KPMG

Tax Flash News

7 October 2025

KPMG. Make the Difference.

RBI releases draft ECB framework for public comments

Background

As announced in the Statement on Developmental and Regulatory Policies dated 1 October 2025, the Reserve Bank of India (RBI) has proposed a rationalization of regulations governing External Commercial Borrowing (ECB) under the Foreign Exchange Management (Borrowing and Lending) Regulations, 2018, issued pursuant to FEMA, 1999 (the Current ECB framework).

On 3 October 2025, the RBI released the Draft ECB framework - Foreign Exchange Management (Borrowing and Lending) (Fourth Amendment) Regulations, 2025 (Draft ECB Regulations) for public consultation. Open for feedback until 24 October 2025, the Draft ECB Regulations mark a transition from detailed prescriptive rules to a net worth–linked, principle-based approach. The proposed amendments seek to align India's external borrowing regime with international best practices, while simplifying compliance requirements and broadening access to ECBs.

This Flash News endeavours to highlight key features of the Draft ECB Regulations.

Key highlights

(a) Borrowing limit

Eligible borrowers may raise ECB up to the higher of -

(a) outstanding ECB up to USD 1 billion, or

(b) total outstanding borrowings (external and domestic) up to 300 percent of net worth as per the last audited balance sheet.

Notably, eligible borrowers regulated by financial sector regulators are proposed to be exempt from these borrowing limits.

(b) Cost of borrowing

The Draft ECB regulations propose to eliminate prescriptive cost ceilings, allowing interest rates and associated costs on ECBs to be in line with prevailing market conditions. Short-tenor borrowings (with average maturity under 3 years) will remain subject to cost ceiling specified for Trade Credits.

ECB from a related party, group entity or otherwise connected lender shall be carried out on an arm's length basis. The cost of borrowing shall not be paid by using the proceeds of ECB.

(c) Liberalised end-use

The draft ECB regulations propose relaxed norms. ECBs can be used in FDI-permitted sectors. They can be used for acquiring or leasing industrial land for new or expanding projects. Regulated entities may on-lend ECBs. Indian companies or bodies corporate established under a Central or State Act can lend to their group entities. ECBs may be used for transactions in securities related to mergers, amalgamations, arrangements, or acquisitions.

Consistent with the Current ECB framework, the Draft ECB regulations continue to prohibit the use of ECB funds for activities such as chit funds, Nidhi companies, agriculture or plantations (unless FDI-permitted), real estate or farmhouse construction (with limited exceptions), trading in Transferrable Development Rights (TDR), and on-lending or securities transactions unless specifically allowed. Permitted on-lending must not be for prohibited uses or to ineligible borrower.

(d) Wider eligible borrower and recognised lender base

The Draft ECB regulations broaden the scope of eligible Indian borrowers and recognised foreign lenders, thereby enhancing access to global

capital. Indian entities (excluding individuals) incorporated under Central or State Acts (e.g., LLPs etc.) may raise ECB subject to applicable laws. Those under restructuring or insolvency resolution may do so only if permitted under the approved plan. Borrowers under investigation or appeal may also raise ECB, provided they disclose the details to the AD Category I bank, which will notify the concerned authorities.

An eligible borrower may raise ECB from a person resident outside India, or a branch outside India or in the IFSC of an entity whose lending business is regulated by the RBI.

(e) Drawdown

ECB drawdown is permitted only after obtaining a Loan Registration Number (LRN). Proceeds must be repatriated and credited to an INR account in India, with temporary investment allowed in unencumbered fixed deposits (up to 12 months). For permitted foreign currency expenditure, proceeds may be held in FCY accounts in India or abroad and temporarily invested in high-quality deposits, treasury instruments, or with foreign branches/subsidiaries of Indian banks.

(f) Minimum Average Maturity Period (MAMP)

An eligible borrower must raise ECB with a minimum average maturity of three years, except for manufacturing sector entities, which may raise ECBs with a maturity between one and three years, subject to a USD 50 million cap. Call and put options, if any, cannot be exercised before the completion of the minimum maturity. The MAMP requirement does not apply in cases of ECB conversion to non-debt instruments, repayment using proceeds from non-debt instruments received post-drawdown, debt waiver by the lender, or closure, merger, acquisition, resolution, or liquidation of either the lender or the borrower.

(g) Currency and forms of borrowing

An eligible borrower may raise ECB in foreign currency or INR, and the currency may be changed between FCY and INR, subject to exchange rate conditions that do not increase liability. ECB can be raised through any commercial borrowing arrangement involving interest and principal repayment, including FCCBs and FCEBs. However, funds raised via trade credit (up to 3 years), export advances, investments under FEMA Debt Instruments

Regulations, or convertible notes under FEMA Non-Debt Instrument Rules are not treated as ECB.

(h) Security

ECB borrowings may be secured through asset charges or guarantees, subject to agreement terms, domestic lender consent, and alignment with ECB tenure. RBI regulated entities cannot issue guarantees. Enforcement is limited to ECB dues, and asset transfers must follow legal norms, with proceeds used to repay ECB.

(i) Permissible conversions, refinancing, and repayments

The proposed draft ECB regulations retain and, in some cases, expand existing flexibilities, such as permitting the conversion of ECB principal or interest into equity, refinancing of existing ECBs (while preserving MAMP requirements), and allowing Repayments under stipulated conditions.

(j) Simplified reporting requirement

To reduce compliance burdens, the proposed Draft regulations suggests streamlining reporting forms. Eligible borrowers to submit Form ECB for LRN, Form ECB 2 for drawdown and servicing, and Revised Form ECB for changes. Delays may attract a late submission fee, and LRN can be cancelled if no drawdown occurs.

Our comments

In summary, the Draft ECB Regulations represent the most progressive and liberalized ECB framework proposed to date.

By linking borrowing limits with net worth and relaxing cost and maturity requirements, the proposed framework has the potential to unlock global capital for high-performing Indian corporates, lowering their cost of funds and reducing dependence on domestic debt market. The exemption of regulated financial entities from borrowing limits may further facilitate the global integration of Indian banks and NBFCs.

This marks a bold shift in India's ECB policy from rigid, standardized constraints to a dynamic, strength-based and globally aligned approach. If implemented with appropriate safeguards and clarity, the proposed framework could catalyse a fresh influx of overseas capital into Indian industry, infrastructure, and financial services. At the same time, greater liberalization

underscores the importance of robust prudential oversight and risk management.

The RBI has invited public comments on the proposed draft ECB framework until 24 October 2025. Final regulations will be issued after considering the feedback received. Comments and suggestions may be submitted *via* the ‘Connect 2 Regulate’ Section on the RBI’s website or forwarded by email with the subject line *‘Feedback on draft ECB regulations ECB framework’*.

KPMG in India addresses:

Ahmedabad
Commerce House V, 9th Floor, 902, Near Vodafone House, Corporate Road, Prahlad Nagar, Ahmedabad – 380 051.
Tel: +91 79 4040 2200

Hyderabad
Salarpuria Knowledge City, Orwell 6th Floor, Unit-3, Survey No 83/1, Plot No 2, Raidurg, Hyderabad – 500 081.
Tel: +91 40 6111 6000

Noida
Unit No. 501, 5th Floor, Advant Navis Business Park, Tower-A, Plot# 7, Sector 142, Expressway Noida, Gautam Budh Nagar, Noida – 201 305.
Tel: +91 0120 386 8000

Bengaluru
Embassy Golf Links Business Park, Pebble Beach, 13/02, 'B' Block, 1st & 2nd Floor, Off Intermediate Ring Road, Bengaluru – 560 071
Tel: +91 80 6833 5000

Jaipur
Signature Towers, Office No. 402, Fourth Floor, S Plot No. DC-II, Lal Kothi District Shopping Center, Tonk Road, Jaipur – 302 001
Tel: +91 141 – 672 1000

Pune
9th floor, Business Plaza, Westin Hotel Campus, 36/3-B, Koregaon Park Annex, Mundhwa Road, Ghorpadi, Pune – 411 001.
Tel: +91 20 6747 7000

Chandigarh
Elante Offices, Unit No. A505, 5th Floor, Plot No.178-178A, Industrial Area Phase-1, Chandigarh – 160 002.
Tel: +91 172 664 4000

Kochi
Syama Business Centre, 49/179, 3rd Floor, NH 47, Bypass Road, Vytilla, Kochi – 682 019.
Tel: +91 484 302 5600

Chennai
KRM Towers, Ground, 1st, 2nd, & 3rd Floor, No. 1, Harrington Road, Chetpet, Chennai – 600 031.
Tel: +91 44 3914 5000

Kolkata
Unit No. 604, 6th Floor, Tower – 1, Godrej Waterside, Sector – V, Salt Lake, Kolkata – 700 091.
Tel: +91 33 4403 4000

Mumbai
Lodha Excellus, Apollo Mills Compound, 2nd Floor, N M Joshi Marg, Lower Parel, Mumbai- 400 011.
Tel: +91 22 3989 6000

Vadodara
Ocean Building, 303, 3rd Floor, Beside Center Square Mall, Opp. Vadodara Central Mall, Dr. Vikram Sarabhai Marg, Vadodara – 390 023.
Tel: +91 265 619 4200

Vijayawada
PR heights, 4th Floor, NH 16 Service Rd, opp. Manipal Hospital Road, Tadepalle, Andhra Pradesh – 522 501.
Tel: +91 0864 536 2000

Gurugram
Building No.10, 8th Floor, DLF Cyber City, Phase II, Gurugram, Haryana – 122 002.
Tel: +91 124 307 4000

kpmg.com/in
Follow us on:
kpmg.com/in/socialmedia