The right to disclosure is not absolute if the disclosure of any part affects third-party interests. If some portion of the forensic audit report or other material is found to impinge upon third-party rights in the opinion of the bank, the bank can withhold disclosure of those parts of the report

The **Supreme Court** in the case of **State Bank of India vs Amit Iron Pvt Ltd [Civil Appeal Nos. 4243-4244 of 2026] dated April 07, 2026**, has held that the ruling in *State Bank of India vs. Rajesh Agarwal [(2023) 6 SCC 1]* did not recognize any right in the borrower to a personal hearing by the banks before classifying their account as a fraud account. The RBI in its Master Directions of July 15, 2024 correctly understood the scope of Rajesh Agarwal judgment and incorporated Clause 2.1.1.1, 2.1.1.2, 2.1.1.3, and 2.1.1.4 as the procedure to be followed before classifying an account as a fraud account.

The Apex Court pointed out that the procedure set out in Rajesh Agarwal, which has been incorporated in the RBI Master Directions of 2024, strikes a fair balance between promptitude and fairness and duly comports with the principles of natural justice. Wherever audit reports are available, including forensic audit reports, the same shall be furnished to the borrower and their representation on the report be elicited. Disclosure by furnishing copies of the audit report to the borrower is mandatory.

If the banks, for reasons to be recorded, establish that the disclosure of any part of the report would affect the privacy of third parties, in that exceptional situation banks would be justified to withhold those portions of the report. Thus, the judgments of the High Courts which have taken a contrary view stand overruled, added the Court.

The Court observed that the judgment in State Bank of India vs. Rajesh Agarwal did not recognize any right in the borrower to a personal hearing from the Banks before classifying their accounts as a fraud account. In the context of the entire judgment, what was contemplated was only a Show Cause Notice, a written representation in the form of a reply, and the mandate that the order passed thereon must be reasoned so as to comport with fairness and indicate due application of mind.

The Court stated that the ultimate objective of the principles of natural justice is to ensure fairness in action and prevent miscarriage of justice, and it is a flexible concept that depends on the facts, circumstances, and framework of the law. Granting a right of personal hearing to each and every borrower would be practically inexpedient considering the large volume of cases. It explained that oral hearing is bound to convert an administrative process intended to be swift into a protracted one, defeating the very purpose of the exercise. It would also provide an opportunity to recalcitrant borrowers to dissipate assets, destroy evidence, or abscond, causing enormous prejudice to public interest.

Moving ahead, the Court pointed out that the procedure of issuing a show cause notice, furnishing evidentiary material, eliciting a reply, and the obligation to pass a reasoned order meets the requirements of fairness and thwarts miscarriage of justice. The RBI in its Master Directions of 2024 correctly understood the scope of Rajesh Agarwal and incorporated Clause

2.1, which amply takes care of the lacunae identified in the earlier directions. The procedure evolved is a proportionate response to the situation and strikes a fair balance between promptitude and fairness.

As far as disclosure of Forensic Audit Reports is concerned, the Court observed that the borrower has a right to be disclosed of the material relevant to the proceeding against him, including the disclosure of the audit report. The furnishing of findings and conclusions alone would not tantamount to compliance with the principles of natural justice, as a complete sense of the findings can only be made after reading the contents of the report.

However, the Court cautioned that the right to disclosure is not absolute if the disclosure of any part affects third-party interests. If some portion of the forensic audit report or other material is found to impinge upon third-party rights in the opinion of the bank, the bank can withhold disclosure of those parts of the report.