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## FEMA 2026: Managing Cross - Border Transactions

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Knowledge Series

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## ❖ Introduction to FEMA

The Foreign Exchange Management Act (FEMA), 1999 was enacted to regulate foreign exchange transactions and to facilitate external trade and payments. The Act was introduced with the objective of facilitating international trade and payments while ensuring effective management of foreign exchange resources.

Under FEMA, the Reserve Bank of India is entrusted with the responsibility of issuing regulations and directions relating to exports, imports, capital account transactions and other cross-border dealings, thereby promoting a market-oriented and facilitative regulatory environment.

## ❖ Understanding current and capital account transactions

For effective regulation, the Reserve Bank of India through FEMA classifies the foreign exchange transactions into

- ✓ Capital account transactions, and
- ✓ Current account transactions

### Capital account transaction:

The transaction that alters the assets or liabilities of a resident **outside India** or of non-resident **in India**. E.g., Borrowing or lending in foreign currency, Acquisition property abroad, Foreign Direct Investments etc.

### Current account Transactions:

The transactions relating to day-to-day trade, services, income or expenses, which does not create or alter assets or liabilities. E.g., Import and export of goods and services, Travel and education expense etc.

Apart from the above examples the RBI has notified various transactions falling under current and capital accounts, wherein as mentioned above the export and import of goods and services are categorized as current account transactions.

## ❖ Key Objectives of this knowledge series

The objective of this knowledge series is to discuss a significant change introduced by the newly issued Master Directions on Export of Goods and Services, 2026.

In order to monitor such transactions and ensure timely realization and proper utilization of foreign exchange, the RBI has introduced the Export Data Processing and Monitoring System (EDPMS) and Import Data Processing and Monitoring System (IDPMS).

The RBI has notified the FEMA (Export and Import of Goods and Services) Regulations, 2026, effective 1 October 2026, to streamline the export-import regulatory framework.

These regulations replace the fragmented 2015 regime, which relied on multiple rules, circulars and separate reporting forms such as EDF and SOFTEX.



## ❖ Key Terminologies to understand the New Regulations:

- ✓ **Authorized Dealer Banks (AD):** An Authorized Dealer (AD) Bank is a bank authorized by the RBI to deal in foreign exchange and foreign securities and to conduct foreign exchange transactions in accordance with FEMA and RBI guidelines.
- ✓ **EDPMS:** A centralized RBI system to record and monitor export transactions and foreign exchange receipts, ensuring compliance with FEMA.
- ✓ **IDPMS:** A centralized RBI system to record and monitor import transactions and foreign

exchange payments, ensuring compliance with FEMA.

- ✓ **EDI Ports:** “EDI Ports” are customs locations such as ports, airports, or land stations enabled with an Electronic Data Interchange (EDI) system for paperless electronic filing and processing of export/import documents.

## ❖ Key aspects under the New Regulations

### 1. Timeline to submit the EDF Form

Export Declaration Form (EDF) is a form prescribed by the Reserve Bank of India for declaring the export of goods and services from India including, containing details of the transaction for compliance with foreign exchange regulations.

Exporters of goods shall submit an Export Declaration Form (EDF) at the time of export to specified authority. In case of exports through EDI ports, the shipping bill itself is treated as the EDF. The EDF waiver provided in earlier regulations has been discontinued. (Not-applicable - Traveller moving personal effects shall not be treated as an export.)

Whereas the exporters of services shall furnish EDF within 30 days from the end of the month of issuance of invoice

- A single EDF may be submitted for multiple service exports in a month.
- AD may allow delayed submission.
- For non-software services, EDF can be filed when the payment is received or before that.

### 2. Manner of receipt of payment

Since the provisions of FEMA mandate that all the export and import payments are required to be received or made through an Authorized Dealer, hence the banks are in the position to verify the actual flow of funds, matching the remittances with the shipping bills or invoices, and confirm the genuineness of the transaction.

Therefore, only the AD banks are permitted to credit or debit the accounts of exporters or

importers after due verification of the genuineness of the transaction and are required to simultaneously update or close the relevant entries in EDPMS or IDPMS.

Also, another rationale behind the permission to made in EDPMS and IDPMS are with AD banks is that the EDPMS and IDPMS systems are regulatory monitoring platforms of the Reserve Bank of India and are directly linked to the foreign exchange remittances which are routed through banks.

Further for the transactions of up to Rs. 10 Lakhs a simplified mechanism has been provided whereby system entries may be closed on the basis of a declaration from the exporter or importer, also the option for bulk closure is provided with the quarterly submission of declarations.

### 3. Time period for realization of exports:

Under the new regulations the time for realization of export proceeds has been extended the detailed summary of the same is as below:

- ✓ **For Exports invoiced or/and settled in Foreign Currency**

Type of Export	Time Period
Goods (except warehouse exports)	15 months from the date of shipment.
Goods exported to warehouse outside India.	15 months from the date of sale.
Services	15 months from the date of Invoice.
Project Exports	As per payment terms decided in contract.
Extension	Allowed by AD Banks on valid reasons by exporter.

- ✓ **For exports invoiced or/and settled in Indian Currency**

Type of Export	Time Period
Goods (except warehouse exports)	15 months from the date of shipment.

Type of Export	Time Period
Goods exported to warehouse outside India.	15 months from the date of sale.
Services	15 months from the date of Invoice.
Project Exports	As per payment terms decided in contract.
Extension	Allowed by AD Banks on valid reasons by exporter.

**Note: International Trade Invoicing and Settlement in Indian Rupees (INR)**

The AD Bank may be guided by the extant guidelines on the broad framework as well as instructions issued by the Reserve Bank in this regard, from time to time.

**4. Time period for making import payments:**



An AD Bank shall monitor IDPMS entries and ensure the importer makes payment for imports within the contractually specified period. The AD Bank may, on the importer’s request with valid reasons, allow an extension of time for payment beyond the contract period if satisfied with the reasons cited.

**5. Advance payment for exports and imports**

The exporter shall route both the advance received and realization of export proceeds through the same AD bank. The importer must route the advance and all related payments through the same AD bank. However, an importer/exporter may route the transactions through any AD provided the importer/exporter has intimated the change to both the AD.

Further, the exporter shall ensure that the shipment of goods is completed within three years\*\* from the date of receipt of the advance payment.

\*\*Earlier the time for the same was one year

**❖ Some of the key Powers with AD Bank with respect to payments and receipts**

**1. Reduction in export realization**

Under the existing provisions, Authorised Dealer (AD) Banks allow reduction in export invoice value only for specific reasons, such as cash discounts, and within prescribed limits. The new regulations introduce greater flexibility by permitting reduction in shipping bill or invoice value up to INR 10 lakh based solely on the exporter’s declaration. This change reduces the administrative burden on AD Banks and provides operational ease to exporters, especially SMEs and small-value transactions.

**2. Set off with respect to export receivables against import payables**

An Authorised Dealer may permit set-off of export receivables against import payables with the same overseas buyer or supplier, or their overseas group/associate companies, within the prescribed or extended time allowed for realisation of export proceeds.

**3. Third party receipts and payments**

Under FEMA, third-party receipts refer to situations where export proceeds are received from a person other than the overseas buyer named in the trade documents.

Similarly, third-party payments refer to cases where import payments are made to a person other than the overseas supplier specified in the trade documents.

With respect to the third-party receipts and payments, the AD bank is empowered to permit the said transactions where it is satisfied that such arrangements are genuine

and supported by valid commercial justification.

### Other miscellaneous points

#### ❖ **Advance payments in case of import of Gold and Silver:**

Generally, the advance payment with respect to import of goods and services are allowed, however in case of import of gold and silver, the same is not allowed, unless specifically permitted.

#### ❖ **Non materialisation of imports:**

If an importer fails to import goods within the agreed contract period or approved extended period, any advance payment made must be brought back (repatriated).

If the advance is not repatriated within the allowed time, or the IDPMS entry is not marked off, the importer:

- ✓ Cannot make further advance payments freely, and
- ✓ Must provide an unconditional and irrevocable standby Letter of Credit (LC), or a guarantee from a reputed international bank, or a guarantee from an Indian Authorised Dealer backed by a counter-guarantee from a reputed international bank.

#### ❖ **Unrealised export proceeds:**

If an exporter does not realise export proceeds within one year from the due date of realisation (*or extended period allowed by the Authorised Dealer*), then the exporter may carry out future exports only:

- ✓ Against full advance payment, or
- ✓ Under an irrevocable Letter of Credit (LC).

#### ❖ **Project Export:**

Project Exports refers collectively to the export of engineering goods on deferred payment terms, as well as the execution of turnkey\*

projects and civil construction contracts abroad.

*\*A turnkey project is a contract in which the contractor handles the entire project – from design and construction to installation and commissioning – and hands it over to the client in a ready-to-use, fully operational condition.*

Normal exports involve the supply of goods or services abroad on a standalone, shipment-based transaction between a buyer and seller. In contrast, project exports involve the execution of an entire project abroad, which may include, civil construction, design, installation, and commissioning etc.

An Authorised Dealer may allow receipts and payments relating to project exports in accordance with the terms of the underlying contract, after satisfying itself about the genuineness of the project. Further, under the supervision of the Authorised Dealer, a project exporter may utilise temporary surplus funds generated outside India from such projects by investing them in short-term instruments, including treasury bills and bank deposits abroad, with an original or residual maturity of not more than one year.

#### ❖ **Merchanting Trade Transaction (MTT).**

A Merchanting Trade Transaction (MTT) is an international trade arrangement where an Indian intermediary purchases goods from a supplier in a foreign country and sells them to a buyer in another foreign country, without the goods entering India.

The entity undertaking Merchanting Trade Transaction (MTT) in accordance with the Foreign Trade Policy must ensure that the time gap between the outward payment and inward receipt, or vice versa, does not exceed six months, unless an extension is permitted by the Authorised Dealer for valid reasons.

Payments shall be made only to the overseas seller and receipts received only from the overseas buyer, unless third-party

transactions are permitted by the Authorised Dealer for valid reasons.

The Authorised Dealer, after verifying the transaction, may credit or debit the customer's account for MTT-related cross-border transactions, update or close the relevant EDPMS or IDPMS entries, and monitor the transaction to ensure that both legs are completed within the prescribed time and manner.

## ❖ Conclusion

### ➤ **Single Consolidated Framework:**

The 2026 Regulations replace multiple circulars and forms, creating a unified and structured export-import regulatory regime.

### ➤ **Greater Role of AD Banks:**

Authorised Dealers now have enhanced powers for permitting extensions, set-offs, third-party payments, reductions in realization, and closure of system entries – subject to verification of genuineness.

### ➤ **Extended Realisation Timeline:**

A uniform 15-month realization period provides businesses with improved cash flow flexibility

### ➤ **Digital Monitoring Strengthened:**

EDPMS and IDPMS continue as core compliance platforms, ensuring real-time tracking and transparency of foreign exchange transactions

### ➤ **Operational Ease for Businesses:**

Simplified declarations, small-value relaxation (₹10 lakh threshold), and contractual flexibility in Project Exports and MTT enhance ease of doing business.

### ➤ **Improved Global Trade Competitiveness:**

The reforms promote smoother cross-border trade, reduce administrative

burdens, and support Indian businesses in expanding globally.



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## Special Mention

Thank you, **Uddhav Patil**, **Rohan Kachave** and **Prasad Sawant** for the compilation of this series.

## RRCO Corner

Congratulations to Dia Jomy, Keshav Rander, Swayam Somani on receiving the Rising Star Award for the quarter ending December 2025.





S.N.	Due Date	Compliance
9	20-Feb-2026	Monthly GSTR-3B
10	20-Feb-2026	GSTR-5A Return by OIDAR service providers
15	30-Feb-2026	Form 26QB (Property), 26QC (Rent), 26QD (Contractor Payments), 26QE (Crypto Assets) challan-cum-statements for Dec 2025
16	28-Feb-2026	Monthly Return of PTRC



### Compliance Calander for the month of February 2026

S.N.	Due Date	Compliance
1	07-Feb-2026	Payment of TDS/TCS (Monthly)
2	07-Feb-2026	Payment of Equalization Levy
3	07-Feb-2026	ECB-2 Return
4	11-Feb-2026	GSTR-1 (Monthly)
5	13-Feb-2026	B2B Invoice Reporting through IFF (QRMP Scheme)
6	13-Feb-2026	GSTR-6 (ISD Return)
7	15-Feb-2026	Payment of ESIC and Return
8	15-Feb-2026	Payment of PF and Return