
April 2026

# Supreme Court of India resolves split on personal hearings prior to fraud classification

The Supreme Court of India ("**Supreme Court**") in the case of ***State Bank of India vs. Amit Iron Private Limited***[1] has clarified that borrowers do not have a vested right to a personal or oral hearing before their loan accounts are classified as fraud under the fraud directions[2] issued by the Reserve Bank of India ("**RBI**"). The Supreme Court further clarified that the earlier decision in *State Bank of India vs. Rajesh Agarwal*[3] did not recognise any such right to a personal hearing and that principles of natural justice are satisfied when the bank issues a detailed show cause notice, discloses the evidentiary material relied upon (including the forensic audit report), affords a reasonable opportunity to submit a written representation, and then passes a reasoned order dealing with the borrower's submissions.

This ruling resolves conflicting High Court views on whether *Rajesh Agarwal* judgment (supra) mandated a personal hearing and affirms the validity of the structured, document-based procedure that RBI has now embedded in its Master Directions of 2024[4] on fraud risk management.

By aligning the natural justice standard with a written, time-bound process rather than oral hearings in every case, the judgment brings much-needed certainty to banks to complete fraud classification within the prescribed 180 (one hundred and eighty) day timeline without the process being derailed solely for want of a personal hearing. At the same time, by insisting on disclosure of the audit report and a speaking order, the Supreme Court seeks to ensure a fair opportunity to respond and meaningful judicial review, thereby balancing depositor protection and fraud deterrence with borrower rights.

## Brief facts

1. The appeals arose from 2 (two) writ petitions in which borrowers had challenged fraud classifications on the twin grounds that they were not granted a personal hearing and that the forensic audit reports relied upon by the banks had not been furnished.
2. In the first writ petition, the State Bank of India had classified the borrower's account as a non-performing asset in 2019, issued a show cause notice in December 2023 referring to alleged irregularities and potential fraud,

[1] Civil Appeal Nos. 4243-4244 of 2026 (decided on April 7, 2026)
[2] Reserve Bank of India (Frauds Classification and Reporting by Commercial Banks and Select FIs) Directions, 2016 ("**2016 Master Directions**")
[3] 2023 (6) SCC 1
[4] Master Directions on Fraud Risk Management in Commercial Banks (including Regional Rural Banks) and All India Financial Institutions ("**2024 Master Directions**") https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=12702

received a written reply in February 2024 and, after considering the representation, passed a speaking order in March 2024 classifying the account as fraud.

3. The Calcutta High Court, following its reading of *Rajesh Agarwal* judgment, set aside the classification on the basis that the borrower was entitled to a personal hearing and copies of the forensic audit report, and this view was affirmed by the Division Bench of Calcutta High Court. Being aggrieved by the same, State Bank of India impugned by the orders setting aside their fraud classification.
4. In the second writ petition, Bank of India had declared the borrower's account a non-performing asset in 2012, commissioned forensic audits, and issued show cause notices in August 2023 and January 2024 setting out the auditors' findings and inviting a response. After considering the borrower's written replies, the bank passed an order in May 2025 classifying the account as fraud without affording any oral hearing.
5. The Delhi High Court quashed the classification on the ground that a personal hearing and supply of the audit report were required under the *Rajesh Agarwal* judgment (supra), and the Division Bench of Delhi High Court upheld this view. Being aggrieved by the same, Bank of India impugned by the orders quashing their fraud classification.
6. As in both the civil appeals, the central question before the Supreme Court was whether the *Rajesh Agarwal* judgment (supra) had in fact mandated a personal hearing and, if not, what minimum procedural safeguards do the principles of natural justice demands in the context of fraud classification under RBI's 2016 Master Directions and 2024 Master Directions. The Supreme Court disposed of the appeals by way of a common judgment.

## Issue

Whether the borrowers have a vested right to a personal or oral hearing before their loan accounts are classified as fraud under the RBI's fraud directions?

## Findings and analysis

Whilst disposing of the writ petitions, the Supreme Court examined RBI's fraud directions in depth and made the following key findings:

1. the *Rajesh Agarwal* judgment (supra) did not create or recognise any right in favour of borrowers to insist on a personal or oral hearing before their accounts are classified as fraud. The Supreme Court analysed *Rajesh Agarwal* judgment (supra) in detail and found that it confined itself to reading in core principles of natural justice requirements. These principles include issuance of a show cause notice, disclosure of the material relied upon, an opportunity to respond in writing and a reasoned order, into the 2016 Master Directions, which were otherwise silent on hearing. Subsequent attempts to infer a right to personal hearing from *Rajesh Agarwal* judgment, including by certain High Courts, have been expressly disapproved by the Supreme Court;
2. the framework in the RBI's 2024 Master Directions, which now codify the procedural safeguards stemming from *Rajesh Agarwal* judgment (supra) was upheld. These directions require banks to issue a detailed show cause notice setting out the transactions and events on which fraud classification is contemplated, and to grant the borrower not less than 21 (twenty-one) days to respond. They must then examine the representation through an internal mechanism, and issue a reasoned order recording the relevant facts, the borrower's submissions and the reasons for classifying (or not classifying) the account as fraud. The Supreme Court has recognised this as a proportionate and fair scheme which appropriately balances prompt fraud detection, depositor protection and administrative workability with the need to give the borrower a meaningful opportunity to be heard;
3. on the disclosure aspect, the Supreme Court has reaffirmed and strengthened the principle that borrowers are entitled to be furnished with the forensic audit report where the bank proposes to rely on it for fraud classification.

Drawing from its earlier decision in *T. Takano vs. Securities and Exchange Board of India and Anr*.[5], the Supreme Court held that the audit report is a central, not peripheral document and that 'supply of the Forensic Audit Report is the rule', with any redactions being confined to rare cases where disclosure would genuinely impinge on third-party privacy or other protected interests. Banks are permitted to withhold only such limited portions, after recording reasons, and are otherwise required to provide the report so that the borrower can effectively respond and any subsequent judicial review is not reduced to a sealed-cover exercise; and

4. the Supreme Court has overruled High Court decisions which had read a mandatory personal hearing requirement into the fraud classification process and has clarified that, while banks retain a discretion to grant an oral hearing in complex or exceptional cases, borrowers cannot demand it as of right. What is mandatory is compliance with the written-process safeguards laid down in *Rajesh Agarwal* judgment (supra) and reflected in the 2024 Master Directions that demonstrates due consideration of the borrower's case.

## Conclusion

From a banking and financial sector perspective, this judgment provides a welcome clarity on the contours of natural justice in fraud classification, by definitively closing the debate on whether banks must invariably afford oral hearings before declaring an account as fraud. Banks can now proceed on the basis that a robust, document-based process that adheres to the RBI's 2024 Master Directions will meet judicial scrutiny, without the operational and timeline pressures that a personal hearing requirement would have entailed. This should assist lenders in meeting the 180 (one hundred and eighty) day outer limit for moving from a red-flagged account to a fraud classification or dropping the red flag, and in reducing the risk of fraud declarations being set aside solely on procedural grounds.

For borrowers, the judgment underscores that while the mode of hearing is written representation, the safeguards around disclosure and reasoned decision-making are meaningful and enforceable. The entitlement to receive the forensic audit report and other evidentiary material, coupled with a reasoned order that sets out how the bank has dealt with their representations, creates a structured record that can be tested in writ proceedings where fraud classification is alleged to be arbitrary or unsupported by material. Going forward, both banks and borrowers will need to pay close attention to the content of show cause notices, the written representations and the rigour of the speaking order, as these documents will form the primary basis for both internal decision-making and external challenge.

That said, the judgment should not be read as giving banks a free hand on disclosure. While the Supreme Court has recognised that limited portions of the forensic audit report may be redacted in genuinely exceptional circumstances, such as where disclosure would impinge on third-party privacy or other legally protected interests, the threshold for withholding material is a narrow one and the bank must record reasons for any redaction it makes.

[5] 2022 (8) SCC 162

## Disputes Practice

With domain experts and strong team of dedicated litigators across the country, JSA has perhaps the widest and deepest commercial and regulatory disputes capacity in the field of complex multi-jurisdictional, multi-disciplinary dispute resolution. Availing of the wide network of JSA offices, affiliates and associates in major cities across the country and abroad, the team is uniquely placed to handle work seamlessly both nationally and worldwide.

The Firm has a wide domestic and international client base with a mix of companies, international and national development agencies, governments and individuals, and acts and appears in diverse forums including regulatory authorities, tribunals, the High Courts, and the Supreme Court of India. The Firm has immense experience in international as well as domestic arbitration. The Firm acts in numerous arbitration proceedings in diverse areas of infrastructure development, corporate disputes, and contracts in the area of construction and engineering, information technology, and domestic and cross-border investments.

The Firm has significant experience in national and international institutional arbitrations under numerous rules such as UNCITRAL, ICC, LCIA, SIAC and other specialist institutions. The Firm regularly advises and acts in international law disputes concerning, amongst others, Bilateral Investor Treaty (BIT) issues and proceedings.

The other areas and categories of dispute resolution expertise includes; banking litigation, white collar criminal investigations, constitutional and administrative, construction and engineering, corporate commercial, healthcare, international trade defense, etc.

**This Prism is prepared by:**


**Hormuz Mehta**
Partner

**Ahsaan Allana**
Principal Associate

**Kunal Bilaney**
Associate

19 Practices and
40 Ranked Lawyers

8 Ranked Practices,
22 Ranked Lawyers

15 Practices and
20 Ranked Lawyers

13 Practices and
49 Ranked Lawyers

20 Practices and
24 Ranked Lawyers

8 Practices and
10 Ranked Lawyers
Highly Recommended in 5 Cities

**Regional Legal Expertise Awards (APAC) of the Year**
Energy Firm Competition/
Antitrust Firm

Among Best Overall
Law Firms in India and
14 Ranked Practices
---
9 winning Deals in
IBLJ Deals of the Year
---
15 A List Lawyers in
IBLJ A-List – 2026

Recognised in World's 100 best
competition practices of 2026

Ranked Among Top 5 Law Firms in
India for ESG Practice

Asia M&A Ranking
2025 – Tier 1

For more details, please contact km@jsalaw.com


Ahmedabad | Bengaluru | Chennai | Gurugram | Hyderabad | Mumbai | New Delhi