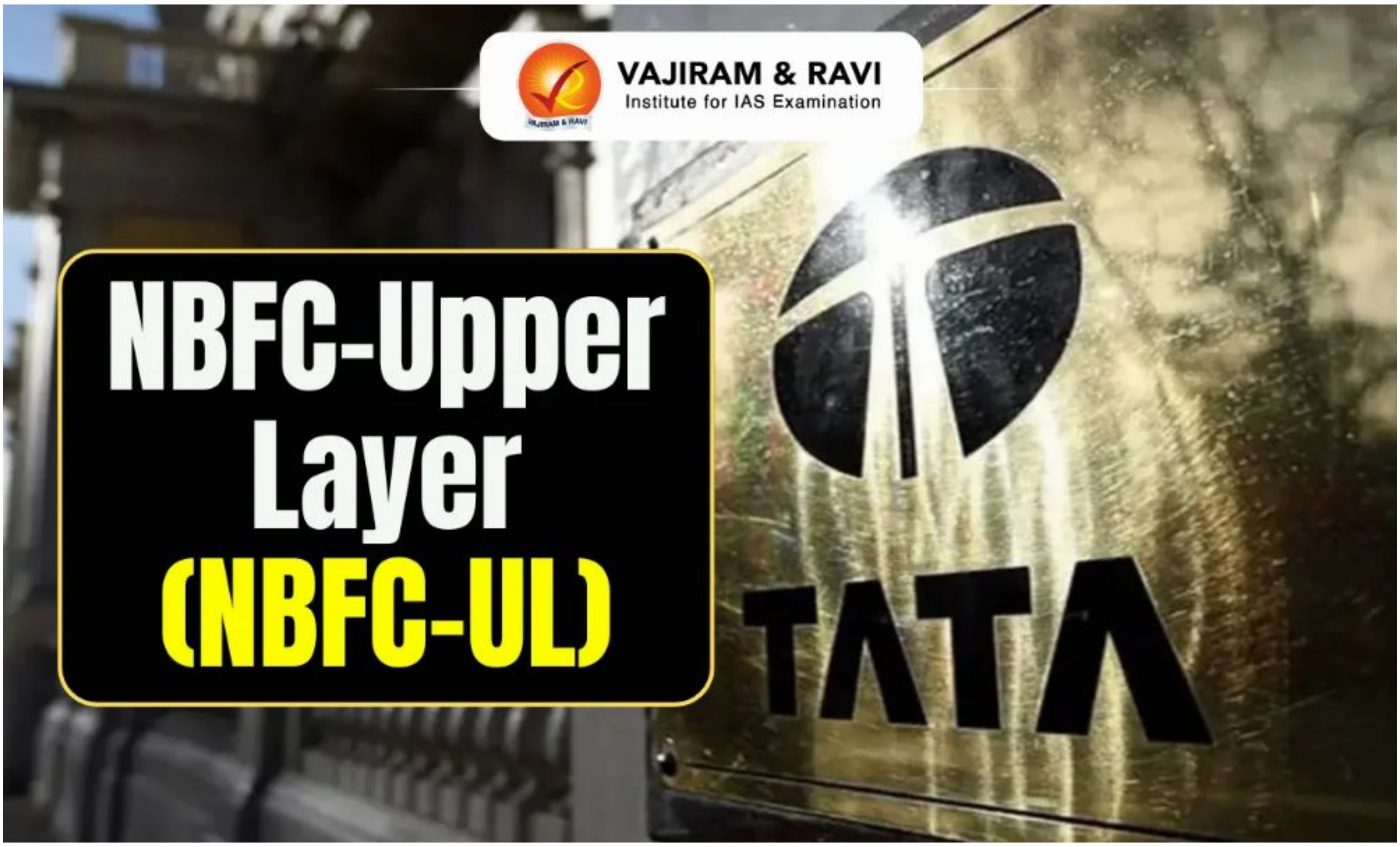

NBFC-Upper Layer (NBFC-UL) Latest News

- 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 its pending application for de-registration as an **NBFC** is still under examination.
- The decision has renewed the debate over whether Tata Sons will be required to undertake a mandatory stock market listing, as prescribed under the RBI's Scale Based Regulation (**SBR**) framework.

What is an NBFC-UL Classification?

- **Overview:**
  - **It is a designation** given by the RBI to large, systemically important non-banking financial companies (NBFCs).
  - These entities face **tighter** regulations as stringent as those for commercial banks because their potential failure could disrupt the wider financial system.
- **Classification and thresholds:**

- **Asset size criterion:** Any standalone NBFC with an asset size of **₹1,00,000 crore or more** qualifies for Upper Layer status. Public sector financial institutions that cross this limit are included in this layer.
- **Lock-in period**: Once classified as an NBFC-UL, an entity remains under enhanced regulations for **at least five years**, even if its asset size drops below the threshold later.

- **Regulatory impact:**
  - **Stricter norms**: Entities are subject to higher capital requirements, such as –
    - Higher Capital Adequacy Ratio.
    - Mandatory Common Equity Tier-1 (CET-1) capital norms.
    - Stronger corporate governance standards.
    - Mandatory board committees and enhanced board oversight.
- **Higher provisioning requirements.**
  - Risk-based compensation policies.
  - Greater regulatory disclosures and transparency.
  - Mandatory listing on stock exchanges to improve market discipline.
- **Mandatory listing:** Private NBFC-ULs are generally required to list their shares on stock exchanges within three years of classification.
- **Enhanced governance:** Risk management, auditing procedures, and public disclosures mirror the strict standards applied to major commercial banks.

RBI’s Decision

- RBI has identified **17** NBFCs as NBFC-Upper Layer (NBFC-UL) for 2026–27.
- **Other NBFCs** in the Upper Layer are – Tata Capital, Bajaj Finance, Aditya Birla Capital, Shriram Finance, Mahindra & Mahindra Financial Services, L&T Finance, LIC Housing Finance, HUDCO, etc.
- Tata Sons has been included without prejudice to the outcome of its de-registration application.
- If RBI approves de-registration, Tata Sons may avoid mandatory listing.
- If the application is rejected, Tata Sons must continue as an NBFC-UL, comply with enhanced prudential regulations, and list its shares on stock exchanges within the prescribed timeline.

What is the Scale Based Regulation (SBR) Framework?

- The RBI introduced the SBR framework **to regulate NBFCs** according to their size, complexity and systemic importance.
- **Four regulatory layers:**
  - **Base Layer (NBFC-BL)**: Small NBFCs with basic regulation.
  - **Middle Layer (NBFC-ML)**: Larger deposit-taking and significant NBFCs.
  - **Upper Layer (NBFC-UL)**: Systemically important NBFCs requiring bank-like regulation.
  - **Top Layer (NBFC-TL)**: Reserved for NBFCs posing exceptional systemic risks.
- For 2026–27, RBI has simplified the identification criteria, for example, NBFCs with assets of ₹1 lakh crore or more qualify as NBFC-UL.

Debate Over Tata Sons Listing

- **Why does Tata Sons qualify?** Although Tata Sons repaid its public borrowings in 2024, RBI continues to treat it as an indirect recipient of public funds because –
    - Several listed Tata companies such as Tata Steel, Tata Power and Tata Chemicals hold equity stakes in Tata Sons.
    - It possesses assets exceeding the revised **₹1 lakh crore** threshold.
    - It functions as the principal holding company of one of India's largest business groups.
- **Debate:**
    - **Arguments against listing:** Some trustees, including Noel Tata, believe –
        - Tata Trusts should retain greater control over the holding company.
        - Public listing could dilute the traditional governance structure.
        - Existing promoter control should remain intact.
    - **Arguments supporting listing:** Several trustees and the Shapoorji Pallonji Group (holding about 18% stake) favour listing because it would –
        - Unlock value for minority shareholders.
        - Improve transparency and corporate governance.
        - Strengthen regulatory oversight.
        - Enable easier capital raising for future expansion.
        - **Enhance market discipline** without significantly affecting Tata Trusts' promoter status.

Significance of Classifying NBFCs

- **For financial stability:**
    - Strengthens supervision of systemically important shadow banks.
    - Reduces systemic risks arising from large interconnected NBFCs.
    - Brings regulatory standards closer to those applicable to banks.
- **For corporate governance:**
    - Promotes greater transparency through mandatory disclosures and listing.
    - Improves accountability to public shareholders.
    - Enhances investor confidence in large financial institutions.
- **For India's financial sector:**
    - Reflects RBI's shift towards risk-based regulation rather than a one-size-fits-all approach.
    - Aligns regulation with the growing importance of NBFCs in credit intermediation.

Source: IE | TH
