CHAPTER 3

Regulatory updates

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SEBI eases fundraising norms for NPOs on SSE

On 15 April 2026, Securities Exchange Board of India (SEBI) issued a circular introducing relaxations for Not-for-Profit Organisations (NPOs) raising funds through the Social Stock Exchange (SSE) framework, aimed at enhancing participation and improving ease of fundraising. The circular effective immediately, provides the following relaxations:

- **Extended registration validity:** NPOs can now remain registered on the SSE for up to three years without undertaking fundraising, compared to the earlier limit of two years (subject to SSE approval for the additional year).
- **Reduced minimum subscription requirement:** The minimum subscription threshold for issuance of Zero Coupon Zero Principal (ZCZP) instruments has been reduced from 75 per cent to 50 per cent, provided the exchange prior to giving an in-principle approval for such fund raising is satisfied that the funds raised are sufficient for meaningful project implementation and the SSE must conduct due diligence to ensure that project objectives remain viable and funds can be effectively deployed.
- **Disclosure requirements in case of under-subscription:** NPOs must disclose the following in the fund-raising document:
  - plans for arranging the balance funding where 50 or 75 per cent subscription is achieved and
  - potential impact on social objectives if full funds are not raised. Additionally, funds must be refunded if the minimum subscription threshold is not met.

(Source: SEBI Circular no. HO/49/14/(10)2026-CFD-POD1/I/9380/2026, 'Sub: Review of requirement relating to registration for a Not-for-Profit Organisation on Social Stock Exchange (SSE) and minimum subscription requirement for issuance of Zero Coupon Zero Principal Instruments', dated 15 April 2026)

SEBI clarifies sponsor eligibility under MF Regulations, 2026

SEBI, through an interpretive letter dated 20 April 2026, has provided informal guidance under the SEBI (Informal Guidance) Scheme, 2025 (Informal Guidance Scheme) on certain key aspects of the SEBI (Mutual Fund) Regulations, 2026 (MF Regulations 2026), in response to a request from First Water Capital Advisors LLP. The applicant sought guidance on two key issues relating to the Route 2[1] mutual fund registration, which are as follows:

- **Eligibility of a family trust as sponsor:** Whether a family trust can qualify as a 'sponsor' of a mutual fund under the regulatory framework. SEBI clarified that a 'sponsor' must be a body corporate under Regulation 2(1)(xx) of the MF Regulations, 2026. Since a family trust does not qualify as a body corporate or a corporate entity, it cannot act as a sponsor of a mutual fund.
- **Structured net worth contribution:** Whether the sponsor can meet the INR150 crore net worth requirement by contributing INR50 crore as equity and INR100 crore as redeemable preference shares, with redemption linked to the Asset Management Company (AMC) achieving profitability over five years. SEBI declined to provide an interpretive view on the proposed mix of equity and redeemable preference shares for meeting the net worth requirement, as the matter falls outside the scope of Informal Guidance Scheme.

Further, SEBI also reiterated that such informal guidance represents the department's interpretive view based on specific facts and does not constitute a binding determination of the Board.

(Source: SEBI, Nodal Co-ordination Cell, Informal Guidance, Issue No.: 1/19760/2026, 'Subject: Informal Guidance by way of an Interpretive Letter under the Securities and Exchange Board of India (Informal Guidance) Scheme, 2025 in relation to the provisions of the Securities and Exchange Board of India (Mutual Funds) Regulations, 2026' dated 20 April 2026)

1. Route 2 refers to an alternative registration pathway for setting up an AMC, distinct from the traditional sponsor-led model.

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SEBI (Alternative Investment Funds) (Amendment) Regulations, 2026

SEBI, through a notification dated 16 April 2026, has introduced amendments to the SEBI (Alternative Investment Funds) Regulations, 2012 (AIF Regulations 2012) aimed at refining operational flexibility and regulatory clarity for Alternative Investment Funds (AIFs). The following key amendments have been introduced with immediate effect:

- **Reduction in minimum investment threshold (third proviso to Regulation 10(c)):** Under the existing framework, for social impact funds investing in NPOs listed on the SSE, the minimum investment requirement for individual investors was INR2 lakh. SEBI has now reduced this threshold to INR1,000 per individual investor.
- **Clarification on distribution during liquidation (Regulation 29(7)):** Regulation 29 (governing winding up and distribution) provided that AIFs must liquidate assets and distribute proceeds to investors after satisfying liabilities within the liquidation period. The amendment now clarifies that distribution of liquidation proceeds will be subject to conditions specified by SEBI from time to time, strengthening regulatory oversight in fund exit scenarios.
- **Introduction of 'inoperative fund' concept (Regulation 29(10A)):** A new regulation has been introduced that now enables an AIF to be classified as an 'inoperative fund', in a manner and subject to conditions that may be specified by SEBI.

(Source: SEBI Notification No. SEBI/LAD-NRO/GN/2026/303, Securities and Exchange Board of India (Alternative Investment Funds) (Amendment) Regulations, 2026, dated 16 April 2026)

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SEBI introduces amendments to REIT and InvIT Regulations

SEBI, through notifications dated 16 April 2026, has amended the SEBI (Real Estate Investment Trusts) Regulations, 2014 (REIT Regulations) and SEBI (Infrastructure Investment Trusts) Regulations, 2014 (InvIT Regulations) introducing refinements aimed at enhancing investment flexibility and aligning risk norms. Key amendments are as follows:

Relaxation in credit risk thresholds: SEBI has reduced the minimum credit risk value requirement from 12 to 10 for eligible liquid/overnight mutual fund investments, in both REIT and InvIT Regulations. Further, in case of REIT Regulations category 'Class B-I' has been introduced in addition to currently permitted Class A-I for classification of such units in the potential risk class matrix, aligning the regulation with the InvIT Regulations.

Clarifications around SPV structures: In relation to the InvIT Regulations, the amendments provide greater clarity on Special Purpose Vehicles (SPVs), including treatment of SPVs in Public-Private Partnership (PPP) projects and continuation of SPV status even upon expiry or termination of concession agreements, subject to conditions laid down by SEBI.

Operational flexibility: The InvIT Regulations now allow deployment of funds not only for infrastructure development but also for other purposes as may be specified by SEBI, enhancing operational flexibility.

Expanded scope of borrowing: The InvIT Regulations now expand the scope of borrowings beyond the earlier 49 per cent leverage cap, allowing such higher borrowings to be utilised for specific purposes as may be prescribed by SEBI.

Subsequently, on 15 May 2026, SEBI has issued a circular, effective immediately, clarifying the permissible use of the net borrowings that exceed 49 per cent of the value of assets. The permitted use cases are as follows:

- Utilisation for capital expenditure, provided that such expenditure is aimed at improving the performance of existing assets or increasing their capacity.
- Major maintenance of road projects, where such maintenance is non-routine in nature and is undertaken in accordance with the obligations specified in the relevant concession agreements. The circular further specifies that these provisions apply specifically to projects in the roads and bridges infrastructure sub-sector, as defined by the Ministry of Finance.
- Refinancing principal component of existing debt (excluding accumulated interest, penalties, or associated charges), subject to the condition that the original debt was raised for permitted purposes under the regulations.

(Source: SEBI Notification No. SEBI/LAD-NRO/GN/2026/302, 'Securities and Exchange Board of India (Real Estate Investment Trusts) (Amendment) Regulations, 2026; SEBI Notification No. SEBI/LAD-NRO/GN/2026/301, 'Securities and Exchange Board of India (Infrastructure Investment Trusts) (Amendment) Regulations, 2026', both dated 16 April 2026 and SEBI Circular No. SEBI/HO/DDHS/DDHS-PoD-2/I/11700/2026, 'Subject: Permitted use of fresh borrowings for InvITs where Net Borrowings exceeds forty-nine percent of the value of InvIT assets', dated 15 May 2026)

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Fast track mechanism for AIF placement memorandums

SEBI, through a circular and press release issued on 30 April 2026, operationalised a fast-track mechanism for processing the Placement Memorandums (PPMs) of AIFs, as part of its ease of doing business initiatives.

- **Faster launch timeline:** AIFs (other than Large Value Funds for Accredited Investors i.e. LVFs) can now launch schemes and circulate PPMs to investors after 30 days of filing applications with SEBI, unless otherwise advised within the 30-day period. However, for first time AIF schemes, the launch can take place either upon receipt of SEBI registration or after 30 days from filing the application with SEBI, whichever is later. Under the earlier process, SEBI review and comment cycles could delay fund launches. The revised approach enables parallel processing and faster capital deployment, while retaining SEBI's right to provide comments within the 30-day period.
- **Applicability:** The mechanism applies to Angel Funds and other non-LVF AIF schemes, recognising the relatively sophisticated investor base and reliance on merchant banker due diligence.
- **Responsibility shifts to intermediaries:** The Merchant Banker and AIF Manager are explicitly made responsible for the accuracy, completeness and adequacy of disclosures in the PPM.
- **Timeline for first close:** The first close must be achieved within 12 months from the date the scheme becomes eligible for launch.
- **Mandatory disclaimer**: All PPMs for non-LVFs filed under the fast-track route must include a specific disclaimer stating that the document has been prepared based on due diligence conducted by the Merchant Banker and that SEBI does not assume responsibility for the correctness or adequacy of the disclosures.

(Source: SEBI Circular No. HO/19/19/11(2)2026-AFD-RAC2 I/10624/2026, 'Fast-Track Mechanism for Processing of Placement Memorandum of AIFs filed with SEBI' and SEBI Press Release PR No.29/2026 'SEBI operationalises Fast-Track Mechanism for Processing of Placement Memorandum of AIFs filed with SEBI', both dated 30 April 2026)

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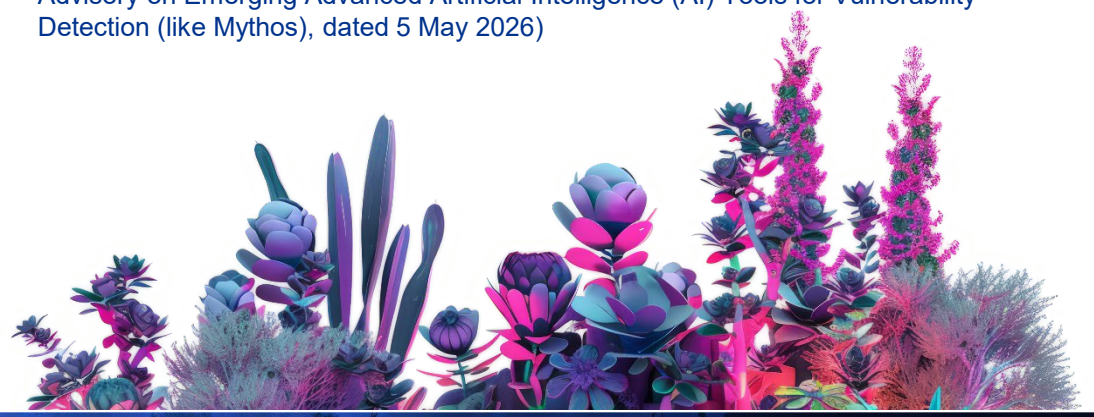
SEBI advisory on emerging AI tools for vulnerability detection

SEBI has issued an advisory addressing the growing use of advanced AI driven vulnerability detection tools (such as Clause Mythos and similar models) within the securities market ecosystem. These tools, while enhancing cybersecurity capabilities, also introduce new and evolving risks, including large scale identification of system weaknesses, potential exploitation, data privacy concerns, and reliability issues. Given the high interconnectedness of market participants, SEBI has highlighted the need for a coordinated, ecosystem wide approach to managing such risks to avoid cascading impacts across intermediaries. Some key points of the circular are as follows:

1. **Constitution of 'cyber-suraksha.ai' task force:** SEBI has set up a dedicated multi stakeholder task force comprising Market Infrastructure Institutions (MIIs), qualified entities, and other participants with the following key mandates:
   - Assessing AI driven cybersecurity risks and developing mitigation strategies
   - Facilitating threat intelligence sharing and best practices for vulnerability management
   - Reporting cyber incidents, attack vectors, and vulnerabilities promptly
   - Reviewing cyber posture of third-party vendors and service providers.
2. **Strengthening cybersecurity practices:** SEBI outlines mitigating measures for regulated entities, in Annexure A to the circular, and advises that this circular be read in conjunction with the other applicable SEBI circulars, including but not limited to Cybersecurity and Cyber Resilience framework (CSCRF) of SEBI. The following are the mitigating measures:
   - **Vulnerability and system management:** Timely run of patches, virtual patching where patches are not available, and continuous vulnerability assessments of all operating systems and applications. Regular security audits and testing in accordance with CSCRF.
   - **Vendor and third-party risk management:** Ensuring third party vendors of the Regulated Entities (REs) undertake risk assessment of AI tools and deploy appropriate safeguards.
   - **API and system security:** Strong authentication, authorisation, and least-privilege access controls to enable secure verification of end-user client identity. Inventory of all applications to be maintained and updated regularly and change management should be thorough. Additionally, Application Programming Interface (API) whitelisting, rate limiting, and robust monitoring should be used as tools for maintenance of system integrity.
   - **Monitoring and incident response:** Implementation of Security Orchestration and Automated Response (SOAR) / Security Incident and Event Management (SIEM) monitoring and automation. Encouragement to onboard Market-SOC (M-SOC) for centralised threat detection.
   - **Risk assessment and governance:** Periodic cyber risk assessments (including AI related scenarios) and adoption of Zero Trust Network to minimise the attack surface.
   - **Strategic preparedness:** Long term plans for AI-based detection and mitigation frameworks. Continuous recalibration of cyber risks in light of AI advancements.

(Source: SEBI Circular No. HO/13/19/12(1)2026-ITD-1_CIMGI/10873/2026, Subject: Advisory on Emerging Advanced Artificial Intelligence (AI) Tools for Vulnerability Detection (like Mythos), dated 5 May 2026)



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RBI updates the risk management and inter-bank dealings

On 1 April 2026, the Reserve Bank of India (RBI) issued revised directions on risk management and inter-bank dealings, prohibiting Authorised Dealers (ADs) from offering non-deliverable INR-based derivatives to both residents and non-residents and from entering into INR derivative contracts with related parties.

On 20 April 2026, RBI withdrew the directions issued on 1 April 2026 with immediate effect, in response to evolving market conditions. RBI has further reintroduced a limited permission framework for related party transactions wherein Authorised Dealers (ADs) cannot undertake derivative contracts involving INR with related parties[2], except in the following specific cases:

- cancellation and rollover of existing contracts
- back-to-back transactions with non-related non-resident users as per Master Directions[3].

(Source: RBI Circular no. RBI/2026-27/14, A.P. (DIR Series) Circular No. 07, 'Risk Management and Inter-Bank Dealings' dated 20 April 2026 and RBI Circular no. RBI/2026-27/04 A.P. (DIR Series) Circular No. 03, 'Risk Management and Inter-Bank Dealings (Revised)', dated 1 April 2026)

RBI amends capital adequacy norms for commercial banks

The RBI on 8 May 2026 issued the Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Fifth Amendment Directions, 2026 (Capital Adequacy Amendment Norms 2026)[4] introducing changes to the prudential norms on capital adequacy for commercial banks, specifically relating to the treatment of quarterly profits in Common Equity Tier 1 (CET1) capital. Following are the key amendments introduced:

- **Quarterly recognition permitted with safeguards:** Banks may include year-to-date profits in their Capital to Risk Weighted Assets Ratio (CRAR) calculations each quarter, provided such financial statements are either audited or have undergone a limited review.
- **Standardised formula for eligible profits:** Eligible profit upto the relevant quarter (EPt) must be calculated using the following formula $EPt = NPt – 0.25 \times D \times t$[5]. This formula ensures that a portion of profits is prudently adjusted for expected dividend payouts, preventing overstatement of capital.
- **Mandatory deduction of losses:** In case of cumulative net losses up to any quarter, such losses must be fully deducted from CET1 capital, ensuring that capital positions accurately reflect financial performance.

(Source: RBI Notification No. RBI/2026-27/79 DOR.CAP.REC.No.68/21.01.002/2026-27, 'Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Fifth Amendment Directions, 2026', dated 8 May 2026)

2. Related parties shall have the same meaning as assigned to it under the Indian Accounting Standard (Ind AS) 24, *Related Party Disclosures*
3. Master Direction - Risk Management and Inter-Bank Dealings dated 5 July 2016, as amended.
4. Revises provisions under the Reserve Bank of India (Commercial Banks – Prudential Norms on Capital Adequacy) Directions, 2025 (Master Direction on Capital Adequacy) issued on 28 November 2025
5. NPt = Net profit up to the relevant quarter
   D = Average dividend paid during the last three financial years
   t = varies from 1 to 4, depending on the quarter

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Asset classification, provisioning and income recognition directions, 2026

The RBI has issued the Reserve Bank of India (Commercial Banks - Asset Classification, Provisioning and Income Recognition) Directions, 2026 (ACPR Directions 2026) for commercial banks, after considering stakeholders' feedback on the draft directions released on 7 October 2025. The ACPR Directions 2026 are applicable to commercial banks from 1 April 2027. The ACPR Directions, 2026, *inter alia*, provide for:

- **Shift to Expected Credit Loss (ECL) framework:** The ACPR Directions 2026 introduce a forward-looking ECL-based provisioning regime, replacing the existing incurred-loss approach to enhance risk sensitivity and transparency.
- **Three-stage asset classification model:** A staging framework (Stage 1, 2 and 3)[6] for recognising loss allowance under the ECL framework has been introduced based on changes in credit risk, enabling early identification of stress and progressive provisioning.
- **Forward-looking risk assessment:** Banks are required to incorporate macroeconomic factors, probability-weighted scenarios, and credit risk parameters like Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) in provisioning, strengthening credit risk management practices.
- **Prudential floors for provisioning:** The ACPR Directions 2026 prescribe minimum provisioning thresholds across asset classes and stages, ensuring adequate provisioning buffers even under model-based approaches.
- **Enhanced governance and disclosures:** Strong emphasis is placed on model governance, validation, data quality, and detailed disclosures to improve transparency and comparability across banks.
- **Automation and system-based classification:** Banks are required to adopt fully automated systems for Non-Performing Asset (NPA) classification and provisioning, minimising manual intervention and improving consistency.

Further, the existing Reserve Bank of India (Commercial Banks – Income Recognition, Asset Classification and Provisioning) Directions, 2025 (IRACP Directions 2025) stand repealed with effect from 1 April 2027. The RBI, however, clarified that despite the repeal, actions already taken or initiated under the earlier IRACP Directions continue to be valid.

(Source: RBI Notification No. RBI/DOR/2026-27/398, DOR.STR.REC.No.6/21.06.011/2026-27,' Reserve Bank of India (Commercial Banks - Asset Classification, Provisioning and Income Recognition) Directions, 2026'; RBI Notification No RBI/DOR/2026-27/36, DOR.STR.REC.20/21.04.048/2026-27,'Reserve Bank of India (Commercial Banks – Income Recognition, Asset Classification and Provisioning) Repeal Directions, 2026', both dated 27 April 2026)

6. Stage 1: A financial instrument shall be classified under Stage 1, where it has not experienced a SICR since initial recognition or where it is determined to have low credit risk in terms of Paragraph 37 of these Directions. In respect of such financial instruments, 12-month ECL shall be recognised, unless specifically exempted under these Directions.
   Stage 2: A financial instrument shall be classified under Stage 2, where it has experienced a SICR since initial recognition but is not considered to be 'credit impaired'. For such financial instruments, lifetime ECL shall be recognised.
   Stage 3: A financial instrument shall be classified under Stage 3, where it is considered to be 'credit impaired' as at the reporting date. For such financial instruments, lifetime ECL shall be recognised.

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Asset classification, provisioning and income recognition directions, 2026 (contd.)

In order to give effect to the new ACPR Directions 2026, multiple consequential amendments across related regulations have been introduced. Some of the key amendments are as follows:

1. **Reserve Bank of India (Commercial Banks – Resolution of Stressed Assets) Amendment Directions, 2026:** The RBI has expanded the list of early warning indicators that banks must monitor. These include significant credit rating downgrades, sharp declines in collateral value, delays in payment of fees or charges, and expected changes in loan terms such as covenant breaches, interest payment holidays or delays in loan renewals to bring uniformity in provisioning, asset classification and income recognition across restructuring, insolvency resolution, interim finance, project loans, farm credit and natural calamity-related restructuring, all of which will now be governed by the ACPR Directions, 2026. The RBI has clarified that the benefit of freezing provisions will lapse immediately if a resolution plan is rejected, and asset classification will continue as per the revised prudential norms.

   (Source: RBI Notification No. RBI/2026-27/23, DOR.STR.REC.7/21-04-048/2026-27,' Reserve Bank of India (Commercial Banks – Resolution of Stressed Assets) Amendment Directions, 2026', dated 27 April 2026)

2. **Reserve Bank of India (Commercial Banks - Concentration Risk Management) - Second Amendment Directions, 2026**: For the purpose of assessing country risk under concentration risk norms, banks are now required to rely on the country risk classifications issued by the Export Credit Guarantee Corporation of India (ECGC), as periodically updated.

   (Source: RBI Notification No. RBI/2026-27/27, DOR.STR.REC.08/07-03-001/2026-27, Reserve Bank of India (Commercial Banks - Concentration Risk Management) - Second Amendment Directions, 2026, dated 27 April 2026)

3. **Reserve Bank of India (Commercial Banks – Classification, Valuation, and Operation of Investment Portfolio)- Amendment Directions, 2026:**
   - These directions are in line with the ACPR Directions, 2026, introducing key concepts such as amortised cost, Effective Interest Rate (EIR), ECL, loss allowance, and Stage 1, 2 and 3 classifications, while requiring investment measurement based on EIR and ECL principles.
   - They embed the ECL framework and EIR approach into investment accounting, requiring banks to value most debt securities at amortised cost or fair value using EIR, with provisions determined by credit risk staging.
   - These directions lay down updated valuation norms, with Held to Maturity (HTM) securities measured at amortised cost along with ECL provisioning, and Available for Sale (AFS) securities marked to market with gains or losses routed through reserves (except on sale or reclassification).
   - They also provide for well-defined transition and reclassification norms, including a uniform treatment for transfers between HTM, AFS and Fair Value Through Profit and Loss (FVTPL) categories, along with adjustments to fair value, EIR, and ECL, where relevant.
   - These directions also set out clear guidelines for classification, upgradation and provisioning across instruments such as bonds, preference shares, equity investments and government securities.

   (Source: RBI Notification No. RBI/2026-27/34, DOR.STR.REC.9/00-00-001/2026-27, Reserve Bank of India (Commercial Banks – Classification, Valuation, and Operation of Investment Portfolio)- Amendment Directions, 2026, dated 27 April 2026)

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Asset classification, provisioning and income recognition directions, 2026 (contd.)

4. **Reserve Bank of India (Commercial Banks – Credit Risk Management) - Second Amendment Directions, 2026:**
   - RBI has revised capital norms for exposures with unhedged foreign currency risk (UFCE), requiring banks to increase risk weights by 25 percentage points where potential losses exceed 75 per cent of Earnings Before Interest and Depreciation (EBID). In the absence of adequate data, such exposures must be classified in the highest risk category on a conservative basis.
   - Banks are now required to assess and compute incremental capital requirements for UFCE on at least a quarterly basis, including for under-construction projects and newly established entities based on projected cash flows.
   - Additionally, banks and lending consortia have been given flexibility in structuring Working Capital Loan (WCL) repayments, allowing either instalments or bullet repayments, subject to adherence to revised prudential and stressed asset guidelines.

   (Source: RBI Notification No. RBI/2026-27/26, DOR.STR.REC.10/07-02-001/2026-27, 'Reserve Bank of India (Commercial Banks – Credit Risk Management) - Second Amendment Directions, 2026' dated 27 April 2026)

5. **Reserve Bank of India (Commercial Banks – Credit Facilities) Second Amendment Directions, 2026:**
   - RBI has clarified that asset classification and provisioning for individual loan exposures will now be fully governed by the ACPR Directions, 2026, thereby ensuring a uniform and consistent prudential treatment across regulations.
   - Under the updated framework, project finance exposures may be classified as NPAs even prior to the actual Date of Commencement of Commercial Operations (DCCO), based on the underlying recovery performance records, in line with the ACPR Directions, 2026

   (Source: RBI Notification No RBI/2026-27/25, DOR.STR.REC.13/07-01-001/2026-27, Reserve Bank of India (Commercial Banks – Credit Facilities) Second Amendment Directions, 2026' dated 27 April 2026)

6. **Reserve Bank of India (Commercial Banks – Financial Statements: Presentation and Disclosures)- Seventh Amendment Directions, 2026:**
   - Banks are now required to present provisions for Stage 1 and Stage 2 assets separately under 'Other Liabilities and Provisions' in the balance sheet, rather than adjusting these against gross advances, enhancing clarity in financial reporting.
   - Interest income recognition on advances and bills has been aligned with the ACPR Directions, 2026, with RBI clarifying that non-recognition of income on Stage 3 assets/NPAs will not result in auditor qualification, as it reflects regulatory prudence.
   - Enhanced and granular disclosure requirements are introduced, requiring banks to report the credit quality of loans, investments, loan commitments and guarantees across Stage 1, Stage 2, Stage 3 and Purchased or Originated Credit Impaired (POCI) categories, along with detailed reconciliation of loss allowances. Additionally, new disclosures on fraud cases and related provisioning have been mandated to improve transparency for stakeholders.

   (Source: RBI Notification No RBI/2026-27/35, DOR.STR.REC.15/21-04-018/2026-27, 'Reserve Bank of India (Commercial Banks – Financial Statements: Presentation and Disclosures)- Seventh Amendment Directions, 2026' dated 27 April 2026)

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Asset classification, provisioning and income recognition directions, 2026 (contd.)

7. **Reserve Bank of India (Commercial Banks - Transfer and Distribution of Credit Risk) Amendment Directions, 2026:**

   - RBI has clarified that, for eligible transferees, the recognition and measurement of acquired loan assets - both at inception and thereafter - will now be governed by the ACPR Directions, 2026, thereby ensuring consistent prudential treatment across the regulatory framework.
   - A key change has been introduced in the treatment of stressed assets acquired by banks, which shall now be classified as Purchased or Originated Credit Impaired (POCI) assets, with provisioning, valuation and disclosure requirements aligned with the ACPR Directions, 2026.
   - Further, in cases where stressed loans are sold to Asset Reconstruction Companies (ARCs) at a value below their net book value, the resulting shortfall is required to be fully recognised in the profit and loss account in the year of transfer.

   (Source: RBI Notification No RBI/2026-27/24, DOR.STR.REC.17/21-04-048/2026-27, 'Reserve Bank of India (Commercial Banks - Transfer and Distribution of Credit Risk) Amendment Directions, 2026' dated 27 April 2026)

8. **Reserve Bank of India (Commercial Banks – Treatment of Wilful Defaulters and Large Defaulters) - Amendment Directions, 2026:** RBI has clarified that where wilful default is flagged during internal preliminary screening, banks must complete the process of declaring a borrower as a wilful defaulter within six months from the date on which the account is classified as a NPA under the ACPR Directions, 2026

   (Source: RBI Notification No RBI/2026-27/28, DOR.STR.REC.18/20-16-001/2026-2, 'Reserve Bank of India (Commercial Banks – Treatment of Wilful Defaulters and Large Defaulters) - Amendment Directions, 2026' dated 27 April 2026)

9. **Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Fourth Amendment Directions, 2026:** RBI has now integrated the Stage 1, Stage 2 and Stage 3 classification framework into capital adequacy norms, by aligning it with the definitions under the ACPR Directions, 2026. General provisions held for Stage 1 and Stage 2 exposures, along with excess provisions arising from the sale of NPAs, will be eligible for inclusion in Tier 2 capital, subject to an overall cap of 1.25 per cent of total credit risk-weighted assets under the standardised approach. At the same time, RBI has clarified that specific provisions, such as those relating to Stage 3 assets (NPAs), restructured exposures, and investment depreciation will continue to be excluded from regulatory capital.

   (Source: RBI Notification No RBI/2026-27/33, DOR.STR.REC.19/21-01-002/2026-27, 'Reserve Bank of India (Commercial Banks - Prudential Norms on Capital Adequacy) Fourth Amendment Directions, 2026' dated 27 April 2026)

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Basel III framework for capital charge on credit risk

The RBI has issued the RBI (Scheduled Commercial Banks – Capital Charge for Credit Risk – Standardised Approach) Directions, 2026 (2026 Basel III Directions), with the objective of making capital requirements more risk sensitive, granular and aligned with global standards. These updates, effective from 1 April 2027, will significantly impact how banks assess risk weights, compute capital, and manage credit exposures. Some key updates are as follows:

- **Enhanced risk sensitivity and granularity:** The 2026 Basel III Directions introduce differentiated risk weights across exposure classes (sovereigns, corporates, banks, retail, micro, small and medium enterprises, real estate, etc.), making capital requirements more closely aligned with underlying credit risk.
- **Greater reliance on external credit ratings with safeguards:** Risk weights will be linked to ratings by eligible agencies, along with mapping mechanisms and default-rate based adjustments to improve accuracy and consistency.
- **Project finance framework**: A separate framework for project loans has been introduced. Loans to projects under construction carry higher risk, while operational projects may get lower risk weights.
- **Strengthened due diligence requirements:** Banks must undertake ongoing due diligence of counterparties and ensure that assigned risk weights broadly reflect internal credit assessments, with supervisory oversight.
- **Introduction of additional capital charges for risk factors:** Incremental capital requirements have been specified for unhedged foreign currency exposures (UFCE) and other risk drivers, enhancing prudential safeguards.
- **Recognition of credit risk mitigation (CRM) techniques:** The 2026 Basel III Directions provide a comprehensive framework for collateral, guarantees and netting, including eligibility criteria, haircuts and operational requirements. Banks can reduce capital requirements only if risk protection is effective and properly structured.

(Source: RBI Notification No. RBI/DOR/2026-27/397 DOR.CRE.REC 5/21.06.201/2026-27, 'Reserve Bank of India (Commercial Banks - Capital Charge for Credit Risk – Standardised Approach) Directions, 2026 (Effective from April 1, 2027)', dated 27 April 2026)

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RBI eases regulatory framework for select NBFCs

The RBI has issued the Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026 to refine the regulatory framework for Non-Banking Financial Companies (NBFCs), effective 1 July 2026. The amendments adopt a proportionate, risk-based approach, offering compliance relief to NBFCs that operate without public funds and customer interface. Following are the key updates:

1. **Introduction of new NBFC classification:** The RBI has introduced the below classification framework:
   - **Type I NBFC:** NBFCs that do not avail public funds and do not have customer interface
   - **Type II NBFC:** All other NBFCs
2. **Unregistered Type I NBFC:** Eligible Type I NBFCs exempt from registration requirements. Effective 1 July 26, NBFCs meeting the following criteria are exempt from registration under the RBI Act:
   - No public funds
   - No customer interface, and
   - Asset size below INR1,000 crore as per the latest audited balance sheet.

In case an NBFC starts accepting public funds or develops a customer interface it must obtain registration as Type II NBFC.

3. **Deregistration window for existing NBFCs:** Eligible existing NBFCs (including currently registered Type I NBFCs) may apply for deregistration upto 31 December 2026. The application for deregistration is to be filed with various documents including audited financials for last three financial years, statutory auditor's certificate certifying that the NBFC does not have public funds and also does not have customer interface as on date, certain board resolutions and a board declaration, etc.
4. **Group-level test:** Where multiple NBFCs exist within a group, their asset sizes will be aggregated. If the combined size exceeds INR1,000 crore, all such entities must obtain registration as Type I NBFCs.
5. **Ongoing compliance requirements for exempt category:** For NBFCs in the exempt category, ongoing compliance requirements include annual board resolution confirming no public funds/customer interface during the year, mandatory disclosures in financial statements (notes to accounts) that it is an 'Unregistered Type I NBFC', and statutory auditor certification with reporting to RBI of any deviations in case of violation of conditions on public funds or customer interface or any other condition for the exemption.

(Source: RBI Notification No. RBI/2026-27/43, DOR.FIN.REC.No.67/03.10.001/2026-27, 'Reserve Bank of India (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026', dated 29 April 2026)

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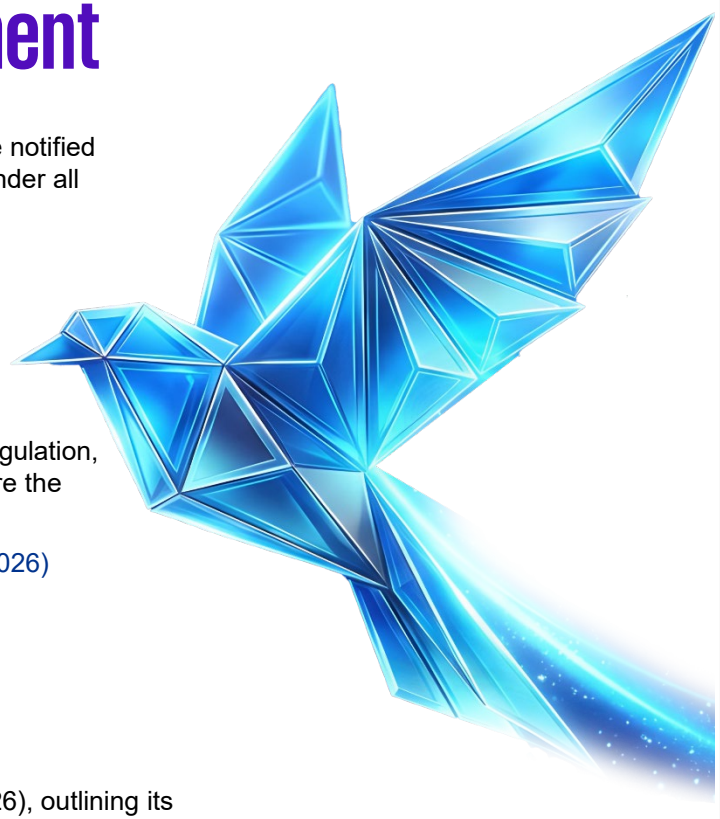
Labour Code Rules published by the Central Government



The Central Government had published the draft Central Rules on 30 December 2025 under the four Labour Codes that were notified on 21 November 2025. Subsequently, on 8 May 2026, the Central Government has formally notified the final Central Rules under all four Labour Codes. These are as follows:

- Code on Wages (Central) Rules, 2026
- Social Security (Central) Rules, 2026
- Occupational Safety, Health, and Working Conditions (Central) Rules, 2026
- Industry Relations (Central) Rules, 2026.

These Rules largely deal with the practical and procedural aspects of compliance, including working hours, contract labour regulation, workplace administration, and maintenance of employee records. These Rules take immediate effect for establishments where the Central Government is the appropriate authority.

(Source: Ministry of Labour, Notification Nos. G.S.R. 342(E), G.S.R. 343(E), G.S.R. 344(E), G.S.R. 345(E), all dated 8 May 2026)

NFRA updates inspection guidelines

The National Financial Reporting Authority (NFRA) issued the updated Audit Quality Inspection Guidelines (as of 30 April 2026), outlining its approach to audit firm inspections. The NFRA's updated Guidelines reinforce a more structured, risk-based and transparent inspection framework, with enhanced focus on firm-wide quality control, governance, and audit risk management systems.

The updated guidelines clarify that inspections will be proportionate to the size, complexity, and public interest relevance of audit firms, while expanding coverage to include areas such as use of technology in audits and firm's culture ('tone at the top'). They also formalise a clear end-to-end inspection lifecycle - from selection (based on risk indicators and random sampling), execution (including site visits, interviews, and document reviews), to reporting and follow-up, with stricter timelines requiring auditors to submit responses, remediation plans (within 90 days), and implementation (within 180 days). Overall, the update reflects NFRA's intent to drive continuous audit quality improvement through tighter monitoring, accountability, and timely remediation.

(Source: National Financial Reporting Authority, Audit Quality Inspection Guidelines (updated up to 30 April 2026), published on 30 April 2026)

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Updated handbook on returns and payments under GST

The Goods and Services Tax (GST) and Indirect Taxes Committee of the Institute of Chartered Accountants of India (ICAI) issued an updated Handbook on Returns and Payments under GST, serving as a comprehensive guidance note incorporating recent legislative, procedural, and system-driven changes in GST compliance. Notably, it reflects the shift towards a technology-driven compliance ecosystem, highlighting developments such as the Invoice Management System (IMS) for Input Tax Credit (ITC) matching, system-based mismatch intimations, and enhanced auto-population and interest computation features in GSTR-3B from January 2026. The handbook also covers key structural updates like mandatory Input Service Distributor (ISD) registration (from April 2025), evolving ITC utilisation rules, and strengthened reconciliation and monitoring mechanisms, while providing a practical overview of return filing requirements, due dates, and payment processes. Overall, the revision emphasises greater automation, tighter compliance checks, and increased reliance on system-generated controls in GST reporting.

(Source: The ICAI, Handbook on Returns and Payments under Goods and Services Tax (March, 2026), Third edition, published on 24 March 2026)

FAQs on Companies Compliance Facilitation Scheme

The Ministry of Corporate Affairs (MCA), through a circular issued in February 2026, introduced the Companies Compliance Facilitation Scheme, 2026 as a one-time relaxation measure that provides an opportunity for eligible companies to regularise pending annual returns, financial statements, and certain other statutory filings by paying concessional additional fees. The scheme is effective from 15 April 2026 to 15 July 2026.

Subsequently, the MCA, on 22 April 2026, released the Frequently Asked Questions (FAQs) on the Compliance Facilitation Scheme 2026. These FAQs aim to provide clarity on key aspects such as eligibility, scope and benefits, types of filings covered, the procedure for availing the scheme, and the implications of non-participation, thereby facilitating consistent interpretation and implementation.

(Source: MCA, FAQs on the Companies Compliance Facilitation Scheme, 2026 (CCFS-2026), dated 22 April 2026)

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FEM (Non-Debt Instruments) Amendment Rules, 2026

The Ministry of Finance (MoF) has notified amendments to the Foreign Exchange Management (FEM) (Non-Debt Instruments) Rules, 2019 (the 2019 Rules) by issuing two sets of amendments on 2 May 2026:

- FEM (Non-Debt Instruments) Amendment Rules, 2026 (FEM Amendment Rules, 2026) and
- FEM (Non-Debt Instruments) Second Amendment Rules, 2026 (FEM Second Amendment Rules, 2026).

These changes primarily aim to tighten the regulatory framework around Foreign Direct Investment (FDI), especially in relation to beneficial ownership and sectoral caps.

1. FEM Amendment Rules, 2026

The requirement that all investments from countries sharing a land border with India obtain prior government approval generally resulted in longer approval timelines and discouraged even non-strategic and minority investments, and constrained capital inflows, particularly from institutional investors and global Private Equity (PE)/Venture Capital (VC) funds. Accordingly, these amendments have been introduced to operationalise changes relating to such investments and to enhance ease of doing business, while promoting greater clarity, increased FDI inflows, and stronger integration with global capital and supply chains. Some of the key aspects covered are as follows:

- Foreign investors may subscribe, purchase or sell equity instruments in Indian companies, subject to conditions in Schedule I[7].
- Investments from entities or individuals of such countries (or where beneficial ownership lies in such countries) are allowed only through the Government route. This rule also applies to indirect investments and changes in beneficial ownership. Also, investment is prohibited in sensitive sectors like defence, space, and atomic energy.
- Introduces detailed criteria aligned with Prevention of Money Laundering Act, 2002 (PMLA) for determining beneficial ownership and covers direct, indirect, and ultimate control structures.
- Multilateral banks/funds[8] of which India is a member, are not treated as belonging to any specific country, mitigating compliance complexities.
- Transfer of participating interest or rights in oil fields by Indian companies to non-residents is treated as foreign investment and must comply with FEMA rules and conditions specified in Schedule I.

2. FEM Second Amendment Rules, 2026

The 2019 Rules mentioned above, govern foreign investment in non-debt instruments such as equity shares across sectors, with Schedule I therein specifying sectoral caps, entry routes, and conditions. The FEM Second Amendment Rules, revises the provisions relating to the insurance sector (Entry F.8 in Schedule I), updating both limits and operational conditions. Following are the specific amendments introduced therein:

- **Sectoral caps and entry routes**: For insurance companies and intermediaries up to 100 per cent FDI is now permitted under automatic route and for Life Insurance Corporation of India (LIC) FDI is limited to 20 per cent under automatic route, as against 49 per cent for all insurance companies and related activities previously.
- **Key conditions for insurance companies:** The aggregate holdings by way of total foreign investment in the equity shares of an Indian Insurance Company by foreign investors, including portfolio investors, is permitted up to 100 per cent of the paid-up equity capital of such Indian insurance company via automatic route subject to the following:
  - approval and verification by Insurance Regulatory and Development Authority of India (IRDAI)
  - compliance with the provisions of the Insurance Act, 1938
  - necessary licences, etc.

7. Schedule I of the Foreign Exchange Management (Non-debt Instruments) Rules, 2019, has provisions for Purchase or sale of equity instruments of an Indian company by a person resident outside India.
8. Multilateral banks and funds are international financial institutions chartered by multiple sovereign countries. Their primary mission is to promote economic and social progress in developing or middle-income countries by providing loans, grants, and technical assistance for development projects.

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FEM (Non-Debt Instruments) Amendment Rules, 2026 (contd.)

- **Conditions for insurance intermediaries:** Insurance intermediaries that have majority shareholding of foreign investors must:
  - Be incorporated as Indian companies
  - Ensure Indian resident representation in leadership
  - Bring in technological and managerial expertise
  - Disclose payments made to its group, promoter, subsidiary, or interconnected or associate entities.
- **Additional compliance requirements:** Entities like banks acting as intermediaries must maintain core business revenue dominance (i.e. more than 50 per cent of their total revenues in a financial year).

(Source: Ministry of Finance, Department of Economic Affairs, Notification No. S.O 2174(E), and Notification No. S.O. 2186(E) both dated 2 May 2026)

Ministry of Finance's clarification on Force Majeure clause

The MoFs Office Memorandum (OM) on the Force Majeure clause provides clarity on the application of force majeure provisions in government contracts, particularly in the context of unforeseen and disruptive events. Such memoranda are typically issued to guide government departments and stakeholders on how contractual obligations may be treated when extraordinary circumstances beyond the control of the parties arise.

The OM reiterates that force majeure refers to exceptional events such as natural disasters, pandemics, war, or other unforeseen disruptions that prevent the performance of contractual obligations. It clarifies that invocation of force majeure is not automatic - the affected party must demonstrate that the event directly impacted its ability to perform contractual duties.

Further, paras 3 to 5 of the OM clarify that the ongoing West Asia situation is to be treated as a 'war' event for the purpose of invoking Force Majeure, thereby allowing government procuring entities to extend relief where contractual performance has been directly or indirectly affected. In such cases, contracts due on or after 28 February 2026 may be granted a time extension of two to four months without any penalty or cost, with the exact duration determined on a case-by-case basis. However, the memorandum places clear safeguards by stating that Force Majeure can be invoked only if the contractor was not already in default as of 27 February 2026, and the relief is limited strictly to disruptions caused by the West Asia situation; it does not excuse all non-performance. Further, all contractual obligations are required to resume once the Force Majeure period ends.

(Source: Government of India, Ministry of Finance, Department of Expenditure, Procurement Policy Division, Office Memorandum No.1/3/2026-PPD, 'Subject: Force Majeure Clause (FMC)', dated 29 April 2026)

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ASU on initial measurement of paid-in-kind dividends

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2026-01- Equity (Topic 505), *Initial Measurement of Paid-in-kind Dividends on Equity-classified Preferred Stock*, to provide clear guidance on how entities should initially measure paid-in-kind (PIK) dividends on equity-classified preferred stock. This update addresses a long-standing gap in United States Generally Accepted Accounting Principles (US GAAP) that had led to inconsistent accounting practices across entities.

The ASU only clarifies measurement aspect - it does not change 'when' PIK dividends should be recognised. The ASU requires that PIK dividends on equity-classified preferred stock be initially measured on the basis of the PIK dividend rate stated in the preferred stock agreement.

Effective date: Applicable for annual reporting periods beginning after 15 December 2026, and interim reporting periods within those annual reporting periods. Early adoption is permitted in an interim or annual reporting period in which financial statements have not yet been issued or made available for issuance. An entity adopting the amendments in an interim reporting period should apply them as of the beginning of the annual reporting period that includes that interim reporting period.

Transition options: Entities can adopt these updates either

A. On a prospective basis to PIK dividends recognised on equity-classified preferred stock on or after the initial application date of the amendments, or

B. On a modified retrospective basis to PIK dividends recognised on equity-classified preferred stock that is outstanding as of the initial application date. Under the modified retrospective transition approach, an issuer should recast prior reporting periods presented and recognise a cumulative-effect adjustment to equity as of the beginning of the earliest period presented related to previously issued PIK dividends recognised on equity-classified preferred stock that is outstanding as of the initial application date.

(Source: FASB.org>>News & Meeting>>In the News>'FASB Issues Guidance on Initial Measurement of Paid-in-Kind Dividends on Equity-Classified Preferred Stock', dated 23 April 2026)

IASB proposes consolidation exception under IFRS for SMEs

The International Accounting Standards Board (IASB) has issued an Exposure Draft proposing narrow-scope amendments to the International Financial Reporting Standards (IFRS) for Small and Medium sized entities (SMEs) Accounting Standard to introduce a consolidation exception for certain intermediate parent entities.

Currently, SMEs are required to prepare consolidated financial statements unless their parent produces consolidated financial statements. However, this exemption was not available where the parent is an investment entity that measures subsidiaries at fair value instead of consolidating them.

The proposed amendment seeks to:

- Extend the consolidation exemption so that an SME parent need not prepare consolidated financial statements if its ultimate or intermediate parent prepares IFRS-compliant financial statements in which subsidiaries are measured at fair value through profit or loss.
- Make this exemption optional for eligible SMEs, giving flexibility in application.

The amendment primarily affects intermediate parent entities within groups where the parent qualifies as an investment entity, such as private equity or venture capital structures. No additional disclosure requirements are proposed alongside the exemption.

The Exposure draft is open for comments until 9 September 2026 and once finalised, the amendments will be effective for periods beginning on or after 1 January 2027, with early adoption permitted.

(Source: IFRS.org>>News & Events>>News>' IASB proposes extending consolidation exception for eligible SMEs', dated 12 May 2026)

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ICAI exposure draft on SSA 5000 – sustainability assurance

The Institute of Chartered Accountants of India (ICAI) has issued an exposure draft on Standard on Sustainability Assurance (SSA) 5000 *General Requirements for Sustainability Assurance Engagements*, inviting comments until 19 June 2026.

SSA 5000 establishes a comprehensive framework for assurance on sustainability information, aiming to enhance the credibility, consistency, and quality of such reporting in India. The standard is broadly aligned with International Standard on Sustainability Assurance (ISSA) 5000 issued by the International Auditing and Assurance Standards Board (IAASB) with certain India-specific adaptations. The draft applies to both reasonable and limited assurance engagements and is proposed to be mandatory for listed entities, while remaining optional for others. It outlines the full assurance process - from engagement acceptance and planning to risk assessment, evidence gathering, and reporting. Key aspects of the exposure draft include:

- Emphasis on suitable reporting criteria and transparency for users
- Strong focus on materiality, risk assessment, and internal controls
- Mandatory adherence to ethical standards, independence, and quality control
- Detailed guidance on assurance reporting formats and conclusions.

The effective date of this SSA is yet to be confirmed.

(Source: ICAI, Sustainability Reporting Standards Board, 'Exposure Draft on Standard on Sustainability Assurance (SSA -5000)- General Requirements for Sustainability Assurance Engagement.', dated 20 May 2026)

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