MOHINDER PURI & CO.
CHARTERED ACCOUNTANTS

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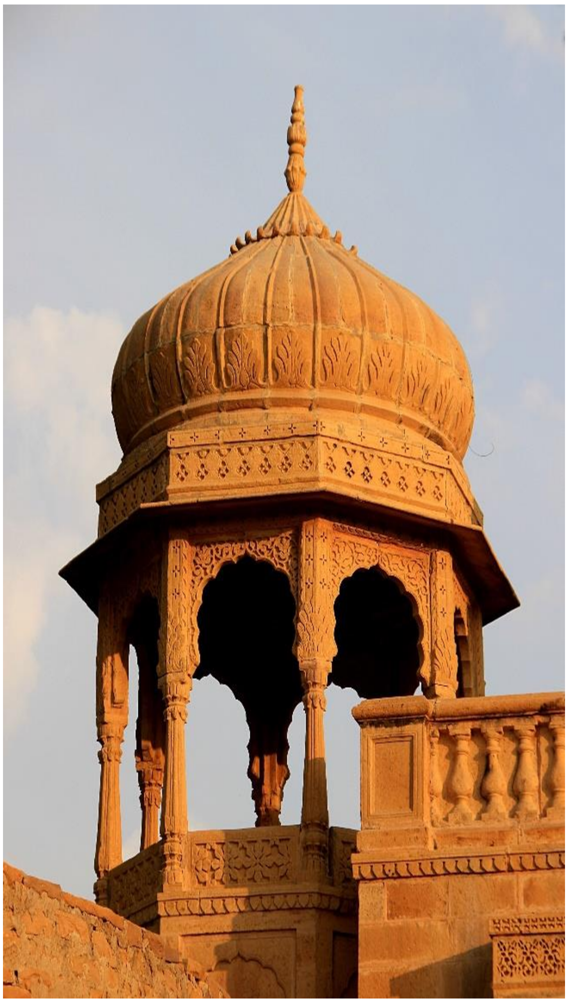

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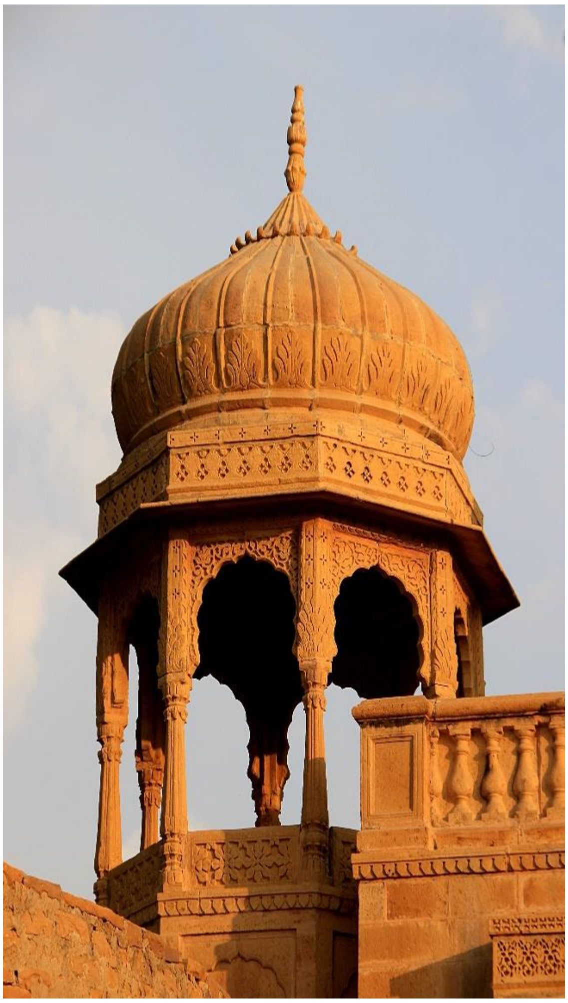


FOREWORD

Dear Reader,

This Corporate Update covers important recent regulatory changes introduced by the Government of India in respect of Foreign Contribution (Regulation) (Amendment) Rules, 2026, Foreign Direct Investment in Insurance Sector, as well as other changes, notifications etc.

In addition, it also incorporates a Summary on a few important judgements on the subject of Transfer Pricing, Domestic and International taxation.

C.S. Mathur
Partner

DIRECT TAX

INTERNATIONAL TAXATION

ITAT: Upholds RPM as MAM for Agricultural Machinery Distributor; Rejects Berry Ratio based TNMM

Kubota Agricultural Machinery India Private Limited [TS-356-ITAT-2026(CHNY)-TP]

In the above decision, the Hon'ble ITAT, Chennai Bench held Resale Price Method (RPM) as the Most Appropriate Method (MAM) as against Transactional Net Margin Method (TNMM) with Berry Ratio i.e. (i.e. Operating Profit/Value Added Expenses) as the Profit Level Indicator (PLI) adopted by the Transfer Pricing Officer (TPO) for benchmarking the international transaction of purchase of machinery and spares.

On the facts of the case, the assessee is engaged in the business of distribution of agriculture machinery in India wherein the assessee purchases machinery and spare parts from its AE and reselling the same in the Indian market. The assessee bears all the major risks borne by any full-fledged distributor i.e. marketing risks, price risks, inventory risks, credit risks, foreign exchange risk etc. and also employs tangible assets for the purpose of carrying out its distribution activities. The TPO held that RPM is not the MAM since the assessee is not just a trader but provides value added services to its AE, thus the TPO proceeded to benchmark the international transaction using the Berry Ratio as PLI under TNMM.

The assessee filed objection against the order of TPO before DRP. The DRP did not give any relief to the assessee and subsequently, the assessee preferred an appeal before the Hon'ble ITAT.

Based on the facts submitted by the assessee, the Hon'ble ITAT observed that the assessee had furnished sufficient material to demonstrate that it was purely engaged in distribution of agriculture machinery without any value addition to the product. Further, the Hon'ble ITAT dismissed the TPO's approach of applying TNMM and reiterated that TNMM is adopted as MAM where other methods cannot be reliably applied. It also observed that Berry Ratio, being a ratio of operating profits to operating expenses, is relevant only where value of goods is mainly dependent on expenses incurred and the assessee assumes limited risks. However, in case of assessee, major risks are assumed by the assessee and the operating expenses were relatively insignificant as compared to the value of purchases made from AEs. The ITAT also observed that, on the same facts, for the earlier year the matter was remitted back to the TPO, wherein the TPO concluded that RPM was the most appropriate method.

The Hon'ble ITAT rejected the plea of department to remand back the issue as in the earlier year as all the necessary facts and documents were already placed on record.

In view of the aforesaid, the ITAT held that the TPO erred in rejecting RPM and applying TNMM for benchmarking the international transactions of the assessee. The appeal of the assessee was allowed.

Shweta Kapoor
Director
Tax Advisory
☏ +91 11 4710 2200
✉ shwetakapoor@mpco.in

ITAT: Upholds interest on outstanding receivables as an international transaction

Subex Assurance LLP [TS-331-ITAT-2026(Bang)-TP]

In the above decision, the Hon'ble ITAT, Bangalore Bench, inter-alia, dealt with the issue of interest on outstanding receivables from Associated Enterprise (AEs).

On the facts of the case, the assessee had outstanding receivables from its AEs which were not considered as international transactions by the assessee in Form 3CEB. The Transfer Pricing Officer (TPO) considered such outstanding amount as international transaction and computed interest @ LIBOR plus 400 basis points on amounts outstanding for more than 60 days.

The assessee filed objection against the order of TPO before the Dispute Resolution Panel (DRP) wherein no relief was granted. Subsequently, the assessee preferred an appeal before the Hon'ble ITAT.

Before ITAT, the assessee submitted that the actual credit period as per payment terms was 90 days and as such, the price agreed with AE was after considering 90 days credit period. The assessee also submitted that it is a debt free company thereby absorbing the addition in respect of interest on outstanding receivables in working capital adjustment. The assessee further submitted that the interest rate should be LIBOR plus 200 basis points, based on various judicial pronouncements.

The Hon'ble ITAT held that the status of the assessee as a debt free entity does not justify the omission of interest computation for overdue receivables. An independent party would not extend their capital beyond an agreed credit period without imposing interest charges. Acceptance of such an argument would result in parties without interest liabilities forfeiting their ability to recoup the cost of capital extended to others. Therefore, the assessee's ground on this account was rejected by the Hon'ble ITAT.

Regarding the credit period allowed for computation of interest on outstanding receivables the ITAT remitted the matter back to TPO to allow actual credit period of 90 days after verification. Further, rejecting the interest rate considered by TPO and assessee, ITAT remitted the matter back to TPO to determine the interest rate using appropriate comparability standards.

Shweta Kapoor
Director
Tax Advisory
☎ +91 11 4710 2200
✉ shwetakapoor@mpco.in

ITAT: Reaffirms Limited-Risk Service Provider Characterisation and Deletes TP Adjustment on Boeing India's Technical Fee Payments to AE

Boeing India Defense Pvt Ltd [TS-361-ITAT-2026(DEL)-TP]

In the above judgement, Hon'ble ITAT, Delhi Bench upheld assessee's characterization as a limited risk service provider in relation to the international transaction of training and technical support services sub-contracted to the Associated Enterprise.

On the facts of the case, the assessee is a subsidiary of Boeing Singapore Pte Limited, which in turn is a subsidiary of The Boeing Company (TBC). TBC had supplied Boeing aircraft to Indian Air Force (IAF), along with training and technical support obligations. For the purpose of training and technical services, presence of local entity was essential and accordingly, a contract was entered between the assessee and IAF. However, since the assessee did not have the technical capability or the assets to fulfil the contract, substantial portion of the contract was sub-subcontracted to the AE, Boeing Aerospace Operations. The assessee's role was limited to coordinating with IAF, facilitating execution of contractual obligations, and acting as a local contracting entity.

For the support provided by the assessee, it retained cost plus fixed markup of 20% from the consideration received from IAF and the residual amount was paid/payable to its AE. The transaction was benchmarked under the Transactional Net Margin Method (TNMM) using Operating Profit/value added expenses as the Profit Level Indicator.

The Transfer Pricing Officer (TPO) rejected the assessee's characterization as a limited risk service provider and proceeded to treat assessee as the main provider of training and technical services to the IAF. The TPO after recharacterizing the assessee proceeded to consider AE as the tested party instead of the assessee, thereby, proposing adjustment under transfer pricing using RoyaltyStat database.

The assessee filed objection against the order of TPO before DRP. The DRP directed the TPO to – a) re-consider Assessee's characterization in light of additional evidence with details of employees, emails, agreements, etc. b) to not hold assessee's inability to file confidential defense contracts o its disadvantage, and c) to re-consider Assessee's contentions in relation to expired and functionally different agreements. The TPO, however, did not consider the directions of DRP and made adjustment under transfer pricing. Subsequently, the assessee preferred an appeal before the Hon'ble ITAT

The Hon'ble ITAT observed that the TPO's understanding of the transaction was inconsistent with the actual contract and that the assessee neither owned any specialized training infrastructure nor possessed technical know-how or intellectual property enabling it to independently render such services. Its assets were confined to ordinary office infrastructure and liaison-related facilities required for coordination activities.

Further, the Hon'ble ITAT observed that the AE retained all the responsibility for performance obligations, technical delivery and significant risks associated with the contract and the assessee only operated within a limited risk framework. Such risks undertaken by the assessee remain same as in the earlier year and that principle of consistency should be followed in respect of the benchmarking conducted by the assessee. Also, the TPO failed to follow the directions of DRP.

In view of the aforesaid, the Hon'ble ITAT accepted the analysis of the assessee and held that the assessee limited risk service provider and the methodology of the assessee to retain the cost-plus mark-up was accepted.

Shweta Kapoor
Director
Tax Advisory
☏ +91 11 4710 2200
✉ shwetakapoor@mpco.in

Mumbai ITAT applies 50:50 benefit split for corporate guarantee benchmarking

ACG Associated Capsules Pvt Ltd [TS-358-ITAT-2026(Mum)-TP]

In the above decision, the Hon'ble ITAT, Mumbai Bench inter-alia, adjudicated Transfer Pricing adjustments relating to corporate guarantee commission and held that 50:50 split of interest saving is an appropriate basis for determination of Arm's Length Price (ALP)but it must be based on the facts and circumstances of the case.

On the facts of the case, the assessee, an Indian company, has given corporate guarantee on behalf of its subsidiary AE to Bank. The assessee did not charge any guarantee commission from its AE and didn't report the said transaction in its Form 3CEB.

In the first round of proceedings, the Transfer Pricing Officer (TPO) had determined ALP of corporate guarantee commission and the Tribunal remanded back the issue of determination of ALP to the TPO by applying the interest saving approach. The TPO, in the remand back proceedings, applied the interest saving approach and arrived at interest saving of 1.10% and allocated it entirely to assessee. The argument of the assessee that such interest saving was attributable to both the guarantor and the borrower and accordingly, the interest saving should be split 50:50 between the parties was rejected by the TPO.

The Hon'ble ITAT considered the judicial pronouncements on which the assessee relied and held that a 50:50 split of interest saving between the parties involved would be an appropriate basis for determination of ALP of the corporate guarantee. However, the Hon'ble ITAT clarified that as per the observations of the Rangachary Committee, a 50:50 split should not be considered as a standard rule and must be determined based on the facts and circumstances of the case.

Taking the above into consideration, the Hon'ble ITAT directed the TPO/AO to adopt a 50:50 allocation split of interest saving cost of 1.10% for benchmarking the corporate guarantee commission and recompute the ALP accordingly.

Shweta Kapoor
Director
Tax Advisory
☏ +91 11 4710 2200
✉ shwetakapoor@mpco.in

Ernst & Young U.S. LLP [2026] 187 taxmann.com 711 (Delhi)

The High Court of Delhi (HC) in the case of **CIT (International Taxation)-1 vs Ernst & Young U.S. LLP [2026] 187 taxmann.com 711 (Delhi),** *inter alia*, sets aside the finding of ITAT and rules that salary reimbursements paid by EY India to EY US for seconded (deputed) foreign employees are taxable in India as Fees for Included Services (FIS/ FTS) under Article 12 of India-US Double Taxation Avoidance Agreement (DTAA).

On the facts of the case, EY US deputed employees to EY India to provide professional services in the field of assurance, tax, transaction and business advisory to ensure application of EY Group policies and processes and other quality standards in the EY India entities. EY India reimbursed salary of the seconded employees to overseas entity on cost-to-cost basis without any mark-up.

The revenue authorities observed that EY US retained an employment lien over the seconded employee and the employees continued to contribute to the social security benefits in USA through the assessee (EY US). As such, the employees are still employee of the US entity. Further, since seconded employees have transferred skill, knowledge and experience to the EY India entities, the 'make available' condition in terms of Article 12(4)(b) is satisfied and the fees for services are taxable as FTS. The revenue relied on the decision of HC in the matter of **Centrica India Offshore (P.) Ltd. [2014] 44 taxmann.com 300 (Delhi)** to support its arguments. It has been held that though the seconded employees have offered tax on the salary income it cannot be considered a deciding factor to determine whether the services provided by EY US through their employees is covered as FTS under Article 12 of DTAA.

On behalf of assessee, it was submitted that the secondees ceased to be employees of EY US during the deputation, the Indian entity discharged the obligation in respect of withholding taxes, the amount paid by US entity to employees is only for administrative convenience and the amount reimbursed to US entity is for cost only. Reliance was placed on the decision of HC in the matter of **Boeing India (P.) Ltd. [2023] 146 taxmann.com 131 (Delhi)** wherein the judgement in the case of Centrica India Offshore Pvt. Ltd. was distinguished on facts. The judgement of Supreme Court in the case of **A.P. Moller Maersk A S [2017] 78 taxmann.com 287 (SC)** was also referred wherein it was held that cost to cost reimbursement does not give rise to taxable income. Further, reliance was placed on the order of ITAT in assessee's own case where it was found that the services rendered by the assessee do not fulfill the 'make available' requirement in terms of Article 12 of DTAA.

The Hon'ble HC upheld the findings of the Assessing Officer and Dispute Resolution Panel that the services rendered by the seconded employees satisfy 'make available' test. It was held that seconded employees had come to India to imbibe the culture of EY Group and implement its policies / standards on the Indian EY entities and once such processes and policies are imbibed/ retained the employees of EY India can apply the same by themselves. Further, the Indian entity can only terminate the secondment and have no power to sever the relationship between seconded employees and EY US.

The Hon'ble HC then discussed decisions relied on by the assessee and distinguished them from the facts of assessee's case. The case of **Bio-Rad Laboratories (Singapore) Pte. Ltd. [2023] 155 taxmann.com 646 (Delhi)** was distinguished by stating that since the duration of the deputation agreement in this case is for 2-3 years and is not for a long period to interpret that 'make available' test is not satisfied. The decision in the case of **AT & T Communication Services (India) (P.) Ltd. [2019] 101 taxmann.com 105 (Delhi - Trib.)** was distinguished stating that in that case the seconded employees were not taking forward the business of the overseas parent entity but were working under the control and supervision of the assessee company, which could not be interpreted to mean that the secondees therein were working on behalf of the overseas entity.

The Hon'ble HC then extensively discussed and relied on the landmark precedent of **Centrica India Offshore Pvt. Ltd. (supra)** to hold that the payments were not merely non-taxable "cost-to-cost" reimbursements. In decision of Centrica India (supra), the HC had established that when an overseas entity deputes its personnel to an Indian entity but retains the right to terminate their employment, recall them, or pay their core social security benefits abroad, the employment lien remains with the foreign company. The HC found the facts of the said case applicable in this case and held that the lien over employment of secondees remained with EY US which remained the employer of the secondees.

With respect to the argument of the taxpayer that payments are mere cost reimbursements, the HC referred the judgement of Centrica India Offshore Pvt. Ltd. (supra) wherein it was held that the absence of a profit markup does not alter the taxability of a transaction under Indian tax law. Even if the transaction is at cost-to-cost basis, it can still be classified as income in the hands of the foreign recipient if it is consideration for a service.

The HC also mentioned that the ITAT in its order did not demonstrate why the reasons given in the assessment order by the Assessing Officer to hold that the assessee remained employer of the secondees and services of secondees 'make available' knowledge to the employees of Indian entity, are perverse and warranted interference.

Based on the above, the HC set aside the findings of ITAT and held that the payment made by EY India to EY US is taxable as Fees for Included Services/ Fees for Technical Services in terms of Article 12 of DTAA.

In view of the aforesaid, the appeal filed by the revenue was allowed.

Shweta Kapoor
Director
Tax Advisory
☏ +91 11 4710 2200
✉ shwetakapoor@mpco.in

DOMESTIC TAXATION

Income of foreign Company cannot be taxed in the hands of its resident shareholder

*Delhi High Court held in **PCIT Vs. Pradeep Wig [2026] 185 taxmann.com 1002 (Delhi)** that rental income and capital gains earned by a foreign Company cannot be taxed in the hands of its resident Shareholders by treating them as beneficial owners of the Company's assets.*

On the facts of the case, the assessee, resident of India, along with his spouse and three daughters, held equal shares in a British Company viz Carmichael Capital Limited (CCL) which owned certain immovable properties situated in United Kingdom. The Company earned rental income from these properties and subsequently earned capital gains upon their sale in UK.

The investments in the Company were made by the assessee through proper banking channels under the Liberalised Remittance Scheme (LRS) permitted by the Reserve Bank of India.

During a search operation conducted at the residence of the assessee, documents relating to maintenance, renovation, furnishing, leasing, and sale of the London properties were found. Based on these documents, the Assessing Officer ("AO") invoked Explanation 4 to Section 139(1) of the Income-tax Act, 1961 and concluded that the assessee's were the real and beneficial owners of the properties and that the Company was merely used as a façade to avoid tax liability in India.

The AO invoked the doctrine of 'substance over form' and held that there was effectively no distinction between the ownership of the Company and ownership of its underlying assets. The AO taxed the income from house property and capital gains from the sale of such property in the hands of assessee.

On appeal to Commission of Income Tax (Appeals) ('CIT(A)'), addition made by AO were confirmed.

Aggrieved by the order of CIT(A), assessee filed an appeal before the Hon'ble ITAT, wherein relief was granted to the assessee on the additions confirmed by the CIT(A).

Thereafter, appeal was filed by the revenue before the Hon'ble High Court of Delhi.

Before the Hon'ble Court the assessee contended that CCL was a separate legal entity distinct from its shareholders. The assessee argued that the Company [i.e CCL] itself had purchased the properties, earned rental income, and paid applicable taxes in the United Kingdom. It was also pointed out that the shareholders merely held shares in the Company and could not be regarded as owners of the Company's assets. It was further submitted that there was no provision under the Act that permitted taxation of the Company's income directly in the hands of its shareholders merely because they were residents of India. The Revenue argued that the assessee's were the real owners and beneficiaries of the income and assets of the CCL, thus doctrine of "substance over form" should be applied in order to demolish the device adopted by the assessee to avoid taxes in India. Revenue contended that assessee were beneficial rather true owners, income should be taxed in the hands of the assessee.

The Court reaffirmed the settled legal principle that a Company is a separate juristic entity distinct from its shareholders. Even if shareholders hold 100% shareholding in a Company, they remain owners only of the shares and not of the underlying assets owned by the Company. The Court held that the rental income and capital gains earned by CCL belonged exclusively to the Company and could not be assessed in the hands of the assessee. The Court further observed that only dividend income, if distributed to shareholders, could potentially be taxed in their hands.

The Court emphasized that tax can be levied only through clear statutory authority and not merely through judicial doctrines such as 'substance over form' unless supported by specific provisions of law. It also clarified that the doctrine of lifting the corporate veil can be applied only in exceptional cases involving sham transactions, fraud, or tax evasion.

Based on the facts, Hon'ble court concluded that there was no illegality, sham transaction, or tax evasion and dismissed the appeal of the tax department.

Richa Agarwal
Deputy Director
Tax Advisory
☏ +91 11 4710 2200
✉ richaagarwal@mpco.in

REGULATORY COMPLIANCE

FOREIGN EXCHANGE MANEGEMENT REGULATIONS

Foreign Direct Investment in Insurance Sector

The Ministry of Finance (Department of Economic Affairs) notified the Foreign Exchange Management (Non-debt Instruments) (Second Amendment) Rules, 2026 on May 2, 2026 **("Amendment Rules")** vide which Foreign Direct Investment **("FDI")** norms relating to FDI in insurance companies have been revised. The Amendment Rules have been issued pursuant to Press Note No. 1 (2026 Series) issued by the Department for Promotion of Industry and Internal Trade on February 9, 2026.

The key changes introduced vide the Amendment Rules are as follows:

1. FDI in Insurance Companies has been increased from 74% to up to 100% subject to the conditions applicable to such Indian insurance companies. Further, in an Indian insurance company having foreign investment, at least one among the Chairperson of its Board, its Managing Director, or its Chief Executive Officer shall be Resident Indian Citizens. Prior to the amendment, majority of the directors of such Indian insurance companies and its Key Managerial Personnel were also required to be Resident Indian Citizens.

2. Insurance intermediaries that have majority shareholding of foreign investors are no longer:

    a. required to take prior permission of the Insurance Regulatory and Development Authority ('Authority') for repatriating dividend;
    b. restricted to make payments to the foreign group or promoter or subsidiary or interconnected or associate entities beyond what is necessary or permitted by the Authority;
    c. required to have composition of the Board of Directors and key management persons as specified by the concerned regulators.

(Source: Notification S.O. 2186(E) dated May 2, 2026, issued by the Ministry of Finance, Department of Economic Affairs, Government of India)

Divya Ashta
Senior Consultant
MP Law Offices
☏ +91 11 4710 2200
✉divya.ashta@mplawoffices.in

Standard operating procedure for processing Foreign Direct Investment

The Department for Promotion of Industry and Internal Trade **("DPIIT")** has issued a new Standard Operating Procedure **("New SOP")** for processing Foreign Direct Investment **("FDI")** proposals on May 4, 2026, replacing the earlier Standard Operating Procedure dated August 17, 2023 **("Earlier SOP")**. The SOP governs the process and procedure for filing and processing of FDI proposals requiring Government approval, including prescribed timelines and internal monitoring mechanisms.

The New SOP has been introduced post issuance of Press Note 2 (2026 Series) dated March 15, 2026 and the Foreign Exchange Management (Non-debt Instruments) (Amendment) Rules, 2026 dated May 1, 2026 relating to India's foreign investment policy applicable to countries sharing a land border **('LBC')**.

The key changes introduced under the New SOP are as follows:

A. Changes:

Annexure VII regarding 'Guidelines on Investments from Countries Sharing Land Border with India (LBCs)' has been inserted in the New SOP which provides for the following:

i. Reporting guidelines for LBC investments not requiring prior Government approval

Where the investments into India are from an investor entity having any direct or indirect ownership by citizen(s) or entity(ies) from LBC, where the cumulative ownership from an LBC at investor level, is below the applicable thresholds prescribed under Section 2 (1)(fa) of the Prevention of Money-Laundering Act, 2002 and do not require Government approval, such investments are required to be reported to DPIIT on National Single Window System Portal **('NSWS Portal')** in the prescribed manner along with the necessary documentation, as laid down in Annexure VII, Schedule I.

The onus of reporting such investment lies with the Indian investee entity or resident Indian transferor/ transferee. Such reporting is required to be undertaken prior to the inward remittance of foreign capital. In cases which do not involve foreign capital inward remittances, the reporting is required be undertaken prior to execution of the relevant transactions, including issuance/ transfer of capital instruments.

ii. Procedural guidelines for LBC investments in specified sectors

In the cases of applications seeking Government approval for investments into India from LBC investor(s):

a. investing individually or cumulatively, whether acting together or otherwise, holding up to 49% of the capital or voting rights of the Indian Investee entity engaged in sectors/activities inter alia including Capital Goods Manufacturing, Electronics Capital Good and Electronic Component Manufacturing, Advanced Battery Components, Rare Earth Permanent Magnets as specified under Schedule II of the New SOP; and
b. the majority shareholding and control of the Investee entity is with a resident Indian citizen(s) and/ or a resident Indian entity owned and controlled by resident Indian citizen(s), at all times,

The decision shall be conveyed by the Administrative Ministry/ Department to the applicant within a period of 60 days from the date of filing of the application.

B. Changes in procedure for cases covered under Government approval route

1. In terms of the New SOP, the FDI application filing process is completely paperless and the applicant shall not be required to file physical copies of any documents required to process FDI proposals.

   While the Earlier SOP also aimed at rendering the FDI application filing process completely paperless, in case the authenticity of any scanned documents was in doubt, the concerned Administrative Ministry/ Department could have called for physical copy of original documents with approval of the Secretary concerned.

2. In terms of the New SOP, after a proposal is filed online, as part of the approval process, all the comments/ clearances shall be uploaded directly on the NSWS Portal by the Ministry of Home Affairs **('MHA')**, Ministry of External Affairs **('MEA')** and Reserve Bank of India **('RBI')**, which shall be accessed by the concerned Administrative Ministry/ Department and DPIIT. However, under the Earlier SOP, the comments by MHA, MEA and RBI were required to be provided directly to the concerned Administrative Ministry/ Department.

3. The New SOP introduces a time-bound framework for scrutiny and closure of FDI applications. The Competent Authority is required to scrutinise the application within one week. If additional information or documents are required and the applicant does not respond within one week, a reminder must be issued to the applicant to submit the response within next seven days. If the applicant still does not submit the required response without adequate reason, a final reminder would be issued to respond within next seven days. Thereafter, the application may be closed for reasons such as incompleteness or failure to address deficiencies despite reminders.

4. The New SOP permits rectification of typographical/grammatical or other errors in the text/format of the Approval Letter, as apparent from the records, while under the Earlier SOP, rectification of an approval letter was restricted only to typographical or grammatical errors in the text of the Approval Letter.

(Source: Standard Operating Procedure (SOP) for Processing Foreign Direct Investment Proposals issued vide Circular No. 1/8/2016 - F.C. I dated May 4, 2026 by the Department for Promotion of Industry & Internal Trade, Ministry of Commerce and Industry, Government of India)

Divya Ashta
Senior Consultant
MP Law Offices
☎ +91 11 4710 2200
✉ divya.ashta@mplawoffices.in

Foreign Exchange Management (Non-debt Instruments) (Amendment) Rules, 2026, as per Notification S.O. 2174(E)

dated May 1, 2026 issued by the Ministry of Finance, Department of Economic Affairs

Pursuant to issuance of Press Note 2, dated March 15, 2026, relating to review of FDI Policy on Investments from Countries Sharing Land Border with India and which was to be effective from the date of the FEMA notification, the Ministry of Finance, Department of Economic Affairs has notified the Foreign Exchange Management (Non-debt Instruments) (Amendment) Rules, 2026 dated May 1, 2026 and published in the Official Gazette on May 2, 2026.

A Note containing analysis of Press Note 2 dated March 15, 2026 as published in the Corporate Update for March 2026. The said Press Release had stated that the amendments as contained therein would be effective from the date of corresponding FEMA Notification.

This FEMA Notification has now been published by the Govt. of India by way of amendments to the FEMA (Non-Debt Instruments) (Amendment) Rules, 2026 dated May 1, 2026. This FEMA notification contains the provisions of the Press Note 2 dated March 15, 2026.

With this, the Press Note 2 has also come into force with effect from May 2, 2026.

Divya Ashta
Senior Consultant
MP Law Offices
☏ +91 11 4710 2200
🖂divya.ashta@mplawoffices.in

Overseas Investment – Submission of References to the Reserve Bank ("RBI") - Circular No. A.P. (DIR Series) Circular No. 02 dated April 1, 2026, issued by RBI and Master Direction

As per the Circular No.2 dated April 1, 2026, references pertaining to Overseas Investment received from Persons Resident in India through AD banks are currently processed centrally at Foreign Exchange Department, Central Office of RBI. It has now been decided that such references shall be processed at specified Regional Offices of RBI with effect from April 1, 2026.

AD banks, which were hitherto forwarding such references to the Central Office of RBI, are now advised to submit the same to the designated Regional Offices through PRAVAAH portal of RBI as per the specific Unique Identification Number (UIN) of the foreign entity.

As per the Master Direction, updated on April 1, 2026, in respect of overseas investment, any case under the approval route, the applicant shall approach their AD Bank who shall forward the proposal to the concerned Regional Office of RBI after due scrutiny and with its specific recommendations. The application for overseas investment under the approval route would be submitted to the concerned Regional Office of RBI through the relevant form available on the PRAVAAH portal.

Divya Ashta
Senior Consultant
MP Law Offices
☏ +91 11 4710 2200
🖂divya.ashta@mplawoffices.in

FOREIGN CONTRIBUTION REGULATION ACT (FCRA)

Foreign Contribution (Regulation) - (Amendment) Rules, 2026

The Ministry of Home Affairs has notified the **Foreign Contribution (Regulation) (Amendment) Rules, 2026**, (hereinafter called the Amendment Rules, 2026) which came into force on **June 22, 2026**, amending the Foreign Contribution (Regulation) Rules, 2011. The amendments are intended to strengthen the regulatory framework governing receipt and utilisation of foreign contribution by enhancing transparency, introducing purpose-specific registration and prescribing objective compliance standards under the Foreign Contribution (Regulation) Act, 2010.

The key amendments are summarised below:

1. **Introduction of the Schedule of Activities**

   The Amendment Rules, 2026 have introduced a **Schedule of Activities** requiring every applicant for registration or prior permission to specify the precise activities for which foreign contribution is proposed to be received.

   The Schedule classifies permissible activities (numbering about 105) into five broad categories:

   - Religious;
   - Cultural;
   - Economic;
   - Educational; and
   - Social.

   Each category contains a detailed list of specific activities from which the applicant must select the applicable activities.

   Registration certificate- The registration certificate issued under the Foreign Contribution (Regulation) Act, 2010 (FCRA) will specify the approved activities and the approved geographical areas (States/Union Territories). Foreign contribution may be received and utilised only for the approved activities and within the approved geographical areas. Any modification to the approved activities or geographical areas requires prior approval of the Central Government in the prescribed manner.

2. **Restriction on Associations having Foreign Nationals as Key Functionaries**

   An Explanation has been inserted under Rule 9 providing that an association having foreign nationals, other than those of Indian Origin, as its key functionaries shall ordinarily not be considered for grant of registration or prior permission under the FCRA.

   This amendment seeks to ensure that organisations receiving foreign contribution are ordinarily managed and controlled by Indian citizens or persons of Indian origin.

   However, the Central Government may, by order, specify such cases or circumstances in which foreign nationals may be permitted to be key functionaries of an association for the purposes of consideration of registration or prior permission and the conditions to be fulfilled for the same.

3. **Amendments to Rule 9 – Registration, Prior Permission and Renewal**

   Rule 9 has been substantially amended to strengthen the application process for registration, prior permission and renewal under the FCRA.

The amended Rule 9 requires applicants to, inter alia:

- furnish detailed particulars of all key functionaries;
- specify the exact purpose(s) for which foreign contribution is proposed to be received by selecting activities from the newly introduced Schedule;
- identify the State(s) and district(s) where the foreign contribution will be utilised; and
- submit additional declarations and supporting documents in the prescribed forms.

Existing FCRA-registered associations shall within one year of commencement of these Amendment Rules, 2026, submit to Central Govt. an intimation specifying the purpose/ purposes and States/Union Territories for which they seek to retain their registration.

These amendments move the FCRA framework from a broad object-based approval system to a purpose-specific and geography-specific approval regime, enabling closer monitoring of the receipt and utilisation of foreign contribution.

4. Introduction of Rule 14A – Threshold for "Reasonable Activity"

The Amendment Rules, 2026 have inserted Rule **14A**, which defines the expression **"reasonable activity"** for the purposes of cancellation of registration under section 14 and renewal of registration under section 16 of the FCRA.

Under Rule 14A:

- an association shall be regarded as having undertaken reasonable activity in its chosen field for the benefit of the society if it has utilised foreign contribution of not less than ₹10 lakh during the last two financial years for such purpose; and
- "reasonable activity" shall be deemed to include only such activity as is undertaken out of or by utilising foreign contribution received in accordance with the Act.

This amendment introduces an objective benchmark for assessing whether an organisation has remained active for FCRA purposes. Organisations that fail to meet the prescribed utilisation threshold may face difficulties in renewal of registration or may be exposed to proceedings relating to cancellation, subject to the provisions of the Act.

5. Definition of "Key Functionary"

The Amendment Rules, 2026 have introduced a definition of "Key Functionary" under Rule 2. Key functionary, in relation to a person other than individual, includes:

- a director of a company;
- a partner in a firm;
- a trustee of a trust;
- the Karta of a Hindu Undivided Family;
- an office bearer or member of the governing body, managing committee or other controlling authority of a society, trust, trade union or association individuals; and
- any other officer or person, by whatever name called, who exercises control over or is

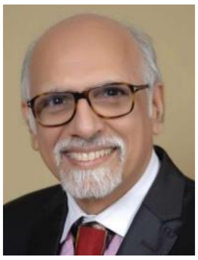
responsible for the management or affairs of such person.

The definition provides clarity regarding the individuals responsible for compliance of the FCRA and identifies the persons whose particulars are required to be disclosed in applications and returns.

Rakhi Chanana
Director
Corporate Secretarial Services
☏ +91 11 4710 2200
🖂 rakhi@mpco.in

For further information, please contact:

C. S. Mathur
Partner
☏ +91 11 4710 2200
✉ csm@mpco.in



Vikas Vig
Partner
☏ +91 11 4710 3300
✉ vvig@mpco.in

Surbhi Vig Anand
Partner
☏ +91 11 4710 2250
✉ surbhivig@mpco.in

Mohinder Puri & Co.

New Delhi
1 A-D, Vandhna,
11, Tolstoy Marg,
New Delhi – 110 001

MPC & Co. LLP

New Delhi
Pune
Vadodara

Associates

Ahmedabad
Bangalore
Chennai
Hyderabad
Mumbai