



REGULATORY

RBI Amendment Guidelines, 2026: Harmonizing Dividend Norms for Foreign Bank Wholly Owned Subsidiaries

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The Reserve Bank of India has issued the Reserve Bank of India (Setting Up of Wholly Owned Subsidiaries by Foreign Banks) Amendment Guidelines, 2026, vide reference number RBI/DOR/2025-26/233 dated March 10, 2026, representing a technical yet significant regulatory refinement to the framework governing foreign bank operations in India. These amendment guidelines modify the Reserve Bank of India (Setting Up of Wholly Owned Subsidiaries by Foreign Banks) Guidelines, 2025, and emerge from the Reserve Bank's statutory responsibility to maintain regulatory coherence across the banking sector. The amendments specifically address the prudential norms applicable to dividend declaration by wholly owned subsidiaries of foreign banks, ensuring alignment with the concurrent Reserve Bank of India (Commercial Banks, Prudential Norms on Declaration of Dividends and Remittance of Profit) Directions, 2026, and reinforcing the principle of competitive neutrality between foreign bank subsidiaries and domestic commercial banks.

The regulatory journey of these amendments traces back to the evolving architecture of foreign bank presence in India, wherein the Reserve Bank has progressively enabled foreign bank entry through the wholly owned subsidiary model as an alternative to the traditional branch structure. The foreign bank WOS framework represents a strategic regulatory choice that subjects foreign banks to Indian incorporation requirements, domestic banking regulations, and prudential supervision while permitting them to operate with the same commercial freedom as domestic banks. The 2026 amendment guidelines, and issued under internal reference JQR.ACC.REC.NO.432/21.02.067/2025-26, introduce targeted modifications to Paragraph 13 titled 'Declaration of Dividends' in the principal Guidelines of 2025, reflecting the Reserve Bank's determination that such amendment was "necessary and expedient in the public interest" consequent to the issuance of updated dividend prudential norms for commercial banks.

The amendment to Paragraph 13 establishes a comprehensive framework for dividend declaration by foreign bank wholly owned subsidiaries that explicitly recognizes their corporate status, ensures parity with domestic banks, and integrates foreign exchange regulatory compliance. The amended provision clarifies that the wholly owned subsidiary of a foreign bank, being a company incorporated in India, may declare dividend like domestic banks subject to the criteria laid down in the Reserve Bank of India (Commercial Banks Prudential Norms on Declaration of Dividends and Remittance of Profit) Directions, 2026. This formulation accomplishes three distinct regulatory objectives: it reinforces the Indian incorporation status of foreign bank WOS entities, establishes unambiguous parity in dividend declaration norms with domestic banks, and updates the cross-reference to the latest prudential directions replacing the 2025 Directions.

The amendment's integration of foreign exchange regulatory compliance through the explicit provision that dividends "may be repatriated as per the provisions of FEMA" establishes a clear legal framework for profit remittance by foreign bank subsidiaries to their parent entities. The Foreign Exchange Management Act, 1999, and the regulations issued thereunder govern the repatriation of dividends from Indian companies to foreign shareholders, including foreign bank parent entities. By explicitly referencing FEMA compliance, the amendment provides regulatory certainty to foreign banks regarding the mechanism and permissibility of dividend repatriation, enabling capital account transactions while ensuring adherence to India's foreign exchange control framework. This integration of banking and foreign exchange regulations reflects the Reserve Bank's dual role as banking regulator and foreign exchange authority.

The Reserve Bank of India (Setting Up of Wholly Owned Subsidiaries by Foreign Banks) Amendment Guidelines, 2026, collectively represent a sophisticated regulatory response to the imperative of maintaining coherence across the banking sector's prudential framework. The amendment ensures that foreign bank WOS entities, despite their foreign ownership, operate under identical dividend declaration norms as domestic banks, thereby preventing regulatory arbitrage and preserving competitive equality. The explicit FEMA compliance requirement for repatriation integrates foreign exchange considerations into the dividend framework, while the emphasis on Indian incorporation status reinforces the domestic regulatory jurisdiction over these entities. These amendments contribute to the ease of doing business for foreign banks in India by providing clarity, predictability, and parity in the regulatory treatment of profit distribution.

Conclusion

The Reserve Bank of India (Setting Up of Wholly Owned Subsidiaries by Foreign Banks) Amendment Guidelines, 2026, mark a pivotal refinement in the regulatory architecture governing foreign bank operations in India, successfully navigating terrain between prudential supervision and investment facilitation. By updating cross-references to the latest dividend prudential norms, explicitly establishing competitive parity with domestic banks, clarifying FEMA compliance for repatriation, and reinforcing the Indian incorporation status of wholly owned subsidiaries, the amendments create a more coherent and predictable regulatory

environment. These changes reflect contemporary banking regulation best practices emphasizing regulatory consistency, competitive neutrality, and ease of compliance while maintaining the critical objective of financial stability. As India's banking sector continues to integrate with global financial markets and attract foreign bank participation, the harmonized regulatory framework established by these amendments provides foreign investors with assurance of equitable treatment and clear repatriation pathways. The effective implementation of these provisions will require foreign bank WOS entities to align their dividend policies with the 2026 Directions and ensure FEMA compliance for repatriation, but the amendments establish a sound foundation for sustainable foreign bank participation in the Indian banking sector.

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