

LEGAL BRIEFS: BI-WEEKLY LEGAL UPDATES
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Synergia Legal is bringing to you a fortnightly compilation of digestible summaries of key legal developments and case laws impacting the business, commercial and economic landscape in India:

SECURITIES LAWS

1. The Securities and Exchange Board of India (SEBI) issued a circular on Guidelines for winding up of AIFs with respect to retention of proceeds and 'Inoperative Fund' status (June 16, 2026):

The SEBI has introduced a structured framework enabling Alternative Investment Funds (AIFs) to retain liquidation proceeds beyond their permissible fund life where there is a demonstrable pending litigation, tax, regulatory or other legal liability; where at least 75% of investors by value consent to retention for anticipated litigation or tax exposure; or where the retained amount is substantiated for residual winding-up expenses. Retained amounts must be invested in accordance with the AIF Regulations, with retention for residual operational expenses limited to three years. Eligible AIFs may seek "Inoperative Fund" status while resolving such liabilities or awaiting the outcome of pending litigation; however, an Inoperative Fund cannot launch new schemes or charge management fees, and must submit annual reports on retained monies and outstanding liabilities to SEBI and relevant investors. The circular also provides certain regulatory relaxations for Inoperative Funds, while requiring surrender of registration only after all liabilities are discharged and retained proceeds are distributed. The framework applies equally to venture capital funds registered under the erstwhile SEBI (Venture Capital Funds) Regulations, 1996, and takes effect immediately.

(The Circular bearing number HO/19/34/11(2)2026-AFD-POD1/I/13764/2026 issued by the SEBI is accessible [here](#).)

BANKING / FINTECH LAWS

2. The Reserve Bank of India (RBI) issued the Master Directions on Authorization to operate a Payment System (June 15, 2026):

The RBI, through its **Master Directions on Authorisation to operate a Payment System** dated June 15, 2026, has consolidated and superseded the existing framework governing authorisation of payment system operators (“PSOs”) under the Payment and Settlement Systems Act, 2007. The Directions provide for on-tap authorisation, require applicants to satisfy applicable capital and net-worth thresholds, submit an auditor-certified net-worth certificate, and meet RBI’s fit-and-proper, financial strength, technological capability and governance standards. They also restrict fresh investments from Financial Action Task Force non-compliant jurisdictions to below 20% of both existing and potential voting power in a PSO. Certificates of Authorisation (“CoAs”) issued to new PSOs will be valid perpetually, while existing PSOs may obtain perpetual validity upon renewal, subject to continued compliance and the absence of material regulatory concerns. The Directions further prescribe a detailed process for voluntary surrender of a CoA, including Board approval, stakeholder notifications, repayment or extinguishment of liabilities, monthly reporting to RBI and continued honouring of unresolved customer claims for three years where liabilities remain outstanding. RBI may impose a one-year cooling period following refusal, revocation, non-renewal or voluntary surrender of a CoA, including on newly formed entities promoted by persons connected with such entities.

(The Master Directions on Authorisation to operate a Payment System issued by the RBI is accessible [here](#).)

3. **The RBI notified the Reserve Bank of India (Non-Banking Financial Companies – Undertaking of Financial Services) Second Amendment Directions, 2026 (June 15, 2026):**

The RBI, through the **Reserve Bank of India (Non-Banking Financial Companies – Undertaking of Financial Services) Second Amendment Directions, 2026**, has revised the regulatory framework governing agency and distribution activities undertaken by non-banking financial companies (“NBFCs”) and housing finance companies (“HFCs”), with effect from **January 1, 2027**. The amendments clarify that agency business involves an NBFC facilitating the sale of a third-party provider’s regulated financial products or services to its customers, without assuming risk participation, and require such arrangements to be supported by an agreement with the relevant provider. NBFCs and eligible HFCs may undertake insurance distribution under the corporate agency or broking model without RBI approval, subject to applicable Insurance Regulatory and Development Authority of India requirements, fee-based operations, upfront disclosure of the absence of risk participation, and compliance with the RBI’s responsible business conduct framework. Similar conditions apply to NBFC distribution of mutual fund products, including compliance with Securities and Exchange Board of India requirements. Further, eligible non-base-layer NBFCs may provide National Pension System point-of-presence services after registration with the Pension Fund Regulatory and Development Authority, provided they meet prescribed capital adequacy and profitability conditions and operate on a fee-only, non-risk-participation basis. The amendments also require only products covered under the relevant arrangement to be

displayed through the NBFC's or HFC's digital channels and emphasise adequate customer grievance-redressal mechanisms.

(The Reserve Bank of India (Non-Banking Financial Companies – Undertaking of Financial Services) Second Amendment Directions, 2026 notified by the RBI is accessible [here](#).)

4. The RBI notified the Reserve Bank of India (Non-Banking Financial Companies – Responsible Business Conduct) Second Amendment Directions, 2026 (June 15, 2026):

The RBI, through the **Reserve Bank of India (Non-Banking Financial Companies – Responsible Business Conduct) Second Amendment Directions, 2026**, has introduced a comprehensive conduct framework governing the advertising, marketing and sale of own and third-party financial products and services by non-banking financial companies (“NBFCs”), effective **January 1, 2027**. The framework applies to NBFCs with customer interfaces, including NBFC-P2P platforms, mortgage guarantee companies and standalone primary dealers, while excluding core investment companies, account aggregators, non-operative financial holding companies and NBFCs without customer interfaces. NBFCs must implement Board-approved policies addressing product suitability, customer feedback, mis-selling compensation, and the oversight, training and audit of direct selling and marketing agents; maintain and update public lists of such agents; and ensure that all sales are based on explicit, recorded customer consent. The Directions require clear, prominent disclosure of product features, charges, risks, lock-in conditions and exit terms; prohibit compulsory bundling, misleading sales practices and incentives that encourage mis-selling; and prescribe suitability assessments before selling non-standard products to individual customers. They also expressly prohibit the use of dark patterns in NBFC and agent digital interfaces, require simple opt-out mechanisms for promotional communications, regulate telemarketing and physical visits, and mandate customer feedback within 30 days of sale. Where mis-selling is established, the NBFC must refund the amount paid, cancel the sale where applicable and compensate the customer for resulting loss in accordance with its approved policy.

(The Reserve Bank of India (Non-Banking Financial Companies – Responsible Business Conduct) Second Amendment Directions, 2026 notified by the RBI is accessible [here](#).)

5. The RBI notified the Reserve Bank of India (Trade Receivables Discounting System) Directions, 2026 (June 23, 2026):

The RBI, has issued the **Reserve Bank of India (Commercial Banks – Concentration Risk, through the Reserve Bank of India (Trade Receivables Discounting System) Directions, 2026**, has consolidated and replaced the earlier TReDS framework, with immediate effect, to streamline the operation of platforms that facilitate financing of trade receivables of micro, small and medium enterprises (“MSMEs”). The Directions require TReDS platform operators to be Indian companies authorised under the Payment and Settlement Systems Act, 2007, with a minimum net worth of INR 25 crore on an ongoing basis; existing authorised operators must

meet this threshold by March 31, 2028. The framework simplifies MSME seller onboarding, permits eligible financiers to obtain credit guarantee cover for TReDS exposures, and allows participation by sellers, buyers, financiers, insurance companies and specified credit guarantee fund trusts. TReDS platforms must verify the genuineness of invoices, ensure that sellers are qualifying MSMEs, conduct customer due diligence of buyers, and credit financing proceeds only to the seller's bank account. The Directions further require accepted factoring units to create an unconditional payment obligation on buyers, prohibit buyer set-offs, require registration of receivables assignments with CERSAI, and provide that financing will be without recourse to the seller. Platform operators must also maintain prescribed master agreements, facilitate transparent bidding by multiple financiers, submit periodic reporting to RBI and maintain audited net-worth and system-audit records.

(The Reserve Bank of India (Trade Receivables Discounting System) Directions, 2026 notified by the RBI is accessible [here](#).)

6. The RBI issued the Master Directions – Reserve Bank of India (Credit Derivatives) Directions, 2026 (June 25, 2026):

The RBI, through the **Master Direction – Reserve Bank of India (Credit Derivatives) Directions, 2026**, has replaced the earlier 2022 framework with immediate effect and expanded the domestic credit-derivatives market by permitting credit default swaps (“CDS”) and total return swaps (“TRS”) in the over-the-counter market, alongside exchange-traded single-name and index CDS and futures on credit indices. Eligible market-makers include scheduled commercial banks (subject to exclusions), standalone primary dealers, specified middle- and upper-layer non-banking financial companies, housing finance companies and certain financial institutions; users are classified as retail or non-retail, with retail users (other than individuals, who remain ineligible) permitted to undertake such transactions only for hedging. The Directions also permit regulated insurance companies, pension funds, mutual funds, alternative investment funds and foreign portfolio investors (“FPIs”), subject to the applicable eligibility, regulatory approvals and exposure limits; notably, aggregate CDS protection sold by FPIs is capped at 5% of the outstanding stock of corporate bonds. The framework prescribes eligible underlying debt instruments and indices, limits related-party and otherwise restricted exposures, requires robust valuation, risk-management, documentation and customer-protection practices, and mandates prompt reporting of OTC transactions to the Clearing Corporation of India Limited. It further establishes a Credit Derivatives Determinations Committee under FIMMDA to make binding determinations on relevant credit events and settlement matters, while empowering RBI to seek information and restrict market participation for non-compliance.

(The Master Directions – Reserve Bank of India (Credit Derivatives) Directions, 2026 notified by the RBI is accessible [here](#).)

7. The RBI issued the Master Directions – Reserve Bank of India (Call, Notice and Term Money Markets) Directions, 2026 (June 25, 2026):

The RBI has released the **draft Master Direction – Reserve Bank of India (Call, Notice and Term Money Markets) Directions, 2026** for public comments until **July 17, 2026**, with the stated objective of deepening participation and liquidity in the term money market and strengthening monetary policy transmission. The draft consolidates and supersedes the existing framework, and clarifies the eligible participants and applicable prudential limits for unsecured overnight, short-term and term borrowing and lending: while banks, co-operative banks and standalone primary dealers may participate in call, notice and term money markets, payments banks have limited term-money access, and all-India financial institutions and non-base-layer non-banking financial companies (including housing finance companies) may participate in the term money market. Importantly, companies are proposed to be permitted to participate as lenders in the term money market, and standalone primary dealers would receive enhanced borrowing limits, including up to 400% of net owned funds for aggregate term money and inter-corporate deposit borrowings. The draft also requires Board-approved internal exposure limits, execution through permitted over-the-counter or electronic trading platforms, reporting of off-platform transactions to the NDS-CALL platform within 15 minutes, and compliance with prescribed market practices and documentation. RBI may seek information from participants and may restrict a non-compliant entity's participation for up to one month at a time after providing an opportunity to be heard.

(The Master Directions – Reserve Bank of India (Call, Notice and Term Money Markets) Directions, 2026 notified by the RBI is accessible [here](#).)

8. The RBI issued a circular for the review of circulars issued under Foreign Exchange Management Act, 1999 (June 24, 2026):

The RBI, through its A.P. (DIR Series) Circular No. 18 dated **June 24, 2026**, has undertaken a rationalisation of the regulatory framework under the Foreign Exchange Management Act, 1999 ("FEMA") by withdrawing the circulars listed in its annexure that have ceased to be operative due to subsequent amendments, redundancy, overlap or replacement by later directions. The circular is principally a housekeeping measure intended to consolidate the FEMA framework and reduce reliance on obsolete regulatory guidance; accordingly, authorised persons should review the withdrawn circulars against their internal compliance manuals, operational procedures and customer-facing advisories, and rely on the currently applicable FEMA regulations, rules, master directions and circulars for ongoing transactions. The directions have been issued under Sections 10(4) and 11(1) of FEMA and do not dispense with any separate approval or permission that may be required under applicable law.

(The Circular bearing number RBI/2026-27/175 by the RBI is accessible [here](#).)

9. The RBI issued the Amendment Directions on ‘Review of Framework of Limiting Customer Liability in Digital Transactions’ (June 25, 2026):

The RBI, through its amendment directions issued for commercial banks, small finance banks, payments banks, local area banks, regional rural banks and co-operative banks, has expanded the existing customer-liability framework for unauthorised electronic transactions into a broader regime for **fraudulent electronic banking transactions**, effective **January 1, 2027**. The revised framework covers transactions undertaken through fraudulently obtained credentials, coercion or duress, as well as unauthorised transactions arising from bank negligence or third-party breaches. Regulated banks must maintain transparent Board-approved customer-protection policies, robust fraud-detection systems, 24×7 reporting channels, transaction alerts, and defined complaint-resolution timelines; complaints must generally be resolved within 45 calendar days for domestic transactions and 60 calendar days for cross-border transactions. Customers will have zero liability where fraud results from a bank’s deficiency, and also in cases of third-party breaches reported within five calendar days; banks must reverse eligible debits with value dating and, for credit-card fraud, provide a shadow reversal within five calendar days of notification. The framework also introduces a one-time compensation mechanism for bona fide individual customers and sole proprietors suffering customer-negligence-related fraud losses of up to INR 50,000: where the fraud is reported to both the bank and the National Cyber Crime Reporting Portal or helpline within five days, compensation of 85% of the net loss, capped at INR 25,000, will be available, subject to the prescribed conditions.

(The Amendment Directions on ‘Review of Framework of Limiting Customer Liability in Digital Transactions’ notified by the RBI is accessible [here](#).)

10. The RBI issued the Amendment Directions on ‘Advertising, Marketing and Sale of Financial Products and Services by Regulated Entities’ (June 15, 2026):

The RBI, by its press release dated **June 15, 2026**, has issued final amendment directions governing the advertising, marketing and sale of financial products and services, including third-party products and services, by banks, non-banking financial companies (“NBFCs”), housing finance companies and other regulated entities. The amendments, which take effect from **January 1, 2027**, follow stakeholder consultation on the draft framework and introduce enhanced conduct standards in relation to the activities of direct selling agents and direct marketing agents, prevention of mis-selling, use of dark patterns and other customer-protection measures. RBI has also finalised corresponding amendments to the framework on agency business and referral services, regulating the distribution of third-party financial products by regulated entities. The release indicates that the final directions incorporate modifications arising from stakeholder feedback and are intended to strengthen transparency, responsible sales practices and customer safeguards across regulated financial institutions.

(The Amendment Directions on 'Advertising, Marketing and Sale of Financial Products and Services by Regulated Entities' notified by the RBI is accessible [here](#).)

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THE RECITALS