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SIGHTS

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Reimagining External Commercial Borrowings in India: Understanding the 2026 Framework and Its Link to Acquisition Financing

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Introduction

Indian companies often need large amounts of capital to grow, expand, or acquire other businesses. While domestic banks are one source of funding, another important route is borrowing from foreign lenders. This is what is known as external commercial borrowings (“ECBs”). In simple terms, ECBs allow Indian entities to raise loans from outside India, either in foreign currency or in Indian Rupees.

For a long time, this route was tightly controlled by the Reserve Bank of India. The idea was to ensure that foreign borrowing did not create risks for the economy, especially in relation to exchange rates and external debt. However, in 2026, the RBI introduced a new framework that significantly changes how ECBs work. The shift is not just in the rules themselves, but in the way the RBI approaches regulation. The new framework moves away from strict control and towards greater flexibility, with the market playing a larger role.

This article explains how the earlier system worked, what has changed in 2026, and why these changes matter, particularly in the context of acquisition financing.

The Earlier ECB Regime

Before 2026, the ECB framework was built around a cautious and highly controlled approach. It was also spread across different sources such as regulations, master directions, and circulars, which made it somewhat difficult to navigate.

More importantly, the system imposed several restrictions on borrowers. The RBI limited how much interest could be paid on ECBs, which meant that lenders could not freely price loans based on risk. There were also strict rules on how the borrowed money could be used. In many cases, ECB proceeds could not be used for purposes such as acquiring another company. Borrowing limits were fixed in absolute terms, regardless of the size or financial strength of the borrower. In addition, different minimum maturity periods applied depending on the type of borrowing, which often made structuring transactions more complicated.

Taken together, this meant that while ECBs were available, they were not always practical. The framework prioritised safety and control, but it also reduced flexibility and limited the usefulness of ECBs in more complex transactions.

The Shift in 2026

The 2026 reforms mark a clear change in approach. Instead of relying heavily on detailed rules and restrictions, the RBI has moved towards a system that gives more space to market forces, while still retaining oversight.

This shift can be understood as a move from a rule-based system to a more principle-based one. Under the new framework, the RBI is less concerned with controlling every aspect of borrowing and more focused on ensuring that the overall system remains stable. This allows borrowers and lenders greater freedom to structure transactions in a way that makes commercial sense.

At the same time, the new regulations bring everything into a single, consolidated framework. This makes the law easier to understand and reduces the need to look at multiple documents to determine what is permitted.

What Has Changed Under the New Framework

One of the most important changes is that interest rates are no longer capped. Earlier, the RBI set limits on the total cost of borrowing, which often made ECBs less attractive to lenders. Now, the cost of borrowing is determined by the market. This means that lenders can price loans based on the borrower's risk profile, and borrowers have greater access to different kinds of funding, even if it comes at a higher cost.

Another important change is the way borrowing limits are determined. Instead of a fixed cap, the new framework allows companies to borrow more if they have a stronger financial position. This ties borrowing capacity to the strength of the borrower, which is more consistent with how lending works in global markets.

The rules on how ECB funds can be used have also been relaxed. Earlier, there were several restrictions that limited the use of funds, especially for activities like acquisitions. The new framework allows ECBs to be used more freely for business purposes, subject to certain safeguards. This makes ECBs a more versatile financing tool.

In addition, the framework now allows a wider range of entities to borrow and a broader set of foreign lenders to participate. There is also more flexibility in choosing whether to borrow in foreign currency or in Indian Rupees. All of these changes make the ECB route more accessible and more adaptable to different types of transactions.

Why This Matters for Acquisition Financing

The relaxation of end-use restrictions becomes particularly important when we look at acquisition financing. In simple terms, acquisition financing refers to borrowing money to acquire shares or control in another company.

Under the earlier ECB regime, using foreign borrowings for such purposes was either restricted or heavily regulated. As a result, companies often had to rely on domestic funding or complex structures to finance acquisitions.

GUEST POST

The 2026 framework changes this position by allowing ECBs to be used for such transactions in a more meaningful way. Around the same time, the RBI has also relaxed the rules governing how domestic banks can finance acquisitions. This means that companies now have access to both domestic and foreign sources of debt for the same transaction.

This combination is significant. It allows companies to structure deals using a mix of funding sources, depending on cost, availability, and commercial considerations. It also makes it easier to carry out larger and more sophisticated transactions that were previously difficult to finance within India's regulatory framework.

A Changing Financing Landscape

With both ECBs and domestic acquisition financing becoming more flexible, India is moving towards a more developed credit market. Companies are no longer limited to traditional bank loans but can tap into a wider pool of capital, including international lenders.

This also brings India closer to global practices, where cross-border borrowing and layered financing or mixed source structures are common. While such developments will likely take time to fully evolve, the regulatory changes create the foundation for a more dynamic and competitive financing environment.

Continuing Safeguards

Even though the framework is more liberal, it is not without limits. Certain uses of ECBs, particularly those linked to speculative activities, continue to be restricted. Transactions involving related parties must still meet arm's length standards, and reporting requirements ensure that the RBI remains informed about borrowing activity.

These safeguards reflect the RBI's attempt to balance flexibility with financial stability. The objective is not to remove regulation entirely, but to make it more aligned with market realities.

Conclusion

The 2026 ECB framework represents an important step in the evolution of India's financial system. By reducing rigid controls and allowing greater flexibility, the RBI has made external borrowing a more practical and relevant option for Indian companies.

For law students, the significance of this reform lies in understanding how regulatory approaches can change over time. The shift from strict control to a more flexible system shows how law adapts to economic needs and market developments. When seen alongside the changes in acquisition financing, it becomes clear that India is gradually moving towards a more open and sophisticated credit environment.

In that sense, the new ECB framework is not just about foreign borrowing. It reflects a broader change in how India regulates finance and engages with global capital.



INSOLVENCY & BANKRUPTCY

INSOLVENCY & BANKRUPTCY



The Hon'ble Supreme Court ("SC") has held that telecom operators cannot claim spectrum as an asset under the Insolvency and Bankruptcy Code, 2016 ("IBC") [*State Bank of India v. Union of India & Ors.*]. [[Link](#)]

The SC has held that telecom spectrum allocated to telecom spectrum providers ("**TSPs**") cannot be treated as a corporate asset capable of being subjected to proceedings under the IBC, affirming it is a public resource owned by India. It further clarified that TSPs cannot claim the moratorium to restructure or defer the payment of their spectrum or licence dues that they owe to the Department of Telecommunications ("**DoT**").

Earlier, the National Company Law Appellate Tribunal ("**NCLAT**") had taken the view that the spectrum is a natural resource that is owned by the State. However, it also observed that the right to use the spectrum constitutes an intangible asset of the licensee and can be subjected to insolvency proceedings. It further held that the dues owed to the DoT qualify as "operational debt" under the IBC, even though the allocated spectrum cannot be utilized without the payment of the dues.

Reversing the NCLAT's decision, the SC held that spectrum is a finite natural resource that the State holds in trust for the public. It does not constitute as a proprietary asset of TSPs. Referring to Section 4 of the Indian Telegraph Act, 1885 and earlier precedents, the SC clarified that the telecom licences grant only a limited right to use spectrum which is subject to payment of dues and compliances. The mere accounting of spectrum as an intangible asset does not grant ownership or make it subject to insolvency proceedings. Spectrum remains under sovereign control and cannot be used to alter regulatory and ownership obligations related to spectrum licenses.

This decision makes an important clarification regarding the limits of the IBC. It reinforces that insolvency proceedings cannot be used to dilute obligations under a complete sector specific statutory regime, especially where the issue of sovereign control and public interest are involved. For the telecom sector, this decision is likely to influence future resolution strategies. The resolution plans can no longer proceed on the assumption that regulatory due or license conditions may be compromised under the insolvency framework. Plans will have to be assessed in the light of the enforceability of telecom laws and outstanding statutory obligations.

The Insolvency and Bankruptcy Board of India (“IBBI”) introduces structural reforms to strengthen valuation and disclosure framework under the IBC. [\[Link\]](#)

The IBBI, through its Press release dated 26 February, 2026, has announced structural amendments aiming to strengthen the information disclosure requirements and valuation standards under the IBC. This amendment standardises valuation practices and expands the scope of disclosure in the Information Memorandum (“**IM**”).

Valuation plays a very important role in insolvency proceedings. It directly influences commercial decisions of the Committee of Creditors (“**CoC**”), the determination between liquidation and resolution and distribution outcomes. However, the discrepancies and variations in valuation methodologies and gaps in the disclosure of IM have led to challenges in implementation and disputes. Incomplete disclosures relating to homebuyers, receivables, joint development arrangements and attached assets in particular have created uncertainty for resolution applicants and stakeholders.

The IBBI’s press release is aimed to address these concerns. It has mandated standardised formats for valuation reports. It also introduces harmonised valuation standards for computing fair value and liquidation value across all proceedings. The definition of fair value has been revised to explicitly include tangible and intangible assets along with underlying synergies. This ensures a more comprehensive assessment of the value of the enterprise. A framework for designating a Coordinating Valuer has also been introduced to ensure consistency in the valuation.

As per the amendment, the IM must now include all the details of allottees that are reflected in the books of the corporate debtor or in the records of the Real Estate Regulatory Authority (“**RERA**”), even if such allottees have not filed claims. Additional disclosures have also been included relating to trade and inter-corporate receivables, joint development and collaboration agreements and assets under attachment. It is done to reduce information asymmetry.

These reforms are expected to improve transparency in valuation practices and reduce disputes in the implementation of the resolution plan. The enhanced disclosure requirements will strengthen stakeholder confidence and support informed decision making by the CoC. Moving forward, the amendment reflects IBBI's continued efforts to refine the insolvency framework and address gaps observed within the insolvency process.

The SC clarifies that the IBC overrides defunct schemes of arrangement that halt the Corporate Insolvency Resolution Process ("CIRP") [Omkara Assets Reconstruction Private Limited. v. Amit Chaturvedi and Ors.]. [Link]

The SC held that an old and inactive Scheme of Arrangement under the Companies Act, 2013 cannot be used to stop or delay insolvency proceedings under the IBC.

In this case, the Respondent had been defaulting on loans since 2003, starting with the initial amount of 10.60 crore rupees. The financial creditor had initiated insolvency proceedings against the company under Section 7 of the IBC, thereby triggering the CIRP. However, the NCLAT had paused the insolvency process because a Scheme of Arrangement under Sections 391–394 of the Companies Act, 1956, was pending before the Hon'ble High Court ("HC") of Punjab and Haryana.

The SC disagreed with this view, stating that an application under Section 7 of the IBC is an independent legal process that is not influenced by parallel proceedings. The existence of an old or pending restructuring scheme cannot automatically stop insolvency proceedings. Relying upon its judgment in *A. Navinchandra Steels (P) Ltd. v. Srei Equipment Finance Ltd. & Ors. (2021)*, the SC clarified reiterated that the IBC is a special statute for resolving insolvency matters in a time-bound manner. It therefore overrides the Companies Act, which operates as a general law in this case. It was further clarified that Section 238 of the IBC has an overriding effect over other laws where an inconsistency arises. However, a compromise or an arrangement under Section 230 of the Companies Act, 2013 can also be entered into within the framework of IBC proceedings at the appropriate stage.

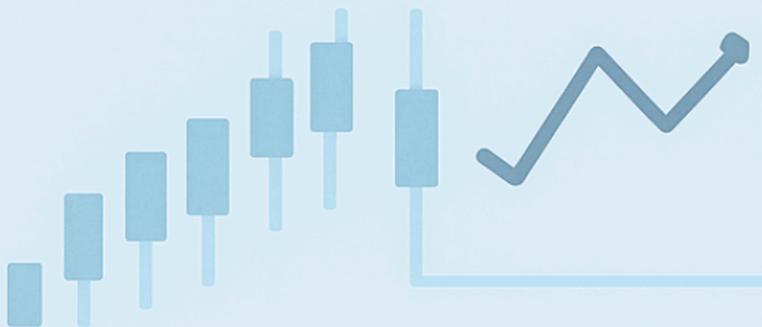
INSOLVENCY & BANKRUPTCY



The SC stressed that delaying insolvency proceedings in such cases is against the national interest, especially when public funds and the revival of industries are involved. Economic stability, financial discipline, and rehabilitation of distressed companies must be prioritised over technicalities that stall the process of CIRP.

This judgment clarified that companies cannot use old or ineffective proceedings under the Companies Act to delay insolvency cases. While deciding upon the admissibility of an application under Section 7, tribunals have to confine themselves to examining whether there is a financial debt and a subsequent default. They need not focus on parallel proceedings that are legally infirm. This will ensure that the objective of a time-bound and efficient insolvency resolution process is achieved.

SECURITIES LAW



Securities and Exchange Board of India (“SEBI”) notifies a revision in the Order-to-Trade-Ratio (“OTR”) Framework. [\[Link\]](#)

Through a circular dated February 04, 2026, SEBI has notified a revision in Chapter 2 of the Master Circular for Stock Exchanges and Clearing Corporations (“**Master Circular**”) which disincentivizes for high OTR of algorithm orders placed by Trading members.

Earlier, only those orders which were placed within $\pm 0.75\%$ of the last traded price were exempt from penalty. Other orders, including orders placed in the cash segment or liquidity enhancement schemes were subject to penalty under the OTR Framework. For OTR up to or above 2000, higher penalties could be created. Additionally, if a trading member’s OTR was 2000 or more, for three times in 30 days, they were prohibited from placing orders for the first 15 minutes on the next trading day.

However, after the revision, orders for equity option contracts within the range of $\pm 40\%$ of last trade price or ± 20 (whichever is higher), shall be exempted for penalty. Additionally, algorithm orders placed by Designated Market Makers shall also be exempt from penalty despite high OTR. Besides, although orders placed under the cash segment or liquidity enhancement schemes are still within the Framework, the circular maintains the protection to orders placed within $\pm 0.75\%$ of the last traded price.

The revisions bring ease of operation especially for the Designated Market Makers. With lesser penalty pressure, market makers can place more orders ensuring that liquidity is maintained in the market. Overall, the updated OTR Framework could be seen as an acknowledgment of market realities, while still penalizing trading activity that affects the efficiency, stability and genuineness of the market.

SEBI Expands Mutual Funds (“MF”) Categories to respond to Evolving Investor Needs. [\[Link\]](#)

In line with the consultation paper issued through its the circular dated February 26, 2025, SEBI introduced a new category of Funds known as Life Cycle Funds, aimed at providing investors with a long-term investment vehicle that automatically adjusts over time, reducing the need for active management.

The previous rules primarily identified retirement and children’s mutual funds as the only goal based mutual fund categories. Additionally, there was no separate system for debt funds which were focused on specific sectors. Funds were restricted in terms of the number of ways that they could invest in alternative investment instruments, for example infrastructure trusts, and until now, there were no defined limits specifying how much could be invested by various schemes into the same underlying assets.

Under the circular, the investment period for Life Cycle Funds ranges from a minimum of 5 years to a maximum of 30 years. Additionally, the new changes have also allowed Asset Management Companies to establish Sectoral Debt Funds with a minimum investment of 80% of their assets in high-rated Corporate Bonds (AA+ or above) of companies from one specific Industry Sector in order to keep the risk relatively low. Lastly, the SEBI has permitted the Investment of any remaining assets from Long Duration Mutual Funds in InvITs. It has further prescribed that the overlap of investment between Sectoral Debt Fund and any equity fund should not exceed 50%, so that portfolios remain diversified and avoid excessive concentration.

The expansion of mutual fund categories by SEBI is likely to significantly deepen India’s asset management landscape by aligning investment products with evolving investor preferences and long-term financial planning needs. The introduction of Life Cycle Funds may encourage greater retail participation by simplifying investment decisions through automatic asset rebalancing, while Sectoral Debt Funds could channel capital into specific industries with relatively lower credit risk. At the same time, enhanced diversification norms and regulated exposure to instruments like InvITs are expected to improve portfolio stability and transparency.

ARBITRATION LAW



SC holds that the substitution of an arbitrator is not mandatory upon termination of the arbitral tribunal's mandate [*Viva Highways Ltd v. Madhya Pradesh Road Development Corporation Ltd. & Anr.*]. [[Link](#)]

Recently, the SC quashed an interim order of the HC of Madhya Pradesh directing the parties to appoint a new arbitrator after the mandate of the existing arbitral tribunal had expired.

In its interim order, the HC held that upon expiration of the mandate of the existing arbitral tribunal, the substitution of the arbitrator necessarily follows. It derived its authority from *Mohan Lal Fatehpuria v. M/s Bharat Textiles & Ors.* ("**Mohan Lal**"), where it was held that as per Section 29A (6) of the Arbitration & Conciliation Act, 1996 ("**A&C Act**") the court is empowered and obligated to substitute an arbitrator.

Upon appeal, the SC held that the HC had misinterpreted the ratio of Mohan Lal. The SC clarified that substitution of the arbitrator is not mandatory on the termination of the tribunal's mandate. Placing reliance on *C. Velusamy v. K Indhera*, the SC observed that when the court is considering an extension of mandate, there is no need for substitution of the Arbitrator.

Through this judgment, the court expands its discretionary power in dealing with applications filed under Section 29A of the A&C Act. This judgment clarified that the court can extend the mandate of a tribunal even without substituting its members. This would ensure that continuity and efficiency are maintained in arbitral proceedings, while still allowing for substitution when the situation calls for it. The decision showcases the Apex Court's reluctance to go by mechanical timelines and rather encourages a flexible approach in the interpretation of statutes to meet the objectives of the A&C Act.

TAXATION LAW



Central Board of Direct Taxes (“CBDT”) releases draft Income Tax Rules, 2026 (“2026 Rules”) for stakeholder consultation. [\[Link\]](#)

On February 8, 2026, the CBDT released the 2026 Rules along with ‘related forms’ for stakeholder consultation. The 2026 Rules and the Income Tax Act, 2025, will come into force on April 1, 2026, replacing India’s 65-year-old Income Tax framework. The 2026 Rules significantly cut down on the compliance footprint by consolidating the current framework. The number of rules is now cut down to 333 from 511, while the number of forms is down from 390 to just 190.

The philosophy behind the 2026 Rules is the simplicity of language, elimination of redundancy, and organisation of the procedures. With the 1962 framework, the compliance became more developed in a layered form of amendments, which led to disjointed reporting and interpretation overlap. The 2026 Rules are aimed at restructuring this architecture into cleaner groups, especially on transfer pricing, safe harbour arrangements, information reporting and procedures. As an example, the 2026 Rules provide a mechanism to determine Arm Length Price of multiples years in one proceeding, which is more likely to provide certainty to multinational businesses.

A defining feature of the new regime is its digital-first orientation. The revamped smart forms include pre-fill, automatic reconciliation as well as standardised information fields to minimise recurrent disclosure. The purpose of centralised processing is to enable a data-driven scrutiny and accelerated decision-making. The 2026 Rules also introduce an expanded reporting and due diligence framework for crypto-asset service providers. Simultaneously, Significant Economic Presence thresholds are specifically clarified at Rs. 2 crore in aggregate payments or 3 lakh users and making the nexus standards of digital businesses clear.

Measures of ease-of-doing-business are also included in the 2026 Rules. There has been an adoption of a common application process in registration of non-profit organisations and donation related approvals. Dispute Resolution Committee in the regions is authorized to hear specified variations of up to Rs 10 lakh, in order to decrease cases of lower value litigation. The refined safe harbour provisions have now been given to international IT services, intra-group financing and domain of specified domestic application.

Combined, the 2026 Rules reflect the shift of a text-intensive regime of compliance to a systems-oriented administrative paradigm. Simplification improves the friction of the process, whereas the improved standardisation and digital integration improve the visibility of the trace and the data. The reform thus balances the rationalisation of compliance as well as the increased information symmetry to the tax administration. Its success in the long term will be based on the strength of technology, the permanency of administrative interpretation, and the permanence of procedural clarity as translating into substantive certainty to taxpayers.

Union Minister for Finance and Corporate Affairs presented the Union Budget 2026-2027. [\[Link\]](#)

Finance Minister Smt. Nirmala Sitharaman presented the Union Budget 2026–2027 in Parliament on 1st February 2026. Some of the key highlights of the budget are mentioned below:

The government has introduced a significant push towards strengthening India’s position as a global financial hub by enhancing incentives for units operating in International Financial Services Centres (“**IFSCs**”). The tax holiday for such units has been extended from 10 consecutive years (within a 15-year block) to 20 consecutive years within a 25-year period. Further, even after the expiry of the tax holiday, IFSC units will continue to benefit from a concessional tax rate of 15%, instead of reverting to standard rates, thereby providing long-term tax certainty and encouraging sustained foreign investment inflows.

The budget has also liberalised foreign investment norms by increasing the investment limits for Persons Resident Outside India (“**PROI**”) under the Portfolio Investment Scheme. The individual investment cap has been raised from 5% to 10%, while the aggregate limit has been expanded from 10% to 24%. This move is expected to deepen capital markets and significantly enhance foreign participation in Indian listed companies.

In a parallel development, the government has proposed an increase in Securities Transaction Tax (“**STT**”) on derivatives transactions, including futures and options. The revised rates are likely to increase transaction costs, particularly impacting Foreign Portfolio Investors (“**FPIs**”) and Category III Alternative Investment Funds (“**AIFs**”) engaged in high-frequency trading. This may lead to a shift in trading strategies, including reduced trade volumes and longer holding periods to maintain profitability.

Further, the definition of “specified fund” has been aligned with earlier provisions under the Income Tax framework to ensure consistency. The budget also extends the eligibility timeline for Offshore Banking Units (“**OBUs**”) to avail tax benefits until 31st March 2030, thereby ensuring continuity of incentives and promoting IFSC-based fund structures.

Overall, the Union Budget 2026–2027 reflects a strategic emphasis on attracting global capital through IFSCs, rationalising tax structures, and recalibrating market behaviour, while simultaneously strengthening India’s financial ecosystem and regulatory clarity.

MISCELLANEOUS



The International Financial Services Centres Authority (“IFSCA”) has strengthen fund governance framework under the Fund Management Entity (Amendment) Regulations, 2026 (“FME Amendment Regulations”).
[\[Link\]](#)

IFSCA has recently notified the FME Amendment Regulations, introducing important changes to the IFSC fund management system. This would bring greater clarity to an already existing ecosystem, making it investor-friendly and growth-oriented, in line with India’s promotion of the GIFT City as a global competitive financial centre.

Previously, the framework stated experience parameters for Key Managerial Personnel (“**KMPs**”), minimum corpus requirements for schemes, and custodial safeguards. The problem arose when investors and other concerned stakeholders faced uncertainty about what qualified as “eligible institutional experience”, rigid corpus time frames, and very little flexibility in scheme extensions and custodian appointments. Even though this provided a system for oversight, clarity was needed regarding definitions and more relaxations to facilitate industry expansion and support the growing fund management system within the IFSC.

The said amendments address these concerns by clearly defining “eligible institutions” to now include regulators, FMEs, banks, insurers, intermediaries, market infrastructure institutions, professional advisory firms such as Chartered Accountants, Company Secretaries and Cost Accountants who are employed in various financial services and legal, accounts or secretarial departments of companies. This brings the much-needed clarity in defining eligibility assessments. Further, the general experience threshold for KMPs is five years in the securities market or financial facilities within eligible institutions. This is reduced to 3 years for Compliance Officers who hold a professional degree or a two-year post-qualification degree, along with genuine certificates. Principal Officers and additional KMPs must state a minimum of 3 years’ post-qualification experience and valid certificates.

Moreover, FMEs that fail to achieve the minimum corpus within the time frame can extend the validity of their placement memorandum in six-month blocks, while paying 25% of the fresh filing fee for the first extension and 50% for subsequent ones. Only after meeting the minimum corpus of USD 3 million can open-ended schemes invest in unlisted securities, and if the funds are raised, but the FMEs do not meet the above-stated corpus requirements and no extensions are sought, the scheme should be wound up. If investors are not included and no funds are collected, schemes can also be voluntarily closed. Those who are mandated to appoint a custodian in the IFSC are granted a 24-month transition period during which an independent custodian in India or another regulated foreign jurisdiction may be appointed, and this information should be shared with IFSCA.

In conclusion, these amendments reflect a positive shift towards widening the pool of eligible candidates without diluting competency standards, bringing clarity and predictability in regulatory assessments and providing transitional relief in custodial compliance, strengthening the credibility and competitiveness of the IFSC ecosystem. The long-term impact remains to be seen through consistent implementation, supporting the sustainable growth of the IFSC fund management landscape.

The Department for Promotion of Industry and Internal Trade (“DPIIT”) ushers in Startup India 2.0 with a new Deep Tech-Focused Recognition Framework. [\[Link\]](#)

On February 4, 2026, DPIIT under the Ministry of Commerce and Industry notified the revision of the definition and recognition process for Startups in India. This now supersedes the 2019 framework and is a major step towards acknowledging the distinct needs of the startup framework, particularly the Deep Tech ventures.

Earlier, the 2019 framework specified an entity to be a startup if it was incorporated as a partnership firm, LLP, or private limited company, within 10 years and had an annual turnover of not more than Rs. 100 crore, later revised to other thresholds. Though it gave a head start to early-stage entrepreneurship, it did not facilitate Deep Tech ventures working in AI, biotech, space, etc., and those requiring advanced manufacturing, lengthy gestation periods, heavy research and development expenditure, and delayed revenue turnover. Thus, the 10-year induction and turnover thresholds did not take into account the capital intensity and high uncertainty of these businesses.

The new notification accounts for all these by providing a startup to be a cooperative society in addition to the above-mentioned forms registered in India, with an increased turnover cap of Rs. 200 crore and a 10-year recognition period from the date of incorporation. Further, they should be working in innovation, development, or improvement of products, processes, or services, or towards scalable employment or wealth creation. A significant category of “Deep Tech Startups” has been introduced, having the turnover threshold of Rs.300 crore and 20 year recognition from incorporation, subject to demonstration of long development time frame, high technological uncertainty, intellectual property creation and high research and development expense.

Further, the online mechanism for filing the applications is through the DPIIT portal, where applicants submit the incorporation documents, business details, and evidence of innovation. DPIIT has the authority to grant or reject recognition, while recording the concerned reasons in cases of rejection and recognition once given can be revoked, in which case it would be assumed to never have been issued. Entities may also seek tax exemptions by asking for certification under Section 80-IAC of the Income Tax Act, 1961 provided they comply with the condition that the funds must be utilised towards core business, innovation, research and development, or expansion operations and not for investing in real estate, loans, advances, luxury assets, etc.

In conclusion, the revised framework ushers in Startup 2.0, recognising that breakthrough innovation requires patience, capital, and regulatory flexibility while stating tighter compliance conditions and revocation safeguards to ensure accountability. The long-term impact will depend on the consistent approach of DPIIT, but this signals a shift towards making high-technology, research-driven entrepreneurship as the central pillar of India's startup ecosystem.

The Reserve Bank of India (“RBI”) has issued draft RBI (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026, signalling a structural shift for low-risk Special Purpose Vehicles (“SPVs”). [\[Link\]](#)

On February 10, 2026, the RBI released the draft RBI (Non-Banking Financial Companies – Registration, Exemptions and Framework for Scale Based Regulation) Amendment Directions, 2026, to regulate certain SPVs under India's financial regulatory framework. It proposes a new exemption category that would have a major impact on structuring strategies, particularly for investment and syndication platforms.

Previously, entities that met the required business criteria had to obtain a Non-Banking Financial Companies (“**NBFC**”) Certificate of Registration (“**CoR**”), even though they did not raise funds or have retail customers as their audience. This brought even those SPVs set up to pool capital for a single deal or portfolio under the NBFC compliance framework. These were met with diversification norms and regulatory conditions not suited for such a type of privately funded SPVs when taking recourse to AIFs under the SEBI regime. When comparing with other foreign jurisdictions like the USA or Mauritius, India was way behind when it came to defining the “light-touch” category for such low-risk SPVs.

Now, the amendment proposes relief for such NBFCs that do not raise public funds, do not have a customer interface, and have an asset size below Rs. 1,000 crore to be exempted from mandatory RBI guidelines under Section 45IA of the RBI Act, 1934, or NBFC registration process and thus, classified as “Unregistered Type I NBFCs” by applying through the PRAVAAH portal along with prescribed documents. Further, existing NBFCs that were earlier mandated to get registered despite having limited activities may now surrender their CoR and classify themselves under the unregistered category, subject to meeting the eligibility criteria through the same portal. This signals a more positive approach to reserving such intensive regulation for entities that pose retail risk while allowing privately-funded SPVs not to require the same level of oversight.

The draft is specifically significant for investment and syndication SPVs that pool capital from a defined set of audiences to invest in a portfolio company as a consolidated holding vehicle. This thus recognises their existence and commercial requirements, reducing compliance costs and improving structural flexibility, subject to mandatorily meeting the “no public funds” and “no customer interface” discipline.

In conclusion, this framework encourages more domestic SPV formation for private credit, venture syndication, and deal-specific investments, rather than forcing them to go abroad. It reflects RBI’s evolving scale-based regulatory approach, which seeks to align regulatory compliance with an entity’s risk profile and systemic importance, reduce burden for smaller, low-risk NBFCs, and ensure oversight for institutions with significant public interface. In all, the draft directions are consistent with RBI’s broader objective of promoting ease of doing business while safeguarding financial stability.

RBI amends the capital market exposure framework, enabling commercial banks (“banks”) to fund acquisitions for the first time. [\[Link\]](#)

The RBI on 13 February 2026 issued landmark amendments to the capital market exposure framework, permitting banks in India to fund the acquisition of compulsorily convertible debentures (“**CCDs**”) and equity shares for the first time. While the revised framework is to take effect from 1 April 2026, banks are permitted to offer these services earlier than 1 April 2026.

Up until now, Indian banks were effectively barred from acquisition finance. Most of the acquisition finance came from offshore lenders, private credit funds, NBFCs, AIFs, or complex hybrid instruments. Domestic bank capital remained largely absent. Following the amended framework, banks may now lend up to 75% of the acquisition value, subject to a 25% borrower contribution and a consolidated post-acquisition debt-to-equity ratio of 3:1. Importantly, the acquisition must result in a material increase in voting thresholds. Additionally, the acquisition must be a 'strategic investment' rather than financial engineering.

However, the amendments come with their own set of issues. The amendments do not specifically define what constitutes as a 'strategic acquisition' nor when refinancing is integral to an acquisition. The amendments also complicate refinancing structures where the existing pledges are released from downturn proceeds as the amendments need the target shares to be free from encumbrances at the time of acquisition. Additionally, the updated framework is limited to non-financial acquiring companies. This excludes NBFCs and banks themselves from accessing acquisition finance.

Taken together, the amendments are an indication of a controlled liberalisation rather than an uncontrolled opening of the gates. RBI has shifted acquisition finance beyond the context of regulatory prohibition to one of prudential supervision, albeit with apparent guardrails, exposure limits, leverage limits, security requirements and eligibility filters. To sponsors and financial investors, the omissions and structural limitations might dampen short-run zeal. However, even within these confines, the reform is a structural change in the Indian M&A environment. The RBI has changed the competitive nature of deal funding by allowing domestic banks to be meaningfully engaged in the financing of acquisitions and laid the foundation for a more self-reliant, rupee-based acquisition finance market.

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