

09th June

**P G BHAGWAT LLP**

Chartered Accountants | Since 1938

# UPDATES

## May

## 2026

**Shivneri Fort**, located near Junnar in Maharashtra, India, is the birthplace of Chhatrapati Shivaji Maharaj. It is a historic fort known for its strategic location, strong fortifications, and its importance as the birthplace of Shivaji Maharaj, the founder of the Maratha Empire.

Authored by: PGB LLP Technical Desk

NEXT



# Updates

## May 2026



P G BHAGWAT LLP (“PGB LLP”) is glad to release updates for the month of May 2026

The objective of these updates is to make you aware of the latest changes in auditing, accounting, taxes, labour laws etc.

We hope these updates are useful to you to stay on top of the development in your field.

**“The greatest obstacle to discovery is not ignorance—it is the illusion of knowledge”**

For detailed information and / or queries, please do get in touch with us at [updates@pgbhagwatca.com](mailto:updates@pgbhagwatca.com).

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**We compile only the most relevant & important updates and therefore urge to you go through them...**

**This edition contains the following: click on the content line to navigate**



**A. Companies (Corporate Social Responsibility Policy) Amendment Rules, 2026 – amending the Companies (CSR Policy) Rules, 2014 under Section 135 and Section 469 of the Companies Act, 2013.**

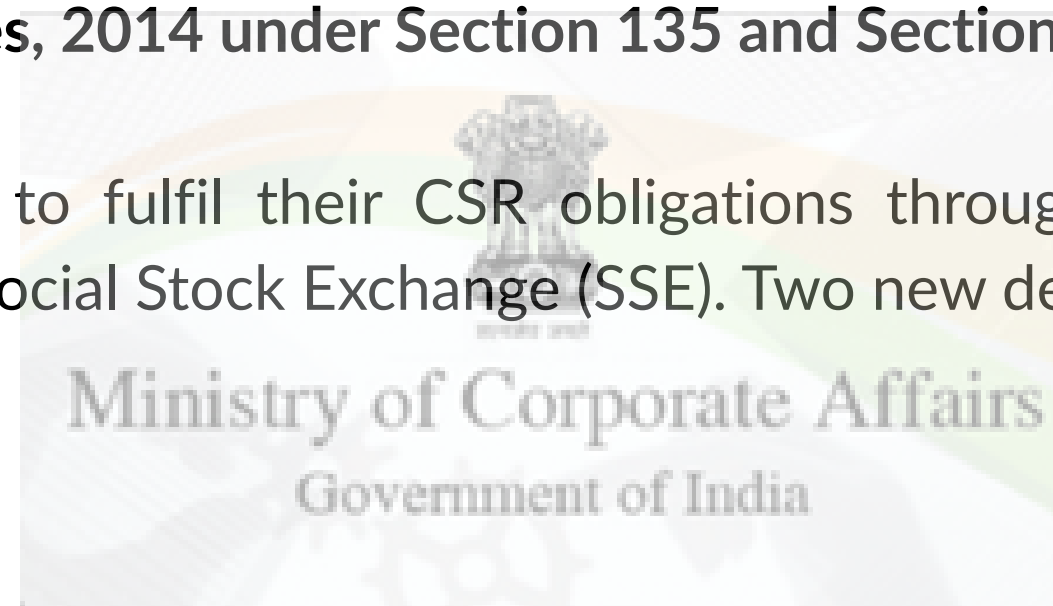
**Summary of amending the Companies (CSR Policy) Rules, 2014 under Section 135 and Section 469 of the Companies Act, 2013.**

### **What's New?**

A new mechanism is introduced allowing companies to fulfil their CSR obligations through Zero Coupon Zero Principal (ZCZP) Instruments – a new route of CSR implementation via Social Stock Exchange (SSE). Two new definitions are also inserted into Rule 2.

### **Detailed Explanation**

The amendment inserts a new Rule 4A into the CSR Rules, enabling companies to carry out CSR activities by subscribing to ZCZP Instruments issued by Not-for-Profit Organisations (NPOs) registered on the Social Stock Exchange segment of a recognised stock exchange. A ZCZP instrument is essentially a security issued by an NPO listed on the SSE, carrying no interest and no principal repayment obligation – the funds go entirely toward social projects.





Two new definitions inserted in Rule 2(1):

"Not for Profit Organisation (NPO)" – as defined in SEBI (ICDR) Regulations 2018, Regulation 292A(e).

"Zero Coupon Zero Principal Instrument" – a security declared as such, issued by an NPO registered on the SSE segment of a recognised Stock Exchange, as per SEBI regulations.



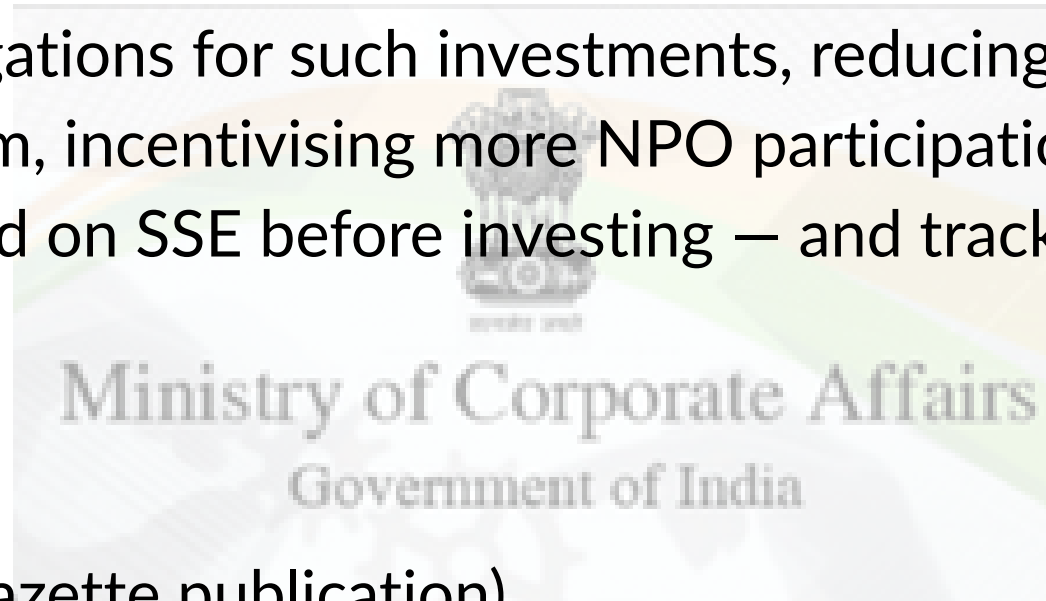
### Key Conditions:

1. CSR expenditure via ZCZP instruments is capped at 10% of the company's total CSR spend for that financial year.
2. The subscribing company is exempt from impact assessment for projects funded through such instruments.
3. The NPO issuing the ZCZP instrument must complete the project within 3 financial years from the date of issuance.
4. On delisting/termination of the ZCZP instrument, the NPO must transfer any unspent amount to a Schedule VII fund and submit a compliance report to SEBI.



### Practical Implications:

- Companies now have a new, simpler CSR route – buy ZCZP instruments listed on SSE instead of directly implementing projects.
- Companies are relieved of impact assessment obligations for such investments, reducing compliance burden.
- This broadens the Social Stock Exchange ecosystem, incentivising more NPO participation.
- Companies must ensure the NPO is SEBI-registered on SSE before investing – and track the 10% cap diligently.



### Implementation Deadlines:

- Rules come into force - 27th May, 2026 (date of Gazette publication)
- NPO project completion after ZCZP issuance - Within 3 succeeding financial years

Link : [Click Here](#)



## A. FEMA 401/2026-RB – Foreign Exchange Management (Authorised Persons) Regulations, 2026

Summary of a comprehensive new regulation governing authorisation, eligibility, permitted activities, and conduct of Authorised Persons (APs) dealing in foreign exchange, issued under Section 47 read with Section 10 of FEMA, 1999.

### What's New?

This is a fresh, consolidated regulation replacing earlier guidelines on money changing and authorised dealer activities. Key new introductions include a three-tier AD category framework (AD-I, AD-II, AD-III), a formal Forex Correspondent (FxC) Scheme, discontinuation of fresh FFMC licences, phasing out of franchisee arrangements, and a new digital application route via the PRAVAAH portal.

### Detailed Explanation:

The regulation consolidates and restructures the framework for all Authorised Persons under FEMA. It introduces four types of APs – AD Category-I (banks), AD Category-II (banks/NBFCs/FFMCs), AD Category-III (niche/innovative forex entities), and FFMCs (money changers). Applications for fresh authorisation must be filed through the PRAVAAH portal. A new Forex Correspondent (FxC) Scheme replaces the old franchisee model, operating on a principal-agent basis under AD-I or AD-II. Fresh FFMC licences will no longer be granted; existing ones can only be renewed. An appeal mechanism is introduced against rejection or revocation of authorisation.



## Key Conditions:

### 1. Eligibility & Net Worth:

- Applicant must be a company incorporated under Companies Act, 2013
- AD Category-II: minimum net worth of ₹10 Crores; eligible entities are banks, NBFCs, or FFMCs/FxCs with ₹50 Cr avg. annual forex turnover for 2 years
- AD Category-III: minimum net worth of ₹2 Crores; for entities needing forex incidentally or offering innovative forex products
- AD Category-I: restricted to RBI-licensed banks only; no net worth threshold specified

### 2. Ongoing Compliance:

- AD Category-II must maintain minimum annual forex turnover of ₹50 Crores
- FFMCs must maintain minimum annual forex turnover of ₹10 Crores
- Net worth, turnover and fit & proper status must be maintained on an ongoing basis
- If net worth falls below minimum, it must be restored within 6 months; failure may lead to revocation

### 3. Fit & Proper:

- At least 50% of directors and KMPs must have qualification and experience in financial services
- No pending convictions, regulatory sanctions, or disqualifications under Companies Act
- If under DoE investigation, an NOC not older than 30 days must be submitted with application



#### 4. Renewal Net Worth Minimums:

- Single branch FFMC: ₹25 lakh
- Multiple branch FFMC: ₹50 lakh
- AD Category-II: ₹10 Crores
- AD Category-III: ₹2 Crores

#### 5. Restrictions:

- No fresh FFMC licences will be issued henceforth
- Entities whose authorisation was revoked/surrendered/rejected cannot re-apply for 1 year
- Prior RBI approval required for change in management/control/ownership exceeding 50%



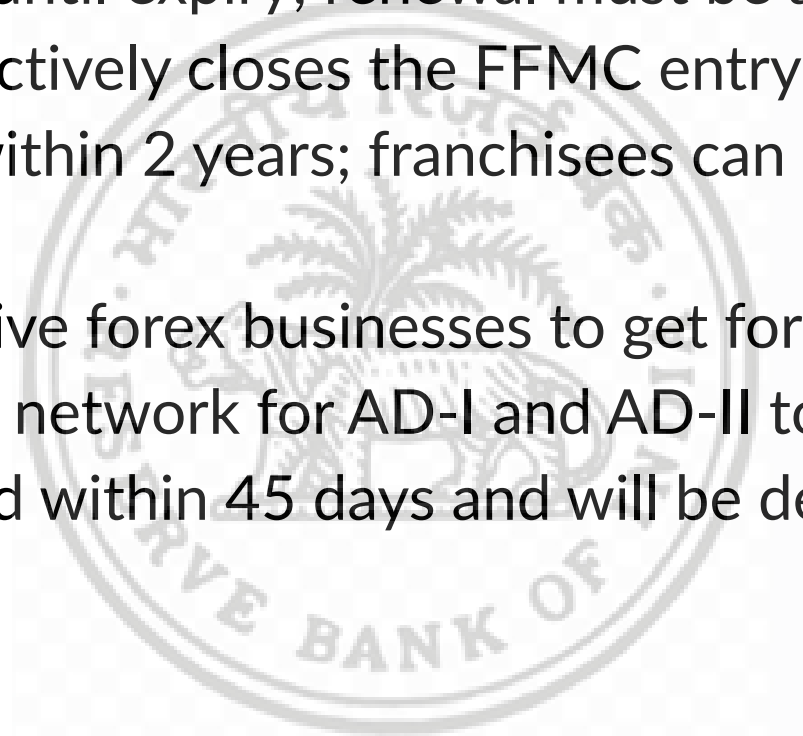
#### Additional Conditions:

- 1.FxC can act as agent for more than one authorised dealer
- 2.All FxC transactions must be reflected in the principal's books
- 3.Principal must submit FxC details to RBI via APConnect within 15 days of each quarter end
- 4.Non-bank APs acting as principals must follow RBI outsourcing risk guidelines (2025)
- 5.Authorisation for banks/NBFCs is co-terminus with their Banking Licence/Certificate of Registration



## Practical Implications:

- Existing APs continue with current authorisation until expiry; renewal must be applied at least 2 months before expiry
- No fresh FFMC licences will be issued – this effectively closes the FFMC entry route
- All franchisee arrangements must be wound up within 2 years; franchisees can then be re-engaged as Forex Correspondents under FCS
- AD Category-III opens a door for fintech/innovative forex businesses to get formal authorisation
- FxC model provides a structured, regulated agent network for AD-I and AD-II to expand reach without full branch setup
- Appeals against rejection/revocation must be filed within 45 days and will be decided within 60 days





## Implementation Deadlines:

- Regulations come into force on the date of Gazette publication
- Pending FFMC applications must submit additional documents within 30 days of commencement
- Business must commence within 6 months of receiving authorisation
- Minimum annual forex turnover must be achieved within 2 years of commencement
- All existing franchisee arrangements must be discontinued within 2 years of commencement
- Renewal application must be filed at least 2 months before expiry of existing authorisation
- Changes in directors/KMPs to be reported within 30 days of financial year end
- New/closed places of business to be reported within 7 calendar days via APConnect
- Appeal against rejection/revocation must be filed within 45 calendar days; decided within 60 calendar days

**Link :** [Click Here](#)



## B. RBI/2026-27/78 – A.P. (DIR Series) Circular No. 09

Summary of Issuance of Foreign Exchange Management (Authorised Persons) Regulations, 2026 – a communication circular to all Authorised Persons directing compliance with FEMA 401/2026-RB and simultaneously amending Master Directions and superseding older circulars.

### What's New?

- Formal communication to all APs directing compliance with FEMA 401/2026-RB (published in Official Gazette on May 06, 2026)
- Amendments to Master Direction – Money Changing Activities to align with the new regulations
- Amendments to Master Direction – Other Remittance Facilities (Para 2 omitted)
- 11 old A.P. (DIR Series) Circulars dating back to 2000 are being superseded and replaced.

### Detailed Explanation:

This circular serves as the operational communication accompanying the FEMA 401/2026-RB notification. It instructs all Authorised Persons to comply with the new regulations and simultaneously carries out housekeeping changes to existing Master Directions. Key amendments include removing outdated provisions relating to FFMC authorisation, franchisee frameworks, and old compliance reporting requirements, and replacing them with updated references aligned to the new AP Regulations 2026. Para 2 of the Master Direction on Other Remittance Facilities is entirely omitted as it has been subsumed into the new framework.



## Key Conditions:

### 1. Franchisee Arrangements:

- No fresh franchisee arrangements shall be entered into by any authorised person henceforth
- All existing franchisee arrangements must be discontinued within two years from May 06, 2026
- Existing franchisees may be re-engaged as Forex Correspondents under the FCS

### 2. Compliance Reporting (Para 22 – revised):

- FFMCs/non-bank AD Category-II must submit annual audited balance sheet along with statutory auditor's certificate on net worth by 31st October every year
- A separate statutory auditor's certificate on annual forex turnover must be submitted by 30th April every year
- Earlier, only a single NOF certificate with the balance sheet was required; now forex turnover certification is an additional mandatory requirement

### 3. Master Direction Omissions:

- Several outdated sections of the Master Direction on Money Changing Activities are being removed – including entire Section II (FFMC authorisation), Section IV, Section VII, Section VIII, and various standalone paragraphs
- Para 5 of Section II is being reinserted as Para 24 under Section V (preserved provision)



### Additional Conditions:

1. 11 old A.P. (DIR Series) Circulars ranging from November 2000 to September 2015 stand fully superseded from May 06, 2026
2. Directions are issued under Section 10(4) and Section 11 of FEMA, 1999 and are without prejudice to approvals required under any other law

### Practical Implications:

- All APs must immediately review the new FEMA 401/2026-RB regulations and align internal policies and operations accordingly
- APs with existing franchisee networks must plan transition of franchisees to the FxC model within the 2-year window
- FFMCs and non-bank AD-II entities now have two separate annual compliance filings (net worth by October 31 and forex turnover by April 30) instead of one
- Reliance on any of the 11 superseded circulars for compliance purposes is no longer valid – internal SOPs must be updated
- The removal of entire sections (FFMC authorisation, franchisee guidelines) from Master Directions signals a clean regulatory consolidation with no parallel frameworks operating



## Implementation Deadlines:

- FEMA 401/2026-RB effective from May 06, 2026 (date of Gazette publication)
- No fresh franchisee arrangements permitted from May 06, 2026
- All existing franchisee arrangements to be wound up by May 06, 2028 (2 years from May 06, 2026)
- Annual audited balance sheet + net worth certificate to RBI by October 31 every year
- Annual forex turnover certificate to RBI by April 30 every year
- 11 superseded circulars cease to have effect from May 06, 2026

**Link :** [Click Here](#)