

## Liberalizing India's External Commercial Borrowings Framework: Key Changes Under the 2026 Amendments

The Reserve Bank of India (“**RBI**”) has made significant changes to the external commercial borrowings (“**ECB**”) regulations through the issuance of the Foreign Exchange Management (Borrowing and Lending) (First Amendment) Regulations, 2026 (“**Amended Regulations**”) on February 16, 2026, which amend the Foreign Exchange Management (Borrowing and Lending) Regulations, 2018 (“**Principal Regulation**”).

The Amended Regulations have made substantial changes to the eligible borrowers, recognized lenders, applicable end uses, minimum average maturity requirements and pricing norms as well as to other key issues. Collectively, these changes liberalize the entire ECB framework, making it more business– friendly for Indian entities and providing an opportunity to a wider pool of overseas creditors to approach Indian borrowers in a regulated manner.

It should also be noted that, currently, the provisions pertaining to ECBs have been deleted from the Master Direction - External Commercial Borrowing, Trade Credits and Structured Obligations dated March 26, 2019 (as amended from time to time) and from the RBI's “frequently asked questions” on ECBs. Accordingly, until there is any further update from the RBI, the Amended Regulations read with the Principal Regulation constitute the complete regulatory framework governing the issuance of ECBs, with effect from February 16, 2026.

Below is an analysis of the key changes under the Amended Regulations:

### Eligible Borrower

Any person resident in India incorporated/ registered under a Central or State Act can raise ECBs, subject to their governing statutes. Additionally, eligible borrowers (i) which are undergoing insolvency resolution or restructuring are eligible to avail ECBs, subject

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to such borrowing being permitted under the resolution or restructuring plan, and (ii) facing investigation or appeal for any contravention under the Foreign Exchange Management Act, 1999 (“**FEMA**”) may raise ECB without prejudice to the outcome of such investigation or appeal; provided they disclose information on the pending investigations or appeal in Form ECB-1.

The Amended Regulations have broadened the pool of eligible borrowers as borrowers no longer need to be entities eligible to receive FDI. Notably, limited liability partnerships can now avail ECBs. It is also worth noting that, in its response to comments on the draft regulations, the RBI stated that it had not accepted the suggestion to include a clarification on the eligibility of entities such as trusts to be borrowers. Accordingly, REITs and InvITS are currently not eligible borrowers which can raise ECBs.

### **Recognized Lender**

The Amended Regulations provide for any of the following to be a permissible lender: (i) a person resident outside India; (ii) a branch outside India of an entity whose lending business is regulated by the RBI; and (iii) a financial institution or a branch of a financial institution set up in the International Finance Service Centre. This is a significant change as the earlier restriction that permitted individuals to be recognized lenders only if they were foreign equity holders has been done away with. Overseas branches of Indian banks can now also extend ECBs in both INR and foreign currency. Further, the requirement for lenders to be from a Financial Action Task Force (“**FATF**”) or International Organization of Securities Commissions (“**IOSCO**”) compliant jurisdiction has been removed.

### **Minimum Average Maturity Period**

The minimum average maturity period (“**MAMP**”) for ECBs has been standardized to 3 years, doing away with the multi-tiered MAMP structure where certain end-uses, such as working capital, general corporate purposes and repayment of rupee loans, were linked to longer MAMPs of up to 10 years. Eligible borrowers in the manufacturing sector are permitted to raise ECB with a MAMP of 1 to 3 years subject to the outstanding amount of such ECBs not exceeding USD 150 million.

The Amended Regulations have further clarified that MAMP requirements are not required to be met in case of: (i) conversion of ECB to equity, (ii) repayment of ECB using proceeds of non-debt instruments issued on repatriation basis; provided the proceeds are received after drawdown of the ECB; (iii) refinancing of ECB; (iv) waiver of debt by the lender; and (v) repayment of ECB, if required for corporate actions such as merger, demerger, acquisition of control etc. These relaxations are beneficial as

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the above situations are usually early prepayment events and non-applicability of MAMP would facilitate earlier closure of such facilities.

## **Pricing**

The ceiling on all-in-cost as well as the ceiling on prepayment charges and penalties under the erstwhile regime have been removed, with the only requirement being that the cost of borrowing must be in line with prevailing market conditions. For ECBs with MAMP below 3 years, the all-in cost remains subject to trade credit ceilings. This is possibly the most significant change brought about by the Amended Regulations, which is likely to make ECBs commercially viable for a more diverse array of overseas lenders and also signals a more mature outlook of the RBI where treasury management is left open to the respective borrowers and creditors.

## **Borrowing Limits & Currency Conversion**

The borrowing limit has been increased to the higher of: (a) outstanding ECB up to USD 1 billion; or (b) total outstanding borrowings (external and domestic) up to 300% of the borrower's net worth as per the last audited balance sheet. Non-fund-based credit and funds raised through securities mandatorily convertible to equity are not to be included for computation of borrowing limits. Further, the borrowing limits specified under the Amended Regulations are not applicable to borrowers regulated by financial sector regulators. The Amended Regulations now also permit convertibility from foreign currency to INR ECBs and vice versa, while previously conversion from INR to foreign currency ECBs was not permitted. It is also worth noting that the Amended Regulations do not include any requirement for mandatory hedging and it is left to borrowers and lenders to manage their foreign exchange risks.

## **End-Use Restrictions**

A significant end-use relaxation is permitting ECBs to finance acquisition of equity in specific contexts. While the erstwhile regime had a blanket prohibition on availing of ECB for equity investments, equity investments that involve acquisition of control in a target company may now be financed through ECBs. The Amended Regulations also introduce welcome carve-outs for real estate development projects and industrial parks meeting specified conditions, for which ECB financing can now be availed, including for the purchase and sale or lease of land for such projects.

The following are negative end-uses for ECBs under the Amended Regulations: (i) chit funds; (ii) Nidhi companies; (iii) real estate business and construction of farmhouses (subject to certain specific exemptions); (iv) agricultural and animal husbandry activities (except for certain specific exemptions); (v) plantations (except tea, coffee,

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rubber, cardamom, palm oil, and olive oil); (vi) trading in transferable development rights; (vii) transactions in listed or unlisted securities (except for certain specific exemptions, including, importantly, transactions that involve acquisition of control); (viii) repayment of domestic rupee loans (a) which was availed for an end-use restricted under the Principal Regulation; or (b) which is classified as non-performing asset as per the applicable prudential norms; and (ix) on-lending for any purpose for which funds cannot be borrowed or utilized under the Amended Regulation.

## Reporting Requirements

The revised reporting requirements for ECBs under the Amended Regulations include Form ECB 1 for obtaining a loan registration number (“**LRN**”), Revised Form ECB 1 for parameter changes to be submitted within 7 calendar days from the end of the month in which such change was given effect; and Form ECB 2 for receipt of proceeds or debt servicing to be submitted within 7 calendar days from the end of the month in which the proceeds were received or debt servicing was undertaken.

This is significant as reporting is now an event-based requirement rather than on a monthly basis. It is also worth noting that while all other provisions of the Amended Regulations will apply prospectively, the new reporting timelines apply to existing ECBs as well.

The “untraceable borrower” threshold has been tightened. Borrowers will be classified as “untraceable borrower” after 4 consecutive quarters (in contrast to 8 consecutive quarters under the previous regime) of non-reporting combined with unresponsiveness to communications and physical absence from registered addresses. Further, AD Banks are now required to report untraceable borrowers to both the RBI and the Directorate of Enforcement.

## CONCLUDING REMARKS

The Amended Regulations represent a decisive shift in the RBI’s approach to governing ECBs. These changes, pertaining to broader borrower and lender eligibility criteria, simplified MAMP and pricing requirements and streamlined end-use restrictions, including for financing acquisition of control, could open doors for more financing options for mergers and acquisitions, sponsor backed buyouts and flexible consolidation strategies.

These relaxations also closely tie in with the RBI’s recent amendments that enable banks to finance acquisition of equity, subject to prescribed conditions (see our note on these changes [here](#).) Taken together, these changes significantly expand the pool of available options for acquisition financing for Indian entities. It is also worth noting

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that foreign owned and controlled corporations or FOCCs, which continue to be restricted from availing domestic debt for financing acquisitions, can avail ECBs for financing control acquisitions.

Overall, the Amended Regulations signal a market-oriented approach to governing ECB transactions in the future. Indian entities seeking international debt financing now enjoy substantially greater flexibility, while lenders benefit from a simpler and more accessible regulatory environment. The extent to which market participants will now utilize the liberalized ECB framework and the steps that the RBI takes to clarify any regulatory gaps and interpretational issues remain to be seen.

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