

FEMA and RBI

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The Foreign Exchange Management Act, 1999 (FEMA)

Process of opening of SRVA simplified

[RBI/2025-2026/71 dated 5th August 2025](#)

To promote the use of the Indian rupee (**INR**) in international trade and to facilitate trade settlements in INR, the Government has further simplified the procedure for opening Special Rupee Vostro Accounts (**SRVAs**). As a result, Authorised Dealer (**AD**) Category-I banks are now permitted to open or close SRVAs for overseas correspondent banks directly, without the need for prior approval from RBI.

Standalone Primary Dealers now eligible for Rupee NDDC Transactions

[RBI/2025-26/78 dated 22nd September 2025](#)

RBI has now allowed Standalone Primary Dealers (**SPDs**), authorized as AD Category-III, to participate in non-deliverable derivative contracts (**NDDCs**) involving INR as erstwhile only AD Category-I banks operating International Financial Services Centre (IFSC) Banking Units (**IBUs**) were permitted to transact in such Rupee derivative contracts. With this update, SPDs can now offer these transactions to both resident and non-resident users, including other AD Category-I banks operating IBUs and overseas banks.

This amendment aims to expand market participation and improve liquidity in the non-deliverable Rupee derivative market. This enhances the scope for SPDs under the RBI's regulatory framework.

RBI Revises Merchanting Trade Transactions Guidelines

[RBI/2025-26/88 dated 1st October 2025](#)

The RBI has revised the guidelines for Merchanting Trade Transactions (**MTT**) to provide greater flexibility to traders. Previously, the outlay of foreign exchange (meaning, the period during which the Indian intermediary has sent out payment in foreign currency for the import leg but has not yet received

the payment for the export leg) in MTTs had to be completed within 4 months, and the entire transaction within 9 months.

With the new revision, the period for outlay of foreign exchange has been extended to 6 months, allowing traders more time to manage their foreign exchange requirements efficiently. The overall 9-month completion period for MTTs remains unchanged.

RBI Updates EDPMS & IDPMS Guidelines for Small-Value Transactions

[RBI/2025-26/89 dated 1st October 2025](#)

The RBI has revised the guidelines for reconciliation of export/import entries in the Export Data Processing and Monitoring System (**EDPMS**) and Import Data Processing and Monitoring System (**IDPMS**) for transactions of Rs.10 lakh or less per entry/bill.

- Entries can now be reconciled and closed based on a declaration provided by the concerned exporter/importer that the amount has been realised/paid.
- Reduction in declared value or invoice value of the shipping bills/bills of entry are allowed based on the declaration by the concerned exporter/importer.
- The above-mentioned declarations can be submitted quarterly in a consolidated format for bulk reconciliation and closing of EDPMS/IDPMS entries.

This extension is intended to reduce compliance requirements and administrative costs for small exporters, especially in e-commerce, enabling them to focus on their business while meeting regulatory obligations.

RBI Issues Draft Framework for External Commercial Borrowings (ECBs) Regulations

[Press Release no. 2025-2026/1235 dated 3rd October 2025](#)

RBI has proposed to simplify the regulatory framework for ECBs under the Foreign Exchange

Management (Borrowing and Lending) Regulations, 2018.

Major highlights of the draft proposal:

- The RBI proposes to align borrowing limits to the borrower's financial strength, as opposed to the earlier uniform ceiling applicable to all entities. This will enable financially strong companies to access greater external funding, while entities with weaker financials will remain subject to prudential limits. This allows ECBs at market-determined interest rates, aligning India's framework with global practices.
- The proposal seeks to ease end-use restrictions and maturity requirements while introducing a more flexible and market-aligned framework for ECBs and related foreign borrowings. While the minimum average maturity period (MAMP) continues to be generally 3 years, with a reduced period of 1 to 3 years for manufacturing sector borrowings up to USD 50 million, the amendment primarily focuses on liberalisation and procedural simplification.
- A significant change in the cost of borrowing has been proposed, wherein the earlier cap of the benchmark rate plus 450 basis points has been removed. Instead, borrowing costs will now be aligned with prevailing market conditions, subject to review by the AD Category-I bank. This change shifts responsibility from the RBI to market forces, providing borrowers greater flexibility in pricing arrangements.
- The erstwhile "Negative List" of end uses has been replaced by a comprehensive "Prohibited End-Use List". This list explicitly prohibits use of ECB proceeds for activities such as chit funds, Nidhis, agricultural or plantation activities, real estate business, trading in transferable development rights, unregulated on-lending, and securities trading except for specified regulated entities. This reclassification enhances clarity and aligns the rules with other FEMA frameworks like Overseas Investment (OI) and Foreign Direct Investment (FDI) regulations.
- Companies may be allowed to raise funds through ECBs up to \$1 billion in a financial year or up to 300% of their net worth, whichever is higher,

replacing the earlier uniform borrowing ceiling of \$750 million.

- Borrowers may be permitted to change the ECB currency to another foreign currency or to the INR and vice versa.

In conclusion, the RBI's proposed reforms represent a forward-looking step toward greater flexibility and liberalization in India's external borrowing regime. It represents a shift from prescriptive RBI controls to a more market-driven compliance regime under FEMA. As the draft remains under consultation, its final contours will be clear once the RBI issues the notified regulations.

The Reserve Bank of India (RBI)

RBI (Co-Lending Arrangements) Directions, 2025

[RBI/DOR/2025-26/139 dated 6th August 2025](#)

Regulated entities (**REs**) can enter into a lending arrangement with other REs for extension of credit to the borrowers, subject to compliance with the extant prudential regulations. In order to broaden the scope of co-lending, the RBI has issued the aforesaid revised Directions on co-lending arrangements (**CLA**) with the objective of providing specific regulatory clarity on the permissibility of such arrangements, while addressing some of the prudential as well as conduct related aspects. These Directions will come into force from 1st January 2026, or from any earlier date as decided by a RE as per its internal policy.

Applicability

These Directions will be applicable to CLAs entered into by the following REs:

- Commercial Banks (excluding Small Finance Banks, Local Area Banks and Regional Rural Banks);
- All-India Financial Institutions; and,
- Non-Banking Financial Companies (**NBFCs**) (including Housing Finance Companies).

Exceptions

These Directions will not apply to loans sanctioned under multiple banking, consortium lending, or syndication.

Other Features

- The loans under the CLA should be included in the scope of internal/ statutory audit in each RE to ensure adherence to their respective internal guidelines, terms of the agreement and applicable regulatory requirements.
- Each RE under a CLA should be required to retain a minimum 10% share of the individual loans in its books.
- NBFCs should adhere to the applicable accounting standards, while booking of unrealised profit under CLAs, if applicable. However, such profits, should be deducted from CET 1 capital or net owned funds for meeting regulatory capital adequacy requirement till the maturity of such loans.
- REs should make appropriate disclosures in their financial statements, under 'Notes to Accounts', relating to necessary details of CLAs on an aggregate basis. The details may *inter alia* include quantum of CLAs, weighted average rate of interest, fees charged / paid, broad sectors in which CLA was made, performance of loans under CLA, details related to default loss guarantee, if any, etc. The disclosure should be done on quarterly/annual basis, as applicable to the concerned REs.
- Originating RE may provide default loss guarantee up to 5% of loans outstanding in respect of loans under CLA.

REs should apply a borrower-level asset classification for their respective exposures to a borrower under CLA, implying that if either of the REs classifies its exposure to a borrower under CLA as Special Mention Account (SMA) / Non-Performing Asset (NPA) on account of default in the CLA exposure, the same classification should be applicable to the exposure of the other RE to the borrower under CLA.

RBI (Basel III Capital Regulations - Perpetual Debt Instruments (PDI) in Additional Tier 1 Capital – Eligible Limit for Instruments Denominated in Foreign Currency/Rupee Denominated Bonds Overseas) Directions, 2025

[RBI/2025-26/87 dated 29th September 2025](#)

The RBI has revised the existing eligible limit applicable for Perpetual Debt Instruments (**PDIs**) denominated in foreign currency/rupee denominated bonds overseas. As per the revised limits, PDIs issued in foreign currency/ rupee denominated bonds overseas will be eligible for inclusion in Additional Tier 1 (AT1) capital up to a maximum amount of 1.5% of Risk Weighted Assets (RWAs) as per the latest available financial statements (audited or subjected to limited review).

These directions came into force from 1st October 2025.



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