



## **INTRODUCTION**

India's financial ecosystem is evolving rapidly, driven by innovation, digitalisation, and the country's expanding economy. Among the various business structures supporting this growth, Limited Liability Partnerships (LLPs) have emerged as a preferred vehicle for entrepreneurs and professionals. With a flexible structure combining the advantages of both companies and partnerships, LLPs offer benefits such as limited liability, separate legal identity, lower compliance burdens, and ease of formation. These features have made LLPs an attractive option for those seeking to participate in India's economic boom — including, potentially, the financial services sector.

However, the engagement of LLPs in Non-Banking Financial Company (NBFC) activities remains a contentious and grey area in Indian regulatory discourse.

## **LLPs AND NBFC's – A REGULATORY MISMATCH?**

The Limited Liability Partnership Act, 2008, does not expressly prohibit LLPs from engaging in NBFC activities. In fact, the Act allows LLPs to carry on any "lawful business with a view to profit." On the face of it, this opens the door for LLPs to consider offering financial services, provided they meet the necessary regulatory requirements — particularly those laid down by the Reserve Bank of India (RBI).

In practice, however, things are more complicated.

While the LLP Act may not prohibit such activities, the RBI's regulatory framework for NBFCs introduces a roadblock. Under the Reserve Bank of India Act, 1934, an NBFC is defined as

- a) a financial institution which is a company;
- b) a non-banking institution which is a company and which has as its principal business the receiving of deposits, under any scheme or arrangement or in any other manner, or lending in any manner;
- c) such other non-banking institution or class of such institutions, as the Bank may, with the previous approval of the Central Government and by notification in the Official Gazette, specify.]. The term "company" here refers to entities registered under the Companies Act, 1956/2013 — thereby excluding LLPs from the definition.

This means that even if an LLP intends to operate as an NBFC, it may not be eligible for registration as an NBFC under the current regulatory framework, simply because it does not qualify as a "company" in the eyes of the RBI.



## **RBI'S POSITION AND PRUDENTIAL NORMS**

Over the years, the RBI has clarified in various communications that LLPs are not eligible to be registered as NBFCs, nor are they recognized as entities that can carry out financial business under the NBFC framework. This includes not only deposit-taking NBFCs but also non-deposit taking entities that cross the threshold for Principal Business Criteria (PBC) — a test used to determine whether the financial activity is the main business of the entity.

Extending these to LLPs without regulatory changes would be problematic, both legally and structurally.

## **WAY FORWARD AND CONCLUSION**

In summary, while the LLP Act does not expressly prohibit NBFC-like activities, the current RBI regulations do not permit LLPs to be registered or operate as NBFCs. This creates a legal and regulatory mismatch that needs to be addressed if LLPs are ever to participate formally in the NBFC space.

Until such time, entrepreneurs and financial professionals looking to enter the NBFC sector will need to structure their businesses as companies under the Companies Act to fall within the regulatory perimeter of the RBI. Policymakers may, in the future, consider revisiting this stance as the financial landscape continues to evolve and as more alternative business structures gain prominence.

The discussion underscores a broader point — that India's regulatory frameworks must evolve in tandem with its economic aspirations and the changing nature of business structures.

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