

RBI STRENGTHENS ECB FRAMEWORK

FOREIGN EXCHANGE MANAGEMENT (BORROWING AND LENDING) (FIRST AMENDMENT) REGULATIONS, 2026



Notification No.: FEMA 3(R)(5)/2026-RB | **Effective Date:** February 09, 2026

Summary:

The Reserve Bank of India (RBI) has significantly revised the External Commercial Borrowing (ECB) framework by amending the 2018 Regulations. The amendment aims to tighten monitoring, remove earlier grey areas, restrict misuse of borrowed funds, and align the ECB regime with restructuring and prudential norms under FEMA.

Earlier, ECB limits were mainly governed by fixed caps and separate circular-based relaxations. Although certain end-use restrictions existed, there was confusion in areas such as strategic acquisitions, refinancing of stressed loans, and restructuring transactions. There was also no clear enforcement mechanism for borrowers who repeatedly failed to report their borrowings.

The 2026 amendment addresses these gaps decisively as follows:

- It revises core definitions and inserts Regulation 3A, funds borrowed in terms of these Regulations shall not be utilised for the following purposes in India; chit funds, Nidhi company, real estate business and construction of farmhouses.
- Recasts Schedule I (ECB Framework) in entirety.
- Enhances the borrowing cap to the higher of USD 1 billion or 300% of net worth.
- Introduces restrictions on utilisation of ECB proceeds for investment in listed or unlisted securities (subject to specified exceptions)
- Formalises regulatory treatment of corporate actions and restructuring transactions.
- Strengthens security creation and conversion norms in alignment with the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019.

Action points for borrowers:

- Confirm Eligibility- Ensure your entity is eligible to raise ECB. If under restructuring or investigation, check permissions and disclose properly.
- Recheck Borrowing Limit - Total borrowings must stay within USD 1 billion or 300% of net worth (whichever is higher).

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Action points for borrowers:

- Validate End-Use Before Borrowing
Do not use ECB funds for:
 - i. Real estate business / farmhouses
 - ii. Investment in securities (unless genuine strategic acquisition)
 - iii. Repayment of NPAs
 - iv. Chit funds / Nidhi companies
 - v. Restricted agricultural or plantation activities
 - vi. Clearly document the intended use.
- Avoid NPA Refinancing- ECB cannot be used to repay domestic loans classified as NPAs.
- Meet Maturity Requirements- Minimum average maturity: 3 years and for Manufacturing sector: 1–3 years (up to USD 150 million)
- Obtain LRN Before Drawdown- No funds should be drawn without Loan Registration Number from RBI (via AD bank).
- Maintain Strict Reporting- File ECB-1 and ECB-2 within timelines. Repeated non-reporting may lead to classification as an “untraceable borrower.”
- Security & Conversion Rules- Follow FEMA norms for security creation and ECB-to-equity conversion.

Impact: This amendment marks a clear shift in the ECB regime from a flexible, limit-based system to a stricter, compliance-focused framework. End-use restrictions are now expressly defined, borrowing capacity is linked to net worth, refinancing of stressed loans is restricted, and reporting lapses can invite regulatory action.

Overall, RBI has tightened oversight, removed grey areas, and aligned ECB borrowing with India’s prudential and restructuring norms. Companies must now carefully assess end-use, leverage limits, compliance requirements, and strategic intent before raising overseas debt

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KNOWLEDGE DESK

~**Abutalib Syed**
(Knowledge Executive)

~**Dipika Bisawa**
(Director, Compliance & Learning Innovation)