



4th April 2026

RBI introduces structured reporting framework for guarantees under FEMA through new GRN forms

The Reserve Bank of India, vide A.P. (DIR Series) Circular No. 01 dated April 01, 2026 (RBI/2026-27/02), has prescribed a revised reporting mechanism for guarantees under the Foreign Exchange Management (Guarantees) Regulations, 2026 [FEMA 8(R)], read with the Master Direction on Reporting under FEMA, 1999. The circular mandates standardized reporting formats and timelines for submission of guarantee-related transactions through Authorised Dealer (AD) Banks.

Analysis

- The circular operationalizes Regulation 7 of FEMA 8(R), which imposes a reporting obligation on persons issuing or dealing with guarantees involving foreign exchange.
- RBI has introduced three standardized reporting forms:
 - Form GRN Issue – for reporting issuance of guarantees
 - Form GRN Modification – for any subsequent changes (amount, tenure extension, pre-closure)
 - Form GRN Invocation – for reporting invocation events
- Reporting is to be routed through Authorised Dealer (AD) Banks, which are required to submit returns to RBI via the Centralised Information Management System (CIMS).
- A strict timeline of 30 calendar days from the end of the relevant quarter has been prescribed for submission of returns.
- AD Banks must assign a Unique Guarantee Transaction Number (GTN) for each guarantee reported through *Form GRN Issue*, ensuring traceability and system-level tracking.
- The circular also clarifies computation of Late Submission Fees (LSF):
 - For GRN Invocation → based on the liability amount arising on invocation
 - For GRN Issue & Modification → amount considered as 'Nil' since no fund flow is captured
- Issued under Sections 10(4), 11(1) and 11(2) of FEMA, 1999, the directions have immediate effect and are binding on Authorised Persons.



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- The circular significantly enhances compliance structuring for cross-border guarantee transactions by introducing digitised, form-based reporting with strict timelines and system validation through GTN allocation. Entities dealing with foreign guarantees must now align their internal processes to ensure timely data capture, accurate classification (issue/modification/invocation), and coordination with AD Banks.
- The quarterly reporting window reduces real-time compliance burden but increases the risk of bulk reporting delays, making internal tracking mechanisms critical. Additionally, clarity on LSF computation removes ambiguity, but also places responsibility on entities to avoid invocation-related reporting delays, where financial exposure is directly linked to penalties.
- Key Takeaways
 - Standardized reporting introduced via GRN forms for guarantee transactions
 - 30-day quarterly timeline for submission through AD Banks
 - Mandatory Unique Guarantee Transaction Number (GTN) for tracking
 - Clear distinction between flow vs non-flow reporting for LSF purposes
 - Immediate applicability under FEMA 8(R) and FEMA, 1999 framework
- The notification is attached herein.

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RBI strengthens credit framework for Small Finance Banks with revised norms on loans against securities and CMIs

The Reserve Bank of India, vide RBI/2025-26/259 – DOR.CRE.REC.451/07-01-002/2025-26 dated March 30, 2026, has issued the Reserve Bank of India (Small Finance Banks – Credit Facilities) Amendment Directions, 2026 (Revised). These amendments modify the existing 2025 Directions by introducing a comprehensive framework governing loans against financial assets (particularly eligible securities) and credit facilities to Capital Market Intermediaries (CMIs), with enhanced prudential safeguards and risk controls.

Analysis

- The Directions have been issued under Sections 21 and 35A of the Banking Regulation Act, 1949, empowering RBI to regulate lending practices in public interest.



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- A new framework under Chapter Q – “Loans Against Eligible Securities” (Para 201A onwards) has been introduced, replacing the earlier fragmented provisions and establishing a principle-based lending regime.
- RBI has defined “Eligible Securities” to include listed equity shares, government securities, debt instruments (rated BBB or above), mutual funds, ETFs, REITs and InvITs—broadening the collateral base.
- Specific prohibitions (Para 201B) have been introduced, including:
 - Loans against own securities
 - Loans against partly paid shares or locked-in securities
 - Loans for buy-back of shares or speculative purposes
 - Loans against short-term CPs/NCDs (≤ 1 year)
- Loan-to-Value (LTV) caps (Para 201G) have been prescribed:
 - Listed equity / convertible debt → 60%
 - Mutual funds / ETFs / REITs / InvITs → 75%
 - Debt MFs → 85%
 - Rated debt securities → 75–85% depending on rating
- Continuous monitoring of LTV is mandated, with mandatory rectification within 7 working days in case of breach.
- For individuals:
 - Overall exposure cap of ₹1 crore per borrower
 - IPO/FPO/ESOP financing capped at ₹25 lakh with minimum 25% margin
- A new Chapter XIA (Para 201R onwards) introduces a detailed regime for Credit Facilities to Capital Market Intermediaries (CMIs):
 - Lending allowed only to regulated CMIs
 - 100% collateralisation requirement (with limited exceptions)
 - Restrictions on financing proprietary trading activities
 - Guarantees permitted subject to minimum collateral and cash margins
- All exposures under these categories are to be classified as Capital Market Exposure (CME) and subject to concentration risk norms.
- The Directions will come into force from July 1, 2026 (or earlier upon adoption), replacing earlier amendment directions.



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- The revised framework introduces a highly structured, risk-sensitive lending regime for Small Finance Banks, particularly impacting credit appraisal, collateral management, and exposure monitoring systems. Banks will need to revamp internal credit policies to incorporate LTV-based lending, security eligibility filters, and dynamic valuation mechanisms, along with automated tracking of margin breaches within the 7-day rectification window.
- The introduction of Chapter Q (Para 201A onwards) and Chapter XIA (Para 201R onwards) significantly increases compliance obligations in capital market-linked lending, especially due to full collateralisation norms, restrictions on end-use, and classification under CME limits. Operationally, banks must strengthen end-use monitoring, borrower-level exposure aggregation, and coordination with market infrastructure entities, while ensuring alignment with the circular RBI/2025-26/259 and the amended Directions to avoid regulatory breaches.
- Key Takeaways
 - Introduction of comprehensive regime for loans against eligible securities (Para 201A onwards)
 - Defined LTV caps and mandatory breach rectification timelines
 - Expansion of eligible collateral universe with clear exclusions
 - New regulatory framework for CMI's under Chapter XIA (Para 201R onwards)
 - Mandatory full collateralisation and restriction on speculative/proprietary exposures
 - Effective from July 1, 2026, with immediate policy alignment required
- The notification is attached herein.

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IBC | Post-Moratorium Adjustment of Pre-CIRP Dues Impermissible: Supreme Court

In a significant ruling under the Insolvency and Bankruptcy Code, 2016 (IBC), the Supreme Court has held that a creditor cannot appropriate pre-CIRP dues from a security deposit of the corporate debtor once the moratorium under Section 14 comes into effect. The Court clarified that until such deposit is lawfully adjusted, it continues to remain the property of the corporate debtor, and any unilateral appropriation thereafter is impermissible in law.



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A Bench comprising Justices Sanjay Kumar and K. Vinod Chandran observed that even where a deposit is furnished as security or in the nature of a guarantee, it does not cease to be the property of the corporate debtor unless duly adjusted prior to the commencement of the moratorium. The Court categorically held that any such adjustment undertaken post-moratorium towards pre-CIRP dues would be rendered illegal.

The dispute arose out of transmission agreements between Central Transmission Utility of India Limited (CTUIL) and KSK Mahanadi Power Company Ltd. (KMPCL), a power generating company undergoing insolvency proceedings. KMPCL had deposited a sum of ₹108.44 crore in cash pursuant to directions issued by the Central Electricity Regulatory Commission, in lieu of a Letter of Credit, as security for payment of transmission charges.

Following defaults by KMPCL, insolvency proceedings were initiated on October 3, 2019. Despite the imposition of moratorium under Section 14 of the IBC, CTUIL proceeded in March 2020 to appropriate the entire deposit. This included ₹23.31 crore towards post-CIRP dues and ₹85.13 crore towards pre-CIRP dues, the latter forming the subject matter of dispute.

The Resolution Professional challenged this appropriation before the adjudicating authorities. Both the National Company Law Tribunal (NCLT) and the National Company Law Appellate Tribunal (NCLAT) held the appropriation to be illegal, observing that the security deposit remained the property of the corporate debtor and that pre-CIRP dues could only be recovered through the claims process under the IBC.

Aggrieved, CTUIL approached the Supreme Court. However, the Court dismissed the appeal, affirming the findings of the NCLT and NCLAT. In its judgment authored by Justice K. Vinod Chandran, the Court emphasized that once the moratorium is in force, all pre-CIRP claims must be submitted to the Resolution Professional for verification and cannot be enforced through unilateral adjustments.

The Court further noted that CTUIL had already submitted its claims before the Resolution Professional, which were partially admitted. Despite not challenging the admitted amount, CTUIL proceeded to appropriate the deposit independently, an action the Court found to be contrary to the scheme of the IBC.

Reinforcing the statutory framework, the Court held that pre-CIRP dues, whether owed to the appellant or other stakeholders, must be adjudicated upon by the Resolution Professional upon submission of claims. Any attempt to bypass this mechanism by way



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of book adjustments or appropriation during the CIRP period would violate the moratorium and undermine the insolvency process.

Upholding the concurrent findings of the lower fora, the Court concluded that the appropriation undertaken by CTUIL was in clear violation of the IBC and in derogation of the moratorium under Section 14. Consequently, the appeals were dismissed.

Case Title: *Central Transmission Utility of India Limited v. Sumit Binani & Ors.*
Case No.: *Civil Appeal Nos. 2216–2217 of 2025*

Mere Participation In Arbitration Does Not Estop Party From Challenging Inherent Lack Of Jurisdiction Of Arbitrator: Supreme Court

The Supreme Court has ruled that in the absence of an arbitration agreement, a mere participation of a party to a unilaterally invoked arbitration proceedings would not operate as an estoppel to bar it from raising the legality of the arbitral award being non-est in law. A bench of Justices PS Narasimha and Alok Aradhe affirmed the Bombay High Court's decision which had declared the award passed against the Respondent to be non-est, as the award was passed by the arbitrator who lacked the jurisdiction to pass the award because of the non-existence of an arbitration agreement, making the entire proceedings a nullity.

The dispute arose from an octroi collection contract between the petitioner and the Respondent, Ambernath Municipal Council for the period April 1, 1994 to March 31, 1995. After the contract was executed and the petitioner commenced work, it sought a reduction in the minimum reserve price, a demand rejected by the Municipal Council.

Instead of invoking the dispute resolution mechanism provided in the contract (which involved reference to the Collector and appeals to the Divisional Commissioner and State Government), the petitioner approached the State Government directly. The State Government, purporting to act under Section 143-A (3) of the Maharashtra Municipal Councils Act, 1965, unilaterally appointed the Commissioner, Konkan Division, as arbitrator.

The arbitrator had called upon the Respondent-Council to submit a reply and the award was delivered in favour of the Appellant, reducing the minimum reserve price for the proposed contractual work.

The Respondent-Municipal Council, which was under a State-appointed Administrator at the time, submitted a reply defending the reserve price but did not consent to arbitration.



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Upon receiving notice of the petitioner's application to make the award a rule of court, the Municipal Council filed objections challenging jurisdiction.

The civil court decision to direct drawing up a decree was challenged before the High Court, which had set aside the Civil Court's decision, and held that “the dispute resolution clause in the contract did not constitute a valid “arbitration agreement” under the law, but rather provided for a departmental dispute-resolution mechanism.

The High Court found that the State Government lacked jurisdiction to “foist” arbitration on a concluded contract and that the petitioner was estopped from challenging the tender price after voluntarily participating in and winning the bid. Aggrieved by the High Court's decision, the private contractor moved to the Supreme Court.

Affirming the impugned finding, the Supreme Court found that since there existed no arbitration agreement between the parties, thus the resulting award was non-est in law. The Court rejected the Appellant's argument that a participation of the Respondent to the arbitration proceedings signified its consent to be bound by the outcome. Instead, the Court said that mere “participation does not confer Jurisdiction”.

“There is no estoppel against the Municipal Council for the reason that it had initially participated in the arbitral proceedings. This is for the reason that they were forced into arbitration without consent and contract. At the same time, they challenged the award on jurisdictional grounds before the Civil Court as well as the High Court.”, the court said. “Since the Arbitrator lacked inherent jurisdiction due to the absence of an arbitration agreement, the entire proceedings were a nullity (coram non iudice) and the resulting award was non-est.”, the court observed. Accordingly, the appeal was dismissed.

Cause Title: *M/S Bharat Udyog Ltd. (Formerly Known As M/S Jai Hind Contractors Pvt. Ltd.) Versus Ambernath Municipal Council Through Commissioner & Anr.*
Case No: *Special Leave Petition (C) No. 1127 Of 2017*



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