



BANKING AND FINANCE

RBI Overhauls the Authorised Person Framework: A Close Reading of the Foreign Exchange Management (Authorised Persons) Regulations, 2026

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The Reserve Bank of India has issued the **Foreign Exchange Management (Authorised Persons) Regulations, 2026**, representing the most comprehensive overhaul of the authorised dealer and money changer licensing architecture in recent memory. These Regulations introduce a cleaner categorisation of authorised persons, stricter eligibility thresholds, digital integration of licensing processes, a formalised appeal mechanism, and a phased transition of the franchisee model toward a structured Forex Correspondent Scheme.

Background and Context

The Reserve Bank of India (RBI) has, by **Notification No. FEMA 401/2026-RB** dated 30 April 2026, issued the Foreign Exchange Management (Authorised Persons) Regulations, 2026 (the “Regulations”), exercising its powers under clause (h) of sub-section (2) of Section 47 read with Section 10 of the Foreign Exchange Management Act, 1999 (42 of 1999) (FEMA). The Regulations, published as an Extraordinary Gazette notification, came into force on the date of their publication.

The Regulations replace the prior regulatory framework governing authorised persons under FEMA. Their significance lies in their scope and in the structural rationalisation they introduce: a cleaner categorisation of authorised persons, stricter eligibility thresholds, digital integration of licensing processes, a formalised appeal mechanism, and the phased transition of the franchisee model toward a structured Forex Correspondent Scheme.

For financial institutions, non-banking financial companies (NBFCs), money changers, and entities engaged in or seeking to engage in foreign exchange activities, the Regulations call for immediate and careful attention.

Key Regulatory Architecture: A Three-Tier Framework

The Regulations organise **authorised persons** into three principal categories of Authorised Dealers (AD) and one separate class of Full Fledged Money Changers (FFMC).

AD Category-I

AD Category-I is reserved for banks licensed by the Reserve Bank. These entities are permitted to undertake any current account and capital account transaction permissible under FEMA, reflecting the widest operational scope under the framework.

AD Category-II

AD Category-II covers banks licensed by or NBFCs registered with the RBI, as well as FFMCs or Forex Correspondents (FxCs) that have been operational for at least two years with an average annual forex turnover of not less than Rs. 50 crore during the preceding two financial years.

AD Category-II entities may handle any non-trade current account transaction permissible under the Act (excluding gifts and donations), as well as foreign trade transactions up to Rs. 25 lakh per transaction.

AD Category-III

AD Category-III is designed as an innovation-enabling category, open to entities that either need to deal in foreign exchange incidental to their primary business activities, or that intend to offer novel products and services involving foreign exchange dealings.

The scope of permitted activities for AD Category-III is tailored to the specific authorisation granted by the Reserve Bank, providing regulatory flexibility for emerging business models.

Full Fledged Money Changers (FFMCs)

FFMCs are confined to the following activities:

- Purchase of foreign currency notes and travellers' cheques
- Sale of the same for foreign travel purposes
- Functioning as an agent under the Money Transfer Service Scheme (MTSS)

This tiered structure is not merely classificatory. It directly governs what activities each entity may lawfully conduct, and the conditions under which it may do so, making precise category determination critical from the outset of any licensing strategy.

Eligibility Conditions: Heightened Standards for Market Entry

Regulation 4 sets out the eligibility conditions for fresh authorisation. Several aspects are legally significant.

Mandatory Corporate Form

Corporate form is mandatory for applicants not already regulated by the Reserve Bank. An applicant must be a company incorporated under the Companies Act, 2013.

However, Regulation 4(7) expressly exempts entities regulated by the Reserve Bank under the provisions of other Acts, such as banks and NBFCs, from the corporate form requirement, the minimum net worth thresholds, and the fit and proper conditions. These three requirements therefore do not apply to RBI-regulated entities seeking authorisation.

Net Worth Thresholds at Commencement

Net worth thresholds apply at commencement. An applicant seeking AD Category-II authorisation must have a minimum positive net worth of Rs. 10 crore. An AD Category-III applicant must have a minimum net worth of Rs. 2 crore at the time of commencing business. These figures are to be certified by statutory auditors based on the latest audited balance sheet.

Fit and Proper Standard

The **“fit and proper” standard is expressly codified.** The applicant, its promoters, directors, and Key Managerial Personnel (KMP) must satisfy the fit and proper standard across three dimensions:

- Qualification and experience in financial services
- Integrity, reputation, and character
- Absence of convictions, court-imposed restraint orders, disqualifications under the Companies Act, 2013, regulatory sanctions, or expulsion from professional bodies

Importantly, at least 50% of the directors and KMPs must have qualification and experience in the financial services industry.

Directorate of Enforcement (DoE) Disclosure

DoE investigations trigger mandatory disclosure. Where an applicant or any of its promoters, directors, KMPs, or its parent entity is under investigation by the Directorate of Enforcement (DoE), a No Objection Certificate (NOC) from the DoE, dated not earlier than thirty days prior to the date of application, must accompany the application.

The Regulations, however, provide a **deemed-compliance mechanism**: if no response is received from the DoE within sixty days of the request, the application will be processed without the NOC, provided the applicant makes a declaration to that effect and the request was made no earlier than ninety days before the date of application to the Reserve Bank. This provision introduces a practical safeguard against indefinite regulatory delay attributable to DoE inaction.

FFMC: Fresh Authorisations Discontinued

A significant operational shift is that **no fresh application for FFMC authorisation** will be considered by the Reserve Bank under the Regulations. Applications pending as on the date of commencement will be processed; applicants required to provide additional information must do so within thirty days, failing which the application shall be deemed rejected.

The Annex to the Regulations sets out minimum Net Owned Funds (NOF) for FFMCs:

- **Rs. 25 lakh** for a single branch FFMC
- **Rs. 50 lakh** for a multiple branch FFMC

Renewal of Existing Authorisations

Regulation 5 establishes the renewal framework for entities already authorised as on the date of commencement. An existing authorised person may apply for renewal provided it meets the minimum net worth thresholds:

- **Rs. 25 lakh** for a single branch FFMC
- **Rs. 50 lakh** for a multi-branch FFMC
- **Rs. 10 crore** for AD Category-II
- **Rs. 2 crore** for AD Category-III entities

The renewal application must be submitted at least two months before the expiry of the existing authorisation. The existing authorisation will continue to operate until a determination is made by the Reserve Bank.

The Regulations also introduce a **cooling-off rule** of some significance: an entity whose authorisation has been revoked, or which has voluntarily surrendered its authorisation, or whose application has been rejected on grounds other than the inability to meet net worth, may not be considered for fresh authorisation or renewal for a period of one year from the date of such event. A similar bar applies where one or more promoters, directors, or KMPs exercise significant influence over such an entity.

Ongoing Conditions of Authorisation

Chapter IV introduces performance-linked conditions that must be maintained on an ongoing basis, not merely at the point of grant.

Minimum Annual Forex Turnover

An authorised person other than a bank or an NBFC must achieve a **minimum annual forex turnover** within two years from the date these Regulations come into force, or from the commencement of forex business, whichever is later, and must maintain that turnover thereafter.

- For AD Category-II entities (other than banks and NBFCs): **Rs. 50 crore**
- For FFMCS: **Rs. 10 crore**

Net Worth Restoration

If the net worth of an authorised person falls below the prescribed minimum, it must be **restored within six months**, or such extended period as the Reserve Bank may grant. Failure to do so may result in revocation of authorisation.

Prior Approval for Ownership Changes

An authorised person, other than a bank, must seek **prior Reserve Bank approval** before any change in management, control, or ownership of more than 50%.

Reporting Obligations for Governance Events

Within **30 days** of the close of a financial year, the authorised person must report to the Reserve Bank any change in director or KMP, and any events or information affecting the fit and proper status of existing promoters, directors, or KMPs.

Investigations initiated by the DoE against the entity must be reported within 30 days of the entity becoming aware of such investigation.

Real-Time Business Activity Reporting

Non-bank authorised persons must report the following to the Reserve Bank through the **APConnect application** (<https://apconnect.rbi.org.in/>) within seven calendar days in each case:

- Commencement of business at a new location
- Closure of a place of business
- Shifting of a registered office

This marks a notable shift toward real-time regulatory visibility into operational changes.

Digital Infrastructure: PRAVAAH and APConnect

The Regulations embed **digital platforms** into the licensing workflow in a manner that reflects institutional intent rather than mere administrative convenience.

- Applications for fresh authorisation must be submitted through the **PRAVAAH portal** (<https://pravaah.rbi.org.in>).
- Ongoing compliance reporting is channelled through the **APConnect application**.

This integration of digital infrastructure into the regulatory framework reduces information asymmetry between regulated entities and the RBI, and signals a broader move toward data-driven supervisory oversight.

Appeal Mechanism

Chapter V introduces a structured and time-bound appeal mechanism. An applicant whose application has been rejected, or an authorised person whose authorisation has been revoked, may appeal to the Appellate Authority.

The **Appellate Authority** is the Executive Director in charge of the Foreign Exchange Department, Central Office, Reserve Bank of India, Mumbai. The appeal must be filed within forty-five calendar days from the date of receipt of the rejection or revocation communication.

Upon receipt, the Appellate Authority must afford the appellant an opportunity of hearing and pass a **reasoned order within sixty calendar days** from receipt of the appeal.

The introduction of a formal, designated appellate authority with specified timelines is a materially important development. It brings procedural due process into the licensing framework, providing an avenue for judicial-quality review within the regulator itself.

The Forex Correspondent Scheme and the Franchisee Transition

Chapter VI introduces the Forex Correspondent Scheme (FCS), which will progressively replace the franchisee model for money changing business. An AD Category-I or AD Category-II entity may appoint entities as Forex Correspondents (FxCs) under a principal-agent model to conduct money changing business.

An FxC may be agent to more than one authorised dealer, and with principal approval, may transact with other FxCs or authorised persons not being its principal.

Critically, **Regulation 16** mandates that all existing franchisee arrangements be discontinued within two years from the date of commencement of the Regulations. Thereafter, franchisees may be re-engaged as FxCs, subject to the conditions applicable under the FCS.

Principals are required to formulate a **Board-approved internal policy** for FxC engagement, covering:

- Entity type selection
- Fit and proper criteria
- Permitted activities
- Net worth standards
- Due diligence
- Systems and controls
- Transaction reporting
- FxC charges
- Customer service and grievance redressal

Further, non-bank authorised dealers acting as principals are required to comply with the RBI's directions on managing risks on outsourcing applicable to non-banking financial companies.

This structural transition from a franchisee model to a supervised FxC model reflects the RBI's intent to ensure that the extension of forex services through third parties is subject to comparable standards of governance and accountability as those applied to authorised persons themselves.

Practical Implications for Stakeholders

For Banks and NBFCs

The Regulations are largely consolidatory in effect for established AD Category-I entities. However, NBFCs and smaller AD Category-II entities should carefully review their **net worth positions, annual turnover performance, and governance arrangements** against the ongoing conditions now explicitly codified under Regulation 8.

For Existing FFCs

No fresh FFC authorisations will be granted. Existing FFCs must either qualify for **renewal under the new net worth framework** or consider transitioning into the FxC model under a principal AD's scheme. The two-year transition window for franchisee discontinuation applies equally.

For New Entrants

Any entity wishing to enter the foreign exchange market in a non-bank capacity should focus on the **AD Category-III route**, which offers operational flexibility for innovative products and services. However, the eligibility conditions, fit and proper requirements, and mandatory corporate form will require advance planning and governance structuring.

For Entities Under Regulatory Scrutiny

The mandatory **DoE NOC requirement**, and the cooling-off provisions following revocation or surrender, introduce meaningful reputational and operational consequences for entities with pending enforcement proceedings. Legal counsel should be engaged at the earliest stage to assess disclosure obligations and the evidentiary threshold for fit and proper compliance.

For Fintech and Innovative Business Models

The **AD Category-III pathway**, designed explicitly for entities offering innovative products or services involving foreign exchange, represents an opening for technology-driven market participants. The tailored authorisation model is a regulatory acknowledgment that standard categories may not adequately accommodate novel business structures.

Concluding Observations

The Foreign Exchange Management (Authorised Persons) Regulations, 2026 represent a substantive and structurally coherent revision of the authorised person regime under FEMA. The Regulations achieve three principal regulatory objectives:

- They **raise the baseline for market entry** through heightened net worth and governance standards.
- They **institutionalise ongoing compliance** through measurable performance conditions.
- They **modernise the architecture** of third-party forex service delivery through the transition to the Forex Correspondent Scheme.

The formalisation of the appeal mechanism and the integration of digital platforms into the licensing workflow are complementary developments that strengthen both procedural fairness and supervisory capacity. What emerges is a framework designed for a foreign exchange market that is materially larger, more complex, and more digitally intermediated than the one that preceded these Regulations.

Regulated entities and prospective market participants are advised to undertake a **detailed gap assessment** against the new requirements without delay. The window for pending FFMC applications, the two-year franchisee transition timeline, and the renewal obligations for existing authorised persons each carry specific deadlines that require proactive attention.

Source: Gazette of India (Extraordinary), Part III, Section 4, No. 302, dated 30 April 2026 / Vaisakha 10, 1948. Notification No. FEMA 401/2026-RB, issued by the Reserve Bank of India, Foreign Exchange Department, Central Office, Mumbai. Signed by N. Senthil Kumar, Chief General Manager [ADVT.-III/4/Exty./70/2026-27].

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