

Decoding India's New Forex Authorisation Regime

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Introduction

On 30 April 2026, the Reserve Bank of India (RBI) issued the Foreign Exchange Management (Authorised Persons) Regulations, 2026 (AP Regulations), which came into effect from 6 May 2026. The AP Regulations not only rationalise instructions issued under the earlier fragmented and circular-based authorisation framework for the operation of Authorised Dealers (AD) and Full Fledged Money Changers (FFMC) but also mark a structural change in the categorisation and permitted activities under the Foreign Exchange Management Act, 1999 (FEMA). They further introduce greater regulatory control through the Forex Correspondent (FxC) model compared to the earlier franchising models and tighten net worth and turnover thresholds to ensure stability in the forex market.

The AP Regulations have been issued following the 'Draft Licensing Framework for APs under the FEMA' released by the RBI for public consultation on 26 December 2023 (Draft Regulations). The key changes introduced to the applicable legal framework through the AP Regulations, and modifications from the Draft Regulations, are set out below.

Key Changes introduced by the AP Regulations

- (a) Expanded scope of permissible activities for AD Category II and AD Category III.
- i. ADs are categorised into Category I, Category II and Category III. While AD Category I entities are permitted to undertake all current and capital account transactions permissible under FEMA, the scope of activities for AD Category II entities was limited to particular non-trade transactions (such as for private visits, remittance by travel agents, business travel, film shooting, medical treatment abroad, overseas education, emigration / visa fees and membership to international organisations). Further, AD Category III entities (which included certain types of financial institutions) were only permitted to undertake foreign exchange transactions incidental to their primary business activities.
 - ii. Now, the AP Regulations have expanded the scope of permitted activities for AD Category II entities, allowing them to not only undertake all non-trade current account transactions (except gifts and donations), but also support trade transactions up to INR 25 lakh (~USD 26,000) per transaction. Notably, this is an increase from the limit of INR 15 lakh (~USD 15,500) per transaction proposed under the Draft Regulations.
 - iii. Further, entities intending to 'offer innovative products and services that may involve dealing in foreign exchange' have also been permitted to apply for AD Category III licenses.

Comments

- i. The AP Regulations have greatly expanded the operational flexibility of AD Category II entities by permitting them to undertake trade transactions as well as a broader range of non-trade transactions. Specifically, AD Category II entities may now clearly tap into India's maintenance remittance flows, a significant opportunity given that India is the world's largest recipient of inward remittances, with such remittances exceeding USD 100 billion annually in recent years.

- ii. However, with the inclusion of foreign trade transactions within the scope of permitted activities for AD Category II entities, there appears to be a functional overlap with the Payment Aggregator-Cross Border (PA-CB) framework under which RBI-licensed PA-CB entities are also permitted to facilitate cross-border trade transactions.
 - iii. The expansion of the AD Category III framework from traditional institutions to include new-age service providers may pave the way for fintech companies and digital-first platforms to directly undertake forex transactions, thereby presenting a substantial commercial opportunity for innovative players to capitalise on India's burgeoning cross-border payment flows, while ensuring that such models develop under regulatory oversight.
- (b) Modified eligibility criteria, compliances and procedures for AD Category II and AD Category III licensing.
- i. Earlier, only Urban Co-operative Banks, Regional Rural Banks, and eligible FFCs were permitted to apply for AD Category II licensing. This has now been expanded to include all banks, non-banking financial companies (NBFCs), FFCs and FxCs. The RBI has also prescribed a minimum net worth requirement of INR 10 crore (~USD 1 million) for AD Category II entities, and a minimum net worth stipulation of INR 2 crore (~USD 200,000) for AD Category III entities.
 - ii. However, FFCs and FxCs will have to be functioning for at least two years prior to applying for AD Category II licensing and must have maintained an average annual forex turnover of INR 50 crores during the previous two financial years. Further, at least 50% of the directors and Key Managerial Personnel (KMPs) must have qualifications and experience in the financial services industry (which was not a compliance requirement earlier).
 - iii. Additionally, if the applicant or its promoters or directors are under investigation by the Directorate of Enforcement (ED), they may obtain a No Objection Certificate (NOC) from the ED not earlier than 30 days before the date of application. In case the ED has not provided a reply within 60 days of receipt of the request, the applicant may provide a declaration to such effect. Earlier, such investigations were grounds for rejection of AD Category II applications.
 - iv. An appeal mechanism has also been introduced for rejected applicants, whereby they may appeal to the Executive Director in charge of the RBI's Foreign Exchange Department within 45 days from the date of receipt of rejection. The appellate authority is required to give the applicant an opportunity of being heard and pass a reasoned order within 60 days of the date of receipt of appeal.

Comments

- i. The expansion of the AD Category II eligibility appears to reflect RBI's intent to move towards a more commercially relevant and functionally broader authorisation regime. By permitting non-banks such as NBFCs, FFCs and FxCs to apply, the AP Regulations expand the pool of regulated entities capable of servicing cross-border and retail forex requirements. Applicants will need to assess whether their existing business model, scale and internal controls are suited to the wider operational and compliance obligations that now accompany authorisation.
- ii. At the same time, the minimum annual forex turnover requirement introduces a continuing commercial viability test into the regulatory framework. While this may help RBI ensure that only active and scaled entities remain authorised, it may also make the category less attractive for smaller participants, particularly newly established FFCs and FxCs.
- iii. The requirement for at least 50% of the directors and KMPs to have relevant experience and qualification is a significant governance enhancement. Entities seeking authorisation may need to revisit board composition and management structure to ensure compliance.
- iv. The provision for applying on the basis of the NOC from the ED introduces a balanced, flexible approach compared to the earlier position of outright rejection, although the requirement for a fresh NOC not older than 30 days may still create execution challenges for applicants.
- v. The appellate mechanism for rejected applications is also a welcome development, enhancing transparency and ease of doing business. That said, the appeal window of 45 days and the stipulated

60-day timeline for disposal will require applicants to act promptly and maintain a well-documented application record.

(c) Phasing out of FFMCs.

The AP Regulations state that no fresh applications for FPMC licensing shall be considered by the RBI (except those already under process). However, existing FFMCs have been permitted to continue. In case any additional information or documents have been requested by the RBI in relation to the application, the entity must provide the same within 30 days, failing which the application shall be deemed to have been rejected.

Comments

The AP Regulations do not immediately do away with the FPMC model, but have placed FFMCs on a sunset path. The approach, whereby new entities desiring to enter the retail forex space will have to opt for AD or FxC models, suggests that the RBI prefers the space to be anchored around more strongly regulated principals such as banks and NBFs, rather than standalone money changers.

(d) Replacement of the agent / franchisee model with FxCs.

- i. Under the earlier regime, AD Category I, AD Category II and FPMC entities were permitted to expand their retail foreign exchange footprint through agents / franchisees. Such franchisees could undertake limited money changing activities, that is, conversion of foreign currency notes, coins or travellers' cheques into Indian Rupees.
- ii. The AP Regulations have prospectively discontinued the agent / franchisee model, stating that no such arrangements may be entered into and existing arrangements must be discontinued within two years of the date of publication of the AP Regulations (*i.e.* by 6 May 2028). Alternatively, such arrangements may be migrated to the newly-introduced, more formalised FxC model.
- iii. Under the new framework, AD Category I and AD Category II entities have been allowed to appoint FxCs under a principal-agent relationship. FxCs have been permitted to undertake a wider scope of activities compared to the earlier agent / franchisee model, including sale and purchase of foreign currency and travellers' cheques and acting as a Money Transfer Service Scheme (MTSS) sub-agent. FxCs may act as an agent to more than one AD and may also deal in foreign exchange with any other authorised person or FxC with the approval of its principal.
- iv. Significant RBI oversight has been introduced for FxC arrangements. ADs must submit the details of their FxCs and their place of business to the RBI within 15 days from the end of each quarter. All FxC transactions must be reflected in the books of the AD.
- v. ADs have also been required to implement a Board-approved internal policy for appointment of FxCs (including criteria pertaining to due diligence, net worth, 'fit and proper' checks, transaction reporting, customer service and grievance redressal mechanism). FxC arrangements by non-bank ADs must adhere to extant RBI directions on outsourcing, and the AD shall be responsible for ensuring protection and confidentiality of client information.

Comments

While the earlier model was similar to an extension / distribution of the authorised person's business, the new framework recasts this relationship as a more tightly supervised agency, where the principal bears clear, traceable compliance responsibility and the AD retains stronger operational oversight. The RBI also gains enhanced visibility into FxC operations. ADs would need to implement suitable transition arrangements by either migrating existing franchise arrangements into the FxC structure or implementing winding down of such structures.

Concluding Remarks

The AP Regulations mark a significant overhaul of India's foreign exchange authorisation framework by replacing the earlier fragmented regime with a more consolidated and principle-based structure. The revised framework broadens the scope of eligible entities and permitted activities for AD Category II, while also introducing clearer governance, turnover and procedural requirements for authorised persons and

FxCs. At the same time, the new regime creates a limited but important functional overlap with the PA-CB framework in relation to certain cross-border payment flows.

From a practical standpoint, entities seeking authorisation will need to reassess their business models, internal controls, board composition and compliance infrastructure to align with the new requirements, which are demanding from both operational and governance perspectives. At the same time, the ED clearance mechanism and appellate remedy make the framework more business-friendly.

While it is worth noting that AD Category II has a deeper product scope and distribution model (through FxCs) than PA-CBs, further clarity on the interaction between the AP Regulations and the PA-CB framework, including the aggregation of trade-related payments by AD Category II entities, would be welcomed by market participants undertaking cross-border payment activities.

- *Prashanth Ramdas (Partner), Akshay Ferdinand (Senior Associate), Ananya Giri Upadhya (Associate)*



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