



REGULATORY

Rationalising Cross-Border Compliance: The Reserve Bank of India's 2026 Overhaul of FEMA Reporting Requirements

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The Foreign Exchange Management Act, 1999 (FEMA) regulates cross-border transactions through a reporting and compliance framework administered by the Reserve Bank of India. Reporting obligations enable the RBI to monitor foreign exchange flows, ensure regulatory compliance, and maintain oversight of India's external sector.

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Overview of the 2026 FEMA Reporting Overhaul

Between January and April 2026, the RBI, acting under its powers under FEMA, 1999, including Sections 11 and 47, notified amended and consolidated regulations covering nearly every major reporting stream, external commercial borrowings (ECBs), cross-border guarantees, export-import trade, non-debt investment inflows, and the consolidated **Master Direction governing reporting** itself.

Together, these represent one of the most significant overhauls of FEMA reporting requirements since the introduction of the Single Master Form and the FIRMS (Foreign Investment Reporting and Management System) portal.

Background

Several of the reforms followed **draft regulations and stakeholder consultations** undertaken during 2025. The key notifications and their timelines are summarised below.

- The ECB changes followed an October 2025 draft, finalised as the Foreign Exchange Management (Borrowing and Lending) (First Amendment) Regulations, 2026 (notified 9th February, in force 16th February), operationalised via A.P. (DIR Series) Circular No. 23 (18th February), which substituted the Master Direction's annexures with a revised Form ECB 1 and new Form ECB 2.
- The Foreign Exchange Management (Export and Import of Goods and Services) Regulations, 2026 were notified 13th January after two consultation rounds, with Directions issued 16th January (Circular No. 20).
- The Foreign Exchange Management (Guarantees) Regulations, 2026 replaced the earlier circular-based reporting framework governing guarantees.
- Non-debt instrument reporting was amended in parallel, widening eligible investors under Schedule III to the FEMA (Non-Debt Instruments) Rules, 2019.
- The Master Direction – Reporting under FEMA, 1999 was itself updated on 30th March 2026.

Competing Considerations

Collectively, the reforms consolidate scattered circulars into **principle-based regulations**, reducing definitional ambiguity, and liberalise procedure, discontinuing quarterly trade credit reporting, standardising export realisation at fifteen months from shipment or invoice date (eighteen months for Rupee-settled trade), and widening AD bank discretion over extensions and set-offs.

At the same time, each reform *tightens* reporting granularity. Examples include:

- The ECB framework's "untraceable borrower" flagging.
- The Guarantees Regulations' mandatory quarterly Form GRN filings.
- Mandatory routing of applications requiring RBI approval through the **PRAVAAH portal**.

Regulatory Scheme

ECB Framework

Schedule I of the ECB framework has been substituted, with new **Regulation 3A** codifying prohibited end-uses (real estate, agriculture, capital-market acquisitions, with defined carve-outs), reported via Forms ECB 1 and ECB 2 through AD Category I banks.

Guarantees Regulations

Under the Guarantees Regulations, reporting is allocated by transaction structure and discharged through **GRN Issue, Modification, and Invocation forms**, each carrying a unique Guarantee Transaction Number, routed via CIMS within thirty days of quarter-end.

Specified reporting delays may now be regularised through the **Late Submission Fee (LSF)** mechanism instead of requiring compounding in eligible cases.

Export-Import Regulations and the Master Direction

Under the Export-Import Regulations, applications requiring RBI approval are to be routed through the **PRAVAAH portal** by Authorised Dealer banks, with suspicious transactions escalated to the Directorate of Enforcement.

The Master Direction – Reporting under FEMA remains the unifying reference across the FIRMS, FETERS, CIMS, and XBRL systems.

Key Mandates

- **ECB borrowers** must adopt the revised forms and avoid the codified prohibited end-uses.
- **Guarantee reporters** must file quarterly GRN forms, or use the LSF route where eligible.
- **Exporters and importers** must route RBI-approval applications through PRAVAAH and may rely on set-off as a valid mode of realisation.
- **Investors** falling within the expanded Schedule III to the FEMA (Non-Debt Instruments) Rules, 2019 must align remittance practices with the amended rules and monitor cross-schedule holding thresholds.
- **AD banks** remain the formal escalation interface for all categories.

Concluding Commentary

The 2026 reforms reflect a broader shift towards pairing **procedural simplification** with more centralised, digitised reporting visibility. Relaxations in one part of the framework are generally matched by tightened reporting granularity elsewhere.

Entities that update their compliance calendars only for the relaxed timelines, without re-mapping workflows to the new forms and portals, *risk non-compliance* despite the procedural relaxations introduced by the reforms.

Given the RBI's practice of periodically updating the Master Direction, entities are best served tracking it directly, rather than any single notification, as the current statement of their reporting obligations.

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