

Towards a new era: RBI's transformative proposals to India's External Commercial Borrowings landscape

9 October 2025

Background

The Reserve Bank of India (RBI) has initiated a thorough review of the Foreign Exchange Management (Borrowing and Lending) Regulations, 2018 (Extant Regulations) aiming to *rationalise and simplify* the existing external commercial borrowings (ECB) framework. To this end, the RBI has released and invited public comments on the [draft Foreign Exchange Management \(Borrowing and Lending\) \(Fourth Amendment\) Regulations, 2025](#) on 3 October 2025 (Draft Regulations), which mark a significant step towards modernizing the existing ECB regime.

The Draft Regulations represent a comprehensive overhaul of the existing ECB framework in the following respects:

- (a) expanding the universe of eligible borrowers and recognised lenders, unlocking broader access to cross-border credit;
- (b) revamping the list of permissible end-uses to align with current business needs and strategic investments;
- (c) raising borrowing thresholds to support larger capital inflows;
- (d) aligning borrowing costs with prevailing market conditions, in line with global standards; and
- (e) standardising and bring much-needed clarity on the minimum average maturity period (MAMP).

Comparative overview

S. No.	Heading	Extant Regulations	Draft Regulations	Analysis
1.	Base of eligible borrowers broadened	<p>All entities which are eligible to receive FDI. Further, following entities are additionally eligible to raise ECBs:</p> <p>(a) Foreign currency (FCY) denominated ECB: (i) port trusts; (ii) units in SEZ; (iii) SIDBI; and (iv) EXIM Bank of India.</p> <p>(b) INR denominated ECB: Registered entities engaged</p>	<p>(a) Person resident in India incorporated under Central Act or State Act, except individuals, so long as it is permitted to borrow under applicable law; and</p> <p>(b) Any entity or organisation (other than individuals) under a restructuring scheme or corporate insolvency resolution process (CIRP) so long as it is permitted to</p>	<p>Under the Draft Regulations, real estate investment trusts (REITs), infrastructure investment trusts (InvITs), limited liability partnerships (LLPs), funds, registered societies, trusts, cooperatives, non-government organisations, partnership firms registered under the Partnership Act, 1932 and other organizations or entities incorporated under the laws of India (except individuals), seem to be permitted to borrow both FCY and INR denominated ECBs, so long as they are otherwise eligible to borrow and</p>

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		in micro-finance activities, viz., registered not for profit companies, registered societies or trusts or cooperatives and non-government organizations.	borrower under the restructuring scheme or resolution plan.	subject to compliance with permitted end-uses. Entities undergoing CIRP or restructuring continue to be permitted to avail ECBs only where the restructuring scheme or resolution plan permits such borrowing.
2.	Pool of recognised lenders increased	<p>The lender is required to be resident of a Financial Action Task Force (FATF) or International Organisation of Securities Commission (IOSCO) compliant country, as defined in the ECB framework, including on transfer of ECBs. Multilateral and regional financial institutions where India is a member country are also considered as recognised lenders.</p> <p>Further, foreign equity holders are allowed to provide ECBs in the following cases: (a) direct foreign equity holder with minimum 25% direct equity holding in the borrowing entity, (b) indirect equity holder with minimum indirect equity holding of 51%, or (c) group company with common overseas parent.</p>	<p>(a) A person resident outside India; and (b) A branch outside India or in the International Financial Services Centre (IFSC) of an entity whose lending business is regulated by the RBI.</p> <p>Additionally, related party, group entity (a holding company, subsidiary company or associate company as per the Companies Act, 2013) or otherwise connected lender outside India will be permitted to provide ECBs to borrowers so long as such transaction is carried out on an arm's length basis.</p>	<p>It appears from the Draft Regulations that:</p> <p>(a) the scope of recognised lenders has been expanded to include all persons resident outside India; (b) individuals resident outside India (including NRIs) are permitted to act as recognised lenders; (c) specific requirements for foreign equity holders providing ECBs have been removed; (d) lenders are not required to be specifically from FATF or IOSCO compliant countries, however, most regulated entities would typically have presence only in compliant jurisdictions; (e) IFSC banking companies seem to not be specifically included as recognised lenders; clarity should be brought in on this; (f) branches or subsidiaries of Indian banks were earlier only permitted to lend FCY denominated ECBs, whereas the Draft Regulations permit them to lend INR denominated ECBs as well; (g) branches of financial sector entities regulated by the RBI (other than banks) located outside India or in the IFSC were not explicitly permitted to act as 'recognised lenders', whereas the Draft Regulations permit them to lend both FCY and INR denominated ECBs.</p> <p>Under the Draft Regulations, RBI has also allowed borrowing from related parties, group entities or other connected persons outside India on arm's length basis, which significantly improves group treasury efficiency and intra-group liquidity planning.</p>

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3.	List of permitted end-uses expanded	<p>The following end-uses are restricted under the Extant Regulations:</p> <p>(a) In the business of chit fund or Nidhi Company;</p> <p>(b) Investment in capital market including margin trading and derivatives;</p> <p>(c) Agricultural or plantation activities;</p> <p>(d) Real estate activity or construction of farm-houses; and</p> <p>(e) Trading in transferrable development rights (TDR).</p> <p>Under the Master Direction on External Borrowings, Trade Credits and Structured Obligations dated 26 March 2019 as amended or updated from time to time, RBI has prescribed following additional restricted end uses:</p> <p>(a) Equity investment;</p> <p>(b) Working capital purposes, except where borrower complies with relevant MAMP prescribed by RBI;</p> <p>(c) General corporate purposes, except where borrower complies with relevant MAMP prescribed by RBI;</p> <p>(d) Repayment of rupee loans, except where borrower complies with relevant MAMP</p>	<p>The following end-uses are restricted under the Draft Regulations:</p> <p>(a) In the business of chit fund or Nidhi Company;</p> <p>(b) Transacting in listed or unlisted securities, except for (i) overseas investment in accordance with FEMA guidelines; (ii) merger, amalgamation, arrangement, or acquisition in accordance with the Companies Act, 2013, Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 and Insolvency and Bankruptcy Code, 2016 (as applicable); and (iii) investment in primary market instruments issued by non-financial entities for on-lending as in (e) below.</p> <p>(c) Agricultural or plantation activities, except activities or sectors permitted for FDI;</p> <p>(d) Real estate business or construction of farmhouses, except: (i) activities or sectors permitted for FDI; and (ii) purchase or long-term leasing of industrial land as part of new project or modernisation or expansion of existing units;</p> <p>(e) On-lending, except by: (i) a person resident in</p>	<p>The new negative list provides much more flexibility in terms of permitted end-uses.</p> <p>The Draft Regulations have been revamped to open up the following new end-uses, which had never been permitted under the ECB regime since its inception:</p> <p>(a) Acquisition financing: ECBs for acquisition finance of both listed and unlisted companies including control acquisitions, majority or minority acquisitions and distressed acquisitions (under the (Indian) Insolvency and Bankruptcy Code, 2016, as amended or restated from time to time) are proposed to be eligible;</p> <p>(b) Financing of mergers, amalgamations and schemes of arrangement: ECBs for financing mergers, amalgamations and schemes of arrangement will now be permitted;</p> <p>(c) On-lending: in a significant departure from the Extant Regulations, on-lending of ECB proceeds by a company or a body corporate to its group entity has now been permitted for all permissible end-uses. Non-group non-financial entities continue to remain restricted. However, flexibility may be built in to permit on-lending by entities such as REITs, InvITs, trusts, and other entities which may not get covered under 'company' or 'body corporate'.</p> <p>(d) Real estate: ECBs for the purpose of construction of residential or commercial premises and real estate broking services are now permitted under the Draft Regulations, similar to the approach for investments in real estate business under the FDI regime. This was previously limited to: (i) purchase or long term leasing of industrial land as part of new project or modernisation of expansion of existing units; and (ii) financing the construction or development of industrial parks or integrated townships or SEZ</p>

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		<p>prescribed by RBI; and</p> <p>(e) On-lending to borrowers for any of the above activities except in case of NBFCs where such on-lending is undertaken in compliance with the relevant MAMP prescribed by RBI.</p>	<p>India whose lending business is regulated by RBI; and (ii) a person resident in India that is a company or a body corporate established under a Central Act or State Act lending to its group entity (a holding company, subsidiary company or associate company as per the Companies Act, 2013). However, such on-lending is not permitted for a prohibited end-use or to a person who is not an eligible borrower; and</p> <p>(f) Trading in TDR.</p>	<p>only. Dealing in, buying or selling of land and immovable property with a view to earning profit continues to remain a restricted end use.</p> <p>(e) Primary issuances: Proceeds of ECBs can now be utilized for investment in primary issuances of listed and unlisted securities both in the nature of equity or quasi-equity or debt securities, issued by 'non-financial entities', and such issue proceeds will have to be utilised by such 'non-financial entities' only for the purpose of on-lending to group entities.</p> <p>(f) Agricultural and plantation activities: Blanket restriction on ECBs for agricultural and plantation activities has been removed. To the extent such activities are permitted to be funded under the automatic route of FDI regime, the same has been applied for the ECB regime as well;</p> <p>(g) Infrastructure activities: Activities listed under the Harmonised Master List of Infrastructure sub-sectors approved by the Government of India were previously a permitted end use but appear to have been inadvertently removed from the Draft Regulations. RBI may consider clarifying this position.</p> <p>(h) Overseas investments: Utilisation of ECB proceeds for the purposes of investments in listed and unlisted securities for overseas investment continues to remain permitted.</p> <p>Continued restrictions: Restriction on end-use for the business of chit fund or Nidhi Company, construction of farmhouses and trading in TDRs continues to subsist under the Draft Regulations.</p>
4.	Cost of borrowings requirement aligned to global standards	<p>All-in-cost</p> <p>FCY ECB: Benchmark rate plus 500 bps spread.</p> <p>INR ECB: Benchmark rate plus 450 bps spread.</p>	<p>All-in-cost</p> <p>The cost of borrowing shall be in line with prevailing market conditions, subject to the satisfaction of the designated AD Category I bank.</p>	<p>This change aligns India's ECB framework with international norms where borrowing costs are typically market-driven, promotes fair pricing and reduces regulatory distortions in capital allocation by lenders.</p> <p>The removal of the all-in-cost ceiling is a welcome move for</p>

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		<p><u>Prepayment charges or penal interest</u></p> <p>Not more than 2% over and above the contracted rate of interest on the outstanding principal amount and will be outside the all-in-cost ceiling.</p>	<p>The cost of borrowing for the ECBs with MAMP of less than 3 years is required to be in compliance with cost ceiling specified for Trade Credit.</p> <p><u>Prepayment charges or penal interest</u></p> <p>Required to be in line with prevailing market conditions, subject to satisfaction of the designated AD Category I bank.</p>	<p>lenders making ECBs an option equitable to non-convertible debentures subscribed by foreign portfolio investors, from a pricing perspective.</p> <p>Further, linking prepayment costs to market conditions allows borrowers and lenders to negotiate terms that reflect real-time pricing and global benchmarks.</p>				
5.	Standardisation of MAMP and clarifications on non-applicability of MAMP	<p>MAMP for ECB is 3 years. However, different MAMPs have been prescribed for certain specific categories of the borrowers or end-uses including the following:</p> <table><tr><td>ECB raised by manufacturing companies up to USD 50 million or its equivalent per financial year.</td><td>1 year</td></tr></table>	ECB raised by manufacturing companies up to USD 50 million or its equivalent per financial year.	1 year	<table><tr><td>ECB raised by manufacturing sector borrowers up to outstanding stock of USD 50 million or its equivalent per financial year.</td><td>1-3 years</td></tr></table> <p>Further, MAMP is not required to be met in the following scenarios:</p> <p>(a) Conversion of ECB (including FCCB and FCEB) to non-debt instruments in accordance with FEMA;</p> <p>(b) Repayment of ECB using the proceeds from issuance of non-debt instruments on repatriation basis in accordance with the FEMA after the drawdown of the ECB;</p> <p>(c) Waiver of debt by the lender; and</p>	ECB raised by manufacturing sector borrowers up to outstanding stock of USD 50 million or its equivalent per financial year.	1-3 years	<p>Under the Draft Regulations, RBI has prescribed single MAMP for all types of borrowers and end-uses (other than manufacturing sector companies for ECB of up to USD 50 million), unlike the Extant Regulations, where different MAMPs have been prescribed for different borrowers or end-uses.</p> <p>RBI has also clarified the scenarios when the MAMP is not required to be met under the Draft Regulations, which will provide greater flexibility in deal structuring.</p>
ECB raised by manufacturing companies up to USD 50 million or its equivalent per financial year.	1 year							
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			Closure, merger, acquisition, resolution or liquidation of either the lender or the borrower.	
6.	Increased borrowing limit	Up to USD 750 million or equivalent per financial year.	<p>Up to the higher of: (a) outstanding ECB up to USD 1 billion; or (b) total outstanding borrowing (external and domestic) up to 300% of net worth as per the last audited balance sheet.</p> <p>This ceiling or borrowing limit will not be applicable upon regulated entities regulated by a financial sector regulator.</p> <p>'Financial sector regulator' means a body established under any law in force in India and includes RBI, SEBI, IRDAI and PFRDA.</p> <p>'Net worth' means: (i) for companies, the definition as provided under the Companies Act, 2013; and (ii) for other entities, sum of capital contribution + undistributed profits after deducting from the (accumulated losses + deferred expenditure + miscellaneous expenditure not written off) as per the last audited balance sheet.</p>	<p>The significant increase in headroom for borrowing proposed has to be linked with the relevant borrower's financial strength. For ECBs exceeding the revised limits, borrowers will have to apply for RBI approval for further enhancement.</p> <p>The limits are not applicable for entities regulated by a financial sector regulator. However, they will continue to be guided by prudential norms specified by the relevant regulators.</p> <p>RBI may consider clarifying that the revised limits will be applicable for each financial year.</p>
7.	Introduction of new currencies for borrowing	ECB can be raised only in any freely convertible foreign currency or INR.	ECB can be raised in any foreign currency or INR.	It appears from Draft Regulations that ECBs can be raised in any foreign currency and are not required to be raised only through

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				freely convertible foreign currency. All eligible borrowers are now permitted to borrow in both FCY and INR denominated ECBs.
8.	Increased fungibility for conversion of INR ECB into FCY ECB permitted	Change of currency from INR to any freely convertible foreign currency is not permitted.	Currency of ECB from INR to FCY can be changed.	This change will provide greater flexibility for the borrowers in structuring the transactions and attract more diverse investor interest.
9.	Relaxed reporting and compliance requirements	(a) Form ECB 2 is required to be filed to report actual ECB transactions on monthly basis within 7 working days from the close of month to which it relates. (b) Changes in ECB parameters should be reported in revised Form ECB not later than 7 days from the changes effected.	(a) 'Form ECB 2' is required to be filed for reporting drawdown and debt servicing, within 30 days from the date of such cashflow of drawdown and debt servicing. (b) The Draft Regulations require filing of Revised Form ECB for reporting changes in the ECB parameters, within 30 days of the date of such change.	The manner of reporting under Form ECB 2 has been changed from periodical to event-based. Further, for reporting changes in ECB parameters, the timeline has been relaxed from 7 working days to 30 calendar days under the Draft Regulations, which will provide ease to borrowers for complying with the requirement of filing revised Form ECB.

Comments

The Draft Regulations signal a transformative leap in India's ECB ecosystem. The proposed expansion of eligible end-uses to expressly include mergers and acquisitions as well as real estate development, underscores RBI's commitment to widening the avenues to source of foreign capital for Indian borrowers. However, the Draft Regulations remain silent on certain key areas where delegated powers to authorised dealer banks would be necessary, such as the creation or cancellation of security, modifications in ECB parameters and the transfer of ECBs.

Overall, this initiative reflects a commendable effort by the RBI to liberalize the ECB framework and align regulatory provisions with prevailing market conditions and global benchmarks. Through enhanced clarity, greater flexibility and rationalized compliances, the RBI has struck a thoughtful balance between liberalization and prudential oversight. If implemented effectively, these reforms have the potential to reshape India's ECB regime, reflecting a forward-looking regulatory approach that not only addresses current market realities but also anticipates the evolving needs of borrowers and lenders in a dynamic global financial environment.

We invite you to share your insights and comments on the Draft Regulations. Please use the following link to submit your comments: <https://kcoit.filecloudonline.com/url/eycbnqtjqtsgp5kx>.

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