

EASING THE ECB REGIME: AN OVERVIEW OF INDIA'S 2026 EXTERNAL COMMERCIAL BORROWING AMENDMENTS

INTRODUCTION

The Reserve Bank of India (“**RBI**”) introduced amendments to the External Commercial Borrowings (“**ECB**”) framework through revisions to the Master Direction - External Commercial Borrowings, Trade Credits and Structured Obligations vide notification dated February 16, 2026. The amendments seek to streamline the existing ECB regime and provide greater flexibility to eligible Indian borrowers in accessing offshore debt, while maintaining the prudential safeguards that govern India’s external debt exposure.

This brief provides an overview of the key changes introduced by the RBI and examines their potential implications for borrowers and lenders participating in ECB transactions.

KEY HIGHLIGHTS

The principal changes introduced under the February 16, 2026, amendments include:

Broader borrower eligibility

Any company or entity incorporated/registered in India (subject to sectoral permission) is now eligible for ECBs. The prior FDI-linked eligibility requirement has been removed, and borrowers under insolvency or restructuring can raise ECBs if expressly allowed by their resolution plan.

Expanded lender criteria

Recognised lenders now include any person resident outside India, branches of RBI-regulated lenders abroad, and financial institutions (and their branches) in IFSCs. Previous restrictions (e.g. FATF/IOSCO country list, certain limits on bank branches) have been lifted, greatly widening the lender pool. ECBs from related parties remain permitted but must be on arm’s-length basis.

Higher borrowing limits

The ceiling for ECB headroom has been raised. A borrower may now have outstanding ECB up to the higher of (a) USD 1,000,000,000, or (b) 300% of its standalone net worth (last audited). These thresholds replace the old USD 750 million limit and apply to the borrower’s cumulative external and domestic debt. It shall also be noted that the new limits do not apply to entities regulated by financial regulators, which remain subject to their sectoral rules.

Standardized MAMP

The amendments set a flat minimum average maturity period (MAMP) of 3 (three) years for most ECBs. A carve-out allows manufacturing entities to raise shorter-term ECB (1-3 year MAMP) so long as aggregate of such ECBs do not exceed USD 150 million.

Currency conversion permitted

ECBs can be denominated in foreign currency or Indian rupees, and lenders may now convert a rupee-denominated ECB into foreign currency (USD/EUR/etc.). Such conversions must use prevailing exchange rates or better, to ensure no hidden cost is imposed on India.

IMPACT ANALYSIS

- A. **Eligible Borrowers:** Under the revised Schedule I, any person resident in India (other than an individual) incorporated/registered under a central or state law may avail ECBs, provided they are legally permitted to borrow internationally. This effectively includes all companies, LLPs, societies, and trusts. Notably, borrowers under insolvency or restructuring processes may also raise ECB if their resolution plan explicitly allows it. Existing borrowers with ECBs predating the amendments continue under old terms (notably their original all-in-cost ceilings and end-uses) except that they must comply with new reporting requirements. Any modification of an existing loan to align with the new framework now requires RBI or AD bank approval.

Implications: By welcoming virtually all companies, the amendments greatly expand who can tap global debt markets. This aligns with the RBI's intent to meet growing corporates' funding needs. However, including companies already under insolvency or investigation (subject to conditions) means more onus on lenders' due diligence and RBI supervision to prevent misuse.

- B. **Recognised Lenders and Related-Party Borrowing:** The revised regulations define eligible lenders expansively as "any person resident outside India," plus foreign branches of RBI-regulated banks and financial institutions/branches in IFSCs. Essentially, this drops nationality or compliance prerequisites that formerly limited lenders. Importantly, the amended law adds an express arm's-length requirement: ECBs from any related party must be on market terms.

Implications: This liberalization opens access to funding from a wider set of global entities. The arm's-length mandate is intended as a safeguard against favorable related-party deals that might distort pricing. Entities must now ensure clear documentation to demonstrate independent pricing, which increases legal compliance burden. For banks, the removal of any RBI approval for creation of security (subject to No Objection Certificates for encumbered assets) simplifies structuring but transfers risk management duties to lenders and borrowers.

- C. **Borrowing Limits, Maturities and Currency Conversion:**

- **Borrowing Limits:** The new framework discards the previous aggregate ECB cap. Instead, the headroom is now the greater of USD 1 billion outstanding or 300% of net worth. ("**Outstanding ECB**" includes both existing and proposed drawdowns.) Crucially, this combined external-domestic debt test captures leverage holistically. Borrowers subject to other financial-sector regulations (e.g. banks, NBFCs, insurance cos.) are exempt from this limit and follow their own regulator's norms.
- **Minimum Average Maturity (MAMP):** A flat 3-year MAMP now applies to all ECBs. This replaces the older tiered structure and ensures uniformly longer-term debt. The one exception: manufacturing sector borrowers may opt for shorter ECBs (avg. 1 to 3 years) provided the total of such ECBs remains less than or equal to USD 150 million. The regulations also explicitly waive the MAMP requirement in certain cases: e.g. conversion of ECBs to equity instruments, refinancing transactions, lender debt waivers, and borrowings to fund statutory corporate actions like mergers or liquidations.

- **Currency Conversion:** ECBs may be denominated in INR or foreign currency. Critically, conversion between currencies is now permitted in all directions (FCY to INR and vice versa). Previously, converting an existing INR loan to FCY often required regulatory approval.

Implications: Tying the cap to net worth greatly increases borrowing room for healthier corporates, encouraging them to leverage their balance sheets for growth. However, a counterpoint is that high-leverage limits could raise systemic risk if many firms max out debt. The MAMP changes promote long-term planning, though they also may push companies to lock in higher interest rates or currency hedges for longer. By allowing INR-denominated ECB conversions, the RBI appears to be encouraging more borrowing in local currency (potentially reducing currency risk for borrowers) while still giving options to restructure into hard currency debt. Lenders now can offer more flexible products but must carefully track amortization schedules to comply with the MAMP rule and its carve-outs.

D. **Pricing, Cost of Borrowing and Fees**

The amendments eliminate fixed all-in-cost ceilings that once tied ECB pricing to specific benchmark rates plus spreads. Instead, the new term “cost of borrowing” (encompassing interest and all other financing charges except commitment fees and Indian taxes) must simply be “in line with prevailing market conditions”. No numeric cap is prescribed. Prepayment or penalty charges also have no explicit ceiling and are likewise to reflect market rates. (For short-maturity ECBs (less than 3 years), the cost of borrowing must not exceed the benchmark-based ceiling that applies to trade credits.)

Implications: This shift to market-based pricing removes a key regulatory constraint and should allow lenders and borrowers to negotiate terms more freely. It incentivizes transparent, arms-length deals but also requires borrowers to be diligent: without fixed caps, borrowers must ensure terms are genuinely competitive. Regulators may need to monitor for any evidence of overly onerous terms in related-party loans or economic conditions that might result in rates diverging from market norms. Overall, the move signals confidence in credit market depth and aims to align ECB pricing with international practice.

E. **End-Use Restrictions**

A comprehensive negative list of prohibited end-uses has been codified in new Regulation 3A. ECB funds cannot be used in India for activities such as: (a) financing chit funds or Nidhi companies; (b) general real estate business or farmhouse construction *unless* certain infrastructure conditions are met (e.g. trunk utilities developed for project, or industrial parks meeting unit/area criteria); (c) most agriculture/plantation activities (with carve-outs for high-tech cultivation, animal husbandry, allied services); (d) trading in transferable development rights; (e) securities trading except as part of strategic corporate actions (mergers, acquisitions under SEBI takeover rules, insolvency resolution, etc.); (f) repaying INR domestic loans used for a forbidden end-use or which have become NPAs; and (g) on-lending for any prohibited purpose. The regulations also continue to bar use of ECB proceeds for repayment of short-term rupee debt.

Implications: By listing prohibited uses in one place, the RBI aims to remove ambiguity. Importantly, there are positive clarifications: for example, ECB financing is *permitted* for construction/development projects once core infrastructure is in place, and real-estate funding is allowed for ‘infrastructure’ projects, borrower’s own-use properties, or broking services. Allowing ECBs for strategic corporate M&A (within regulatory limits) brings India closer to global practice. Nonetheless, the expanded negative list underscores caution; companies must carefully vet planned uses against this list and may need legal/opinion letters for borderline cases. The net effect is to push genuine business projects while still shielding vulnerable sectors (like Nidhi schemes) from foreign credit inflows.

F. **Security, Refinancing and Conversion**

The amended rules formalize and liberalize security and refinancing norms. Borrowers are allowed to create security interests (charges) on both movable and immovable assets, including intangible assets (IP, etc.), for the benefit of the foreign lender or a security trustee. ECBs may also be secured by guarantees as per the new FEMA Guarantees Regulations, 2026. Borrowing agreements must include such security clauses, and any charge on encumbered assets needs NOC from existing lenders. No RBI approval is needed to create security (unlike earlier norms). If security is enforced, the lender’s claim is capped at the outstanding ECB, and any asset transfers must comply with FEMA (NOC, etc.); proceeds of forced sales of non-transferrable assets must be remitted to the lender.

Refinancing an existing ECB with a new ECB is explicitly permitted. The only condition is that the weighted MAMP of the combined borrowings still meets the original requirement. Crucially, there is no longer a mandate that the new ECB must be at a lower cost or involve higher-rated banks. Similarly, an INR-denominated loan can now be refinanced by an FCY ECB under the same terms. Consistent with earlier rules, ECBs (even matured ones) may be converted into equity or other non-debt instruments under the FEMA NDI Rules, provided the lender’s consent is obtained and no additional cost is imposed.

Implications: Broadening permissible security types and removing approval bottlenecks makes Indian ECBs more aligned with global credit practices. Lenders have more comfort via collateral, while borrowers avoid red tape. Permitting ready refinancing adds flexibility – for example, a company can roll over expensive debt even if its credit profile hasn’t improved, which could aid viability but also risks rolling-over under distress. The market-based approach assumes sufficient competition to discipline costs; ongoing diligence will be needed to prevent excessively aggressive security enforcement.

G. **Reporting and Compliance**

The amendments overhaul the ECB reporting regime. The earlier requirement of monthly ECB-2 filings has been replaced by a trigger-based regime. Under the new rules, Form ECB-2 (post-disbursement reporting) must be filed within 7 (seven) days of month-end only when a drawdown is used (utilised) or a debt servicing event occurs. A new Form ECB-1 is introduced to obtain the Loan Registration Number (LRN) for any ECB; changes after registration must be reported in a revised Form ECB-1 within 7 (seven) days post month-end. All reports continue to be submitted via the borrower’s designated AD Category-I bank.

Crucially, the regulations now empower banks to deem a borrower “untraceable” if it fails to file prescribed returns for four straight quarters and the bank documents unsuccessful contact attempts. In such cases, the AD bank must inform RBI and the Enforcement Directorate. This is a new compliance measure to deter ghost lending.

Implications: The eased reporting frequency reduces procedural burden and aligns disclosure with real cash flows. Borrowers and AD banks must nevertheless institute tight tracking: any lapse in compliance (even innocently, e.g. delayed invoices) for 4 quarters could have severe consequences. The untraceable-borrower clause acts as a blunt enforcement tool: while it deters willful default, it may also be triggered by administrative lapses. Financial and legal teams should thus be especially vigilant in maintaining communication and documentation.

H. **Borrowing in INR from NRIs/OCIs (Reg 6B Amendment)**

The amendments also liberalize rupee-denominated loans by resident individuals from NRIs/OCI cardholders. A new provision clarifies that a resident *individual* can borrow INR from an NRI or a relative who is an OCI, subject to: (a) funds received only by inward remittance or by debit to the lender’s NRE/NRO/FCNR-B/SNRR account; and (b) the loan being on a non-repatriation basis (i.e. principal and interest repayable only to the lender’s NRO account). Previously, the rules on “persons of Indian origin” were less explicit.

Implications: This amendment formalizes and eases family- or group-level lending structures. It provides clear statutory backing for routine intra-family funding in rupees, which was often done informally. At the same time, by insisting on non-repatriation, the RBI ensures the loan remains within the Indian system. Individuals engaged in such borrowing must carefully document adherence to these conditions to avoid FEMA violations.

CONCLUSION

Collectively, the 2026 reforms introduced by the Reserve Bank of India signal a shift from a prescriptive, compliance-heavy ECB regime toward a more liberalized and market-oriented framework. By expanding borrower eligibility, increasing borrowing limits, and easing refinancing and acquisition financing norms, the amendments are intended to facilitate greater access to offshore capital for Indian corporates, particularly in capital-intensive sectors such as infrastructure and manufacturing. While the consolidation and clarification of regulatory provisions reduce interpretational fragmentation, the revised framework places greater responsibility on borrowers and lenders to assess pricing, structure transactions prudently, and ensure compliance with end-use restrictions and arm’s-length principles. Overall, the reforms aim to improve access to global debt markets while retaining core safeguards against excessive leverage and systemic risk.