Embargo under paragraph 2.5(a) of the RBI Master Circular dated July 1, 2015 cannot be mechanically continued for five years after removal of the borrower's name from the list of wilful defaulters in a case where the account has been successfully settled by compromise and the compromise amount has been fully paid

The **Bombay High Court** in the case of **Ravi Arya vs Reserve Bank of India [Writ Petition No. 2545 of 2021] dated March 25, 2026**, has held that the embargo under paragraph 2.5(a) of the RBI Master Circular dated July 1, 2015 cannot be mechanically continued for five years after removal of the borrower's name from the list of wilful defaulters in a case where the account has been successfully settled by compromise and the compromise amount has been fully paid, unless the case involves siphoning/diversion of funds, misrepresentation, falsification of accounts, or fraudulent transactions.

The Court noted that the purpose of the Master Circular was to disseminate credit information pertaining to wilful defaulters so as to caution banks and financial institutions and ensure that further bank finance is not made available to them. It extracted the definition of "wilful default" under clause 2.1.3 and emphasized that identification of wilful default must be made keeping in view the borrower's track record, that it should not be decided on isolated incidents, and that the default categorised as wilful must be intentional, deliberate and calculated.

The Court examined clause 2.5(a) of the 2015 Master Circular, which provided that no additional facilities should be granted to listed wilful defaulters and that companies and their promoters, where siphoning/diversion of funds, misrepresentation, falsification of accounts and fraudulent transactions had been identified, should be debarred from institutional finance for floating new ventures for five years from removal of their names from the list of wilful defaulters. The Court observed that the controversy centred on whether this five-year embargo could continue even after compromise settlement and removal of the borrower's name from the wilful defaulters list.

The Court placed weight on the subsequent RBI Directions of 2024 and 2025, which expressly dealt with treatment of compromise settlements. It noted that under the 2024 Directions, an account included in the List of Wilful Defaulters would be removed when the borrower had fully paid the compromise amount, and that the revised regime also distinguished between the bar on additional credit facility, which would operate for one year after removal of the name, and the bar on credit for floating new ventures, which would continue for five years.

The Court also referred to RBI's FAQ on the June 8, 2023 framework for compromise settlements and technical write-offs, which clarified that compromise settlement with borrowers categorised as wilful defaulters was not a new regulatory instruction and that the penal measures applicable to wilful defaulters would continue to apply. At the same time, the Court noted that RBI itself had, in later policy, given due weightage to compromise settlement and permitted removal of the borrower's name from the wilful defaulters list upon full payment of the compromise amount.

The Court found merit in the petitioners' contention that a party which attempts compromise and settles the NPA account cannot be placed on the same footing as a party which continues in default without settlement. It observed that once the compromise amount is paid and the name is deleted from the list of wilful defaulters, continuation of the five-year penalty is unjustified unless it is established that the defaulter is guilty of fraud or has siphoned off funds.