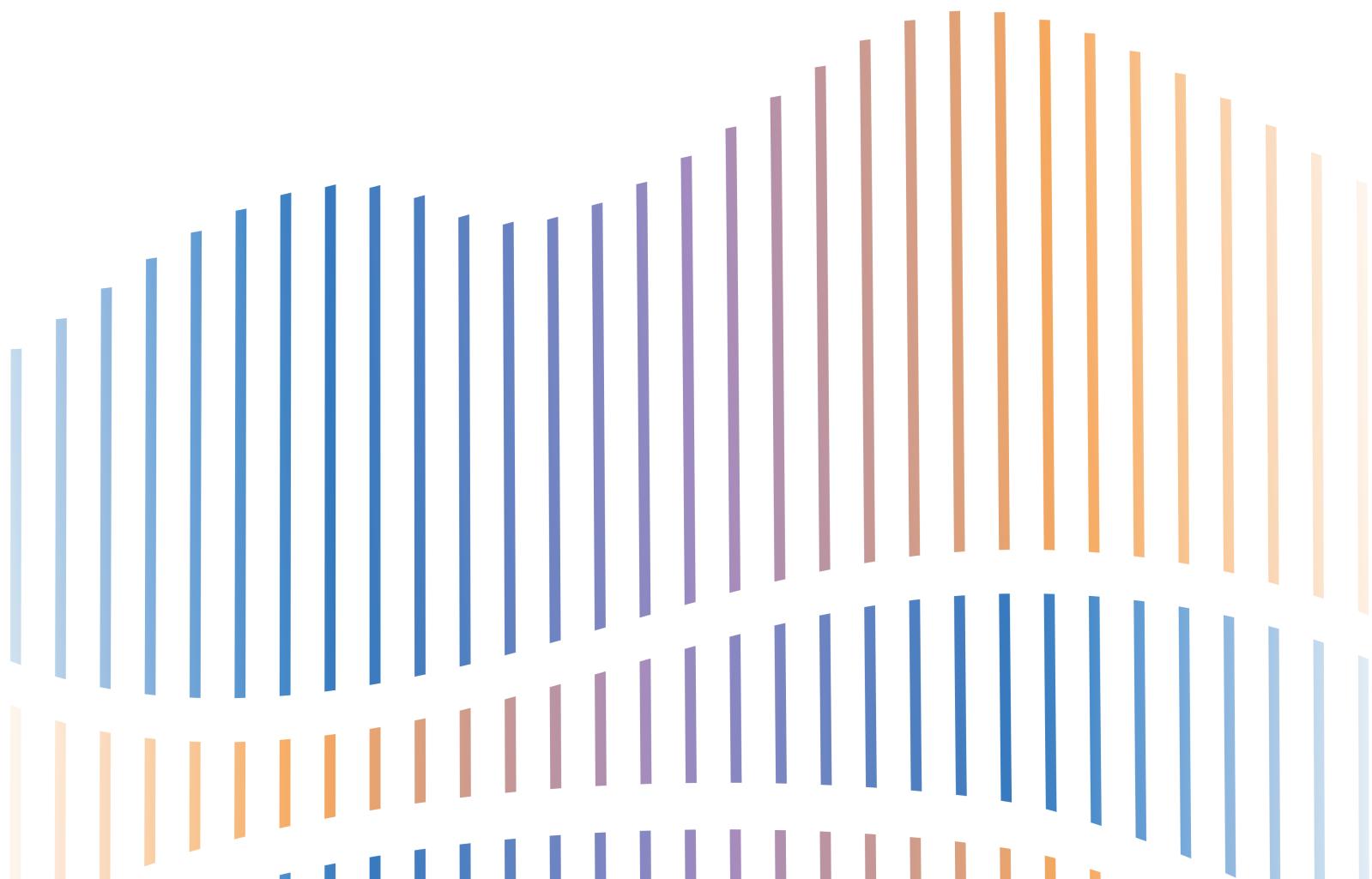


# Private Equity & Venture Capital

REGFIN INSIGHT

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## I. Draft Foreign Exchange Management (Borrowing and Lending) (Fourth Amendment) Regulations, 2025 – Revamp of the External Commercial Borrowing (ECB) Framework

The Reserve Bank of India (“**RBI**”) has released the *Draft Foreign Exchange Management (Borrowing and Lending) (Fourth Amendment) Regulations, 2025* (“**Draft Regulations**”) on October 3, 2025, seeking to liberalise and rationalise India’s External Commercial Borrowing (“**ECB**”) framework. The draft proposes a comprehensive overhaul of the existing regulations, expanding eligibility, relaxing end-use restrictions, and simplifying compliance requirements as set out below.

### A. Broader Eligibility

- **Eligible borrowers:** The eligibility of the borrowers have been significantly increased under the Draft Regulations to permit any person resident in India (other than an individual) established or registered under a Central or State Act, and otherwise permitted to borrow, to access ECB.
- **Recognised lenders:** Broadened the definition of recognised lenders to include all persons resident outside India. Offshore or IFSC-based branches of Indian financial sector entities (whose lending business is regulated by RBI) will also qualify as recognised lenders.

### B. Enhanced Borrowing Thresholds

- Borrowing limits increased to the higher of USD 1 billion or 300% of net worth, as per the last audited balance sheet.
- The cap does not apply to entities regulated by financial sector regulators.

### C. Liberalised End-Use Conditions

- **New Prohibited End Use Restrictions:** Despite the expanded scope, the draft regulations have also simplified and coded the prohibitions on certain end uses.

Specifically, ECB proceeds cannot be utilised for (a) Investments in chit funds, (b) investment in the business of Nidhi companies, (c) Investment in agricultural or plantation activities (save and except activities/ sectors permitted for raising Foreign Direct Investment), (d) Trading in transferable development rights (TDRs), (e) Real estate business or construction of farmhouses (save and except (i) activities/ sectors permitted for raising Foreign Direct Investment, and (ii) purchase/ long-term leasing of industrial land as part of new project/ modernisation or expansion of existing units), (f) onward lending (save and except by (i) person resident in India whose lending business is regulated by RBI, and (ii) a person resident in India that is a company or body corporate established under a Central or State Act which is lending to its group entity(ies)), and (g) transacting in listed/ unlisted securities (save and except (i) investment undertaken in accordance with Foreign Exchange Management (Overseas Investment) Rules, 2022 and Foreign Exchange Management (Overseas Investment) Regulations, 2022, (ii) merger, amalgamation or acquisition in accordance with Companies Act, 2013, Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 and Insolvency and Bankruptcy Code, 2016 , and (iii) Investment in primary market instruments issued by non-financial entities for onward lending).

These end-use restrictions are intended to preserve prudential integrity and ensure ECB funds are channelled toward productive and regulated economic activity.

**D. Drawdown:** The Draft Regulations have provided for more stringent drawdown conditions which states that the ECB proceeds shall be repatriated immediately and credited to an INR account held in India with designated AD Bank Category-1. The exception to invest the ECB funds outside India have been permitted only where the ECB proceeds are meant to be utilized for a permitted foreign currency expenditure.

**E. Removal of All-in-Cost Cap:** The all-in-cost and prepayment cost ceilings have been removed. Pricing is now aligned with prevailing market rates, subject to authorised dealer bank oversight.

**F. Standardisation and Simplified Compliance**

- **Minimum Average Maturity Period (MAMP):** The draft regulations propose to standardise the Minimum Average Maturity Period (MAMP) across all categories of eligible borrowers and end-uses at three (3) years, replacing the earlier differentiated MAMP requirements. However, borrowers in the manufacturing sector are permitted additional flexibility — they may raise ECBs with a reduced MAMP between one (1) and three (3) years, provided that the aggregate outstanding amount of such shorter-tenor ECBs does not exceed USD 50 million at any given time.
- **Reporting:** ECB-2 return to be filed on an event-driven basis — within 30 days from the date of each cash flow, such as drawdown or debt servicing. Reporting of changes in ECB parameters (such as lender details, amount, maturity, or all-in-cost) to be completed within 30-day timeline.

Draft Foreign Exchange Management (Borrowing and Lending) (Fourth Amendment) Regulations, 2025 – Revamp of the External Commercial Borrowing (ECB) Framework can be accessed [here](#).

**II. Draft Reserve Bank of India (Commercial Banks – Capital Market Exposure) Directions, 2025 and Draft Reserve Bank of India (Small Finance Banks – Capital Market Exposure) Directions, 2025**

In pursuance of the announcement made in the *Statement on Developmental and Regulatory Policies* dated October 01, 2025, relating to **acquisition financing**, the Reserve Bank of India ("RBI") has released two draft directions for public comments, namely – (i) *Draft Reserve Bank of India (Commercial Banks – Capital Market Exposure) Directions, 2025*; and (ii) *Draft Reserve Bank of India (Small Finance Banks – Capital Market Exposure) Directions, 2025*.

These drafts introduce prudential framework governing the exposure of banks to the capital market and related securities-based lending – which is generally disallowed by RBI.

**A. Draft Reserve Bank of India (Commercial Banks – Capital Market Exposure) Directions, 2025**

The draft directions propose a **comprehensive and uniform framework** for regulating the exposure of commercial banks to the capital market, encompassing both **investment** and **credit** exposures by banks. These directions are proposed to come into effect from April 01, 2026.

**(a) Eligible Securities**

The draft directions have provided a limited scope of securities eligible for acquisition financing. Under these proposed norms, RBI has excluded unlisted securities and securities of private entities from the ambit of eligible acquisition targets. Accordingly, acquisition financing is permitted only for the purchase of “Listed Group 1” equity shares and preference shares, as defined under the applicable RBI and SEBI guidelines. The eligible securities under the draft directions are:

- Listed Group 1 equity shares and preference shares;
- Government Securities including Treasury Bills and Sovereign Gold Bonds;
- Commercial Paper and Non- Convertible Debentures of original or initial maturity of one (1) year;
- Listed Debt Securities, including Convertible Debt Securities, rated BBB or higher;
- Units of Mutual Fund Schemes which are listed or where repurchase/ redemption facility is available for such units through the Asset Management Company;
- Units of Exchange Traded Funds (excluding commodity ETFs); and
- Units of REITs and InvITs.

**(b) Eligibility**

- Commercial banks may extend credit to individuals, corporates, and registered capital market intermediaries (stockbrokers, custodians) for various capital market activities, subject to eligibility and compliance with the draft directions.

**(c) Liberalised End-Use and Activity Scope**

- Acquisition finance can now be extended to listed strategic buyers subject to certain conditionalities as stated under the draft directions.
- Further, acquisition loans can now be provided to individuals for subscribing to IPOs/FPOs/ESOPs in companies up to ₹25 lakh per individual, provided the borrower contributes a minimum 25% margin (with LTV being maintained at 75%) and creates a pledge upon allotment.

**(d) Loan-To-Value (LTV) Margins for Acquisition Financing Availed by Individuals**

- Acquisition loans to be provided to individuals shall be subject to the following LTV margins:

Eligible Security	LTV Margins
Government Securities including Treasury Bills	As per Bank's policies
Sovereign Gold Bonds	As applicable in case of loans against Gold and Silver Collateral

Listed shares and listed convertible debt securities	60%
Mutual Funds (excluding Debt MFs), Units of ETF (excluding commodity ETFs) and Units of REITs/InVITs	75%
Debt Mutual Funds	85%
Listed Debt Securities with rating:	
AAA	85%
AAA – BBB	75%
Commercial Papers with ratings:	
A1	85%
A2-A3	75%

Draft Reserve Bank of India (Commercial Banks – Capital Market Exposure) Directions, 2025 can be accessed [here](#).

**B. Draft Reserve Bank of India (Small Finance Banks – Capital Market Exposure) Directions, 2025**

The draft directions for Small Finance Banks (“**SFBs**”) propose a parallel prudential framework, tailored to reflect their differentiated business models, risk appetite and scale of operations. These directions are proposed to come into effect from April 01, 2026.

**(a) Eligible Securities**

- The draft directions have specified the eligible securities for obtaining acquisition financing by SFBs on the same lines as the Draft Reserve Bank of India (Commercial Banks – Capital Market Exposure) Directions, 2025.

**(b) Eligibility**

- SCBs may extend credit to individuals, corporates, and registered capital market intermediaries (stockbrokers, custodians) for various capital market activities, subject to eligibility and compliance with the draft directions.

**(c) Liberalised End-Use and Activity Scope**

- Acquisition loans can now be provided to individuals for subscribing to IPOs/FPOs/ESOPs in companies up to ₹25 lakh per individual, provided the borrower contributes a minimum 25% margin (with LTV being maintained at 75%) and creates a pledge upon allotment.
- Banks must create a lien and pledge over allotted shares for such lending.
- Lending to capital market intermediaries is permitted for margin trading and working capital needs, subject to counterparty and aggregate exposure limits, collateral haircuts (e.g., 40% for listed equities).
- SFBs may provide guarantees on behalf of brokers and clearing members to exchanges and clearing houses, with mandated collateralisation.

**(d) Loan-To-Value (LTV) Margins for Acquisition Financing Availed by Individuals**

- The draft directions have specified the LTV MARGINS for acquisition financing by SFBs on the same lines as the Draft Reserve Bank of India (Commercial Banks – Capital Market Exposure) Directions, 2025.

**(e) Bridge Loans and Loans to Non-Financial Entities:** Banks may provide bridge finance to corporates against eligible securities held for promoter stake financing, with required repayment plans and end-use monitoring to prevent speculative use.

Draft Reserve Bank of India (Small Finance Banks – Capital Market Exposure) Directions, 2025 can be accessed [here](#).

**III. SEBI Circular on Relaxation from Applicability of RPT Industry Standards for Providing Information to Audit Committee and Shareholders**

SEBI vide circular No. SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/135 dated October 13, 2025 ("RPT Relaxation Circular"), has modified Section III-B of the SEBI Master Circular dated November 11, 2024 ("Master Circular") read with Para 7 of the SEBI Circular No. SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/93 dated June 26, 2025, to relax the applicability of the "Minimum information to be provided to the Audit Committee and Shareholders for approval of Related Party Transactions" ("RPT Industry Standards"), formulated by the Industry Standards Forum ("ISF").

**A. Substitution of Paragraphs 4 under Part A and 6 under Part B of Section III-B of the Master Circular:** The circular introduces a new tiered approach for the information required by the Audit Committee to approve related party transactions ("RPT") and for the information required in the explanatory statement sent to shareholders for RPT approval, based on aggregate transaction values in a financial year:

- (a) For RPTs exceeding 1% (one per cent) of the annual consolidated turnover of the listed entity as per the last audited financial statements or INR 10,00,00,000 (Indian Rupees Ten Crore), whichever is lower ("Thresholds"), information must be provided as per the "Minimum information to be provided to the Audit Committee and Shareholders for approval of Related Party Transactions".
- (b) For RPTs up to the Thresholds, entities can now provide the simpler 'Minimum information' specified in the new Annexure-13A.

(c) The aforementioned information requirements do not apply to RPTs (either individually or taken together with previous transactions during a said financial year) where the aggregate value does not exceed INR 1,00,00,000 (Indian Rupees One Crore).

**B. Annexure-13A (Minimum Information):** The RPT Relaxation Circular introduces Annexure-13A, which specifies the minimum information to be provided to the audit committee (under Part A) and to shareholders (under Part B) for approval of RPTs falling under the relaxed thresholds.

For the Audit Committee, this *inter alia* includes:

- (a) Type, material terms and particulars of the proposed transaction;
- (b) Name of the related party and its relationship with the listed entity or its subsidiary, including nature of its concern or interest (financial or otherwise);
- (c) Tenure of the proposed transaction (particular tenure shall be specified);
- (d) Value of the proposed transaction;
- (e) Justification as to why the RPT is in the interest of the listed entity;
- (f) A copy of the valuation or other external party report, if any such report has been relied upon.

For Shareholders, the notice shall *inter alia* include:

- (a) A summary of the information provided by the management of the listed entity to the audit committee;
- (b) Justification for why the proposed transaction is in the interest of the listed entity;
- (c) Key details for any loans or investments;
- (d) A statement that the valuation or other external report, if any, relied upon by the listed entity in relation to the proposed transaction will be made available through the registered email address of the shareholders;
- (e) Any other information that may be relevant.

The RPT Relaxation Circular can be accessed [here](#).

**IV. Relaxation for Annual Filings (General Circular No. 06/2025 dated October 17, 2025 can be accessed [here](#).)**

- The MCA revised several e-Forms (including MGT-7, MGT-7A, AOC-4, etc.) for annual filings, which have been recently deployed on MCA-21 V3.
- Companies are allowed to make annual filings for FY 2024-25 without payment of additional fees till December 31, 2025.
- This relaxation is not an extension for holding AGMs; statutory timelines for AGMs remain unchanged.

- Any filings after the validity of this circular will attract standard and additional fees as per the Companies Registration Offices and Fees Rules, 2014.

**IV. Extension for DIR-3-KYC and DIR-3-KYC-WEB Filings (General Circular No. 05/2025 dated October 15, 2025 can be accessed [here](#).)**

- In continuation of Circular 04/2025 (dated 29.09.2025), the timeline for filing e-form DIR-3-KYC and web-form DIR-3-KYC-WEB without filing fee is extended up to October 31, 2025.
- This enables Directors and stakeholders to comply without incurring penalties within the specified extension.



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