



भारतीय प्रतिभूति और विनियम बोर्ड
Securities and Exchange Board of India

Consultation Paper

Review of Securities and Exchange Board of India
(Merchant Bankers) Regulations, 1992

AUGUST 28, 2024



OBJECTIVE

1. The objective of this consultation paper is to seek comments / views / suggestions from the public and other stakeholders on the proposal to amend Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992 (“MB Regulations”)

BACKGROUND

2. MB Regulations were notified on December 22, 1992. The objective of the MB Regulations, inter alia, was to lay down regulatory framework for Merchant Bankers (‘MBs’), their eligibility, responsibility and their continuance in securities market.
3. Under these Regulations, merchant bankers are required to comply with various requirements/ criteria such as qualification, net worth, disclosures, maintenance of records etc.

4. As on July 31, 2024, the number of registered merchant bankers are as under

Particulars	No. of Registered Merchant Bankers
Companies	221
Limited Liability Partnership	3
Total	224

5. MBs play an imperative role in the primary market and have been entrusted with the responsibility to ensure appropriate due diligence, maintain integrity of primary market and ensure compliance with the relevant laws on own account and on behalf of the issuers. As a result of evolution of the securities markets and overall increased compliance requirements, the roles and responsibilities and business undertaken by MBs in the primary market has increased significantly.
6. Considering the changes in market dynamics over the past three decades,
 - a) Existing MB Regulations need to be aligned with amendment in other SEBI Regulations and with the current ecosystem.
 - b) The capital adequacy requirement and eligibility criteria of merchant bankers needs to be reviewed.
 - c) Clarity on the activities to permitted to the Merchant Banker and ensure continuance of only serious players in securities market.
 - d) Delete provisions which have become reductant and have outlived their utility.Given the above, a need has been felt to comprehensively review the MB Regulations. With this objective, the provisions of the MB Regulations are proposed to be revised.
7. Subsequently, an agenda was placed before the Primary Market Advisory Committee (PMAC) in its meeting held on July 22, 2024 for its consideration and recommendations. This Consultation Paper is based on the recommendations of the PMAC and internal deliberations.



PROPOSALS

8. Review of activities that merchant bankers can undertake.

8.1. Existing Regulatory Provisions

Regulation 2(ca) of MB Regulations	<i>“issue” means an offer of sale or purchase of securities by any Body Corporate, or by any other person or group of persons on its or his or their behalf, as the case may be, to or from the public, or the holders of securities of such body corporate or person or group of persons through a merchant banker”.</i>
Regulation 2(cb) of MB Regulations	<i>“merchant banker means any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, adviser or rendering corporate advisory service in relation to such issue management.”</i>
Regulation 13A of MB Regulations	<i>“No merchant banker, other than a Bank or a Public Financial Institution, who has been granted a certificate of registration under these regulations shall [after June 30, 1998] carry on any business other than that in the securities market.....”</i>
Para 2 of Master Circular on Merchant Bankers (RMB CIRCULAR NO. 1(98-99) dated June 05, 1998) (“June 1998 circular”)	<p>Relevant extract has been reproduced as follows:</p> <p><i>“Activities that Merchant Bankers can undertake: With effect from July 01, 1998, a merchant banker shall undertake only those activities which are relating to Securities market and which do not require registration/ granted exemption from registration as an NBFC from RBI. In particular, a merchant banker may undertake the following activities :</i></p> <ul style="list-style-type: none"> • <i>Managing of Public Issue of Securities.</i> • <i>Underwriting connected with the aforesaid Public Issue Management Business</i> • <i>Managing/advising on International Offerings of Debt/Equity i.e. GDR, ADR, bonds and other instruments</i> • <i>Private Placement Securities</i> • <i>Primary or Satellite dealership of Government Securities</i>



	<ul style="list-style-type: none">• <i>Corporate Advisory Services related to Securities Market e.g. take-overs, acquisitions, Disinvestment.</i>• <i>Stock-broking</i>• <i>Advisory services for Projects</i>• <i>Syndication of rupee term loans</i>• <i>International Financial Advisory Services</i>.....”
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8.2. Rationale

- 8.2.1. Regulation 13A of MB Regulations prescribes that no merchant bankers (other than Banks and Public Financial Institution) shall carry on any business other than that in securities market. However, it has been observed that some of the merchant bankers are currently undertaking certain activities that are not pertaining to securities market and hence outside the jurisdiction of SEBI.
- 8.2.2. It has been observed that merchant bankers are engaged in private placement activities pertaining to unlisted companies, advisory services for projects and syndication of rupee term loans etc., which are outside the domain of SEBI. It may be pertinent to note that undertaking such activities may pose significant regulatory and systemic risks as such activities are outside the jurisdiction of SEBI.
- 8.2.3. As apparent from the definition of ‘merchant banker’, merchant bankers means an person who is primarily engaged in the business of issue management and its related activity in the securities market. Accordingly, a need is felt to explicitly define the activities and incorporate such activities as a part of Regulation itself.
- 8.2.4. Merchant bankers undertaking activities other than the permitted activities, may segregate such other activities and hive off such activities to a separate entity.
- 8.2.5. Similar provisions have been enshrined under SEBI (Credit Rating Agencies) Regulations, 1999 and SEBI (Depositories and Participants) Regulations, 2018.
- 8.2.6. However, Banks and Public Financial Institution fall under a different regulatory environment. Accordingly, Banks, Public Financial Institution and their subsidiary/(s) may be permitted to undertake activities other than the permitted activities.



8.2.7. The activities, which do not pertain to securities market and are outside SEBI's jurisdiction, may not be permitted under the MB Regulations. Further, the activities that require separate regulatory registration/approval such as Stock Broking, Portfolio Management Services, Primary or Satellite Dealership of Government Securities¹, may be permitted pursuant to registration/ approval from respective Regulators.

8.3. Proposal

8.3.1. It is proposed that merchant bankers, other than Banks, Public Financial Institution and their subsidiaries, shall undertake only those activities, which are related to securities market and come under the jurisdiction of SEBI (permitted activities) as follows:

- i. Managing of Public issues, Qualified Institutions Placements and Rights issues of securities; and advisory or consulting services incidental to such Public issues, Qualified institutions placements and Rights issues,
- ii. Managing of:
 - a. Acquisitions and Takeovers under SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
 - b. Buyback under SEBI (Buy-back of Securities) Regulations 2018
 - c. Delisting under SEBI (Delisting of Equity Shares) Regulations, 2021
 - d. Scheme of arrangement under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
 - e. Implementation of Scheme under SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021
 - f. any other activity as permitted under respective SEBI Regulations advisory or consulting services incidental to abovementioned activities.
- iii. Underwriting of securities as permitted under applicable SEBI Regulations
- iv. Private Placement of securities that are listed or proposed to be listed on a stock exchange recognized by the Board.

Explanation: For the purpose of this Regulation, the securities shall be treated as 'proposed to be listed' from the date of approval of the Board Resolution of the issuer, for the issuance of such securities to be listed on a stock exchange.
- v. Managing of International Offering of securities and incidental advisory or consulting services to such Offering.

¹ Satellite Dealership has been discontinued.



- vi. Filing of placement memorandum of AIFs.
- vii. Issuance of fairness opinion
- viii. Any activity specified by the Board, from time to time, that requires the services of a merchant banker.

8.3.2. Merchant Bankers, other than banks, PFIs and its subsidiary/(s), shall be required to segregate all other activities (other than permitted activities) to a separate legal entity within a period of two years from a date specified by the Board.

8.3.3. Activities that require separate regulatory registration / license *inter-alia* stock broking, portfolio management services, and primary dealership of Government securities and activities that do not pertain to securities market *inter-alia* Syndication of rupee term loans and Advisory services for Projects etc. may not be permitted under the MB Regulations.

8.3.4. However, in case an entity wishes to carry on any other regulated securities market activity, such as stock broker, portfolio manager, primary dealership of Government securities, it may do so after obtaining registration/ license from the respective regulatory authority.

9. **MBs to not undertake valuation activities unless specified by Board.**

9.1. Existing Regulatory Provisions

9.1.1. Currently, there is no specific prescription given under MB Regulations with respect to MBs undertaking valuation activities. However, Merchant Bankers are permitted to carry out valuation activity under SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 ('SAST Regulations') and SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 ("SBEB and SE Regulations").

9.1.2. Apart from the above, MBs also undertake valuation, under the following laws administered by other Regulators/ Authorities as follows:

- (a) Rule 11UA of Income Tax Rules, 1962;
- (b) Rule 21 / Sch II of FEM (NDI) Rules, 2019;
- (c) Reg. 6 (3) of IRDAI (Registration of Indian Insurance Companies) Regulations, 2022 and
- (d) NHB's RFP Reference No. NHB/MRCPD/RFP–Equity Valuation/2021



9.2. Rationale

9.2.1. As per section 247 of Companies Act, 2013

“247. Valuation by registered valuers.- (1) Where a valuation is required to be made in respect of any property, stocks, shares, debentures, securities or goodwill or any other assets (herein referred to as the assets) or net worth of a company or its liabilities under the provision of this Act, it shall be valued by a person having such qualifications and experience, registered as a valuer and being a member of an organisation recognised in such manner, on such terms and conditions as may be prescribed and appointed by the audit committee or in its absence by the Board of Directors of that company”

9.2.2. Further, MCA (Ministry of Corporate Affairs) has notified Companies (Registered Valuers and Valuation) Rules, 2017 under the Companies Act, 2013 that inter alia defines a ‘Valuer’ and lays down rules governing a Valuer including Eligibility, Qualification and Registration of Valuer.

9.2.3. Insolvency and Bankruptcy Board of India (IBBI) has been specified as the Authority by the Central Government under section 458 of Companies Act, 2013 to perform the functions of the ‘Authority’ under the Companies (Registered Valuers and Valuation) Rules, 2017. Functions of IBBI in this regard include regulation and development of valuation profession, valuation examination for one or more asset classes, registration of Valuers, recognition of Registered Valuation Organizations, monitoring the conduct of Registered Valuers and Registered Valuation Organizations.

9.2.4. SEBI has amended various SEBI Regulations such as SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (“ICDR, 2018), SEBI (Delisting of Equity Shares) Regulations, 2021, SEBI (Buy-back of Securities) Regulations, 2018 to permit valuation only by Registered Valuer.

9.3. Proposal

9.3.1. MBs shall not undertake valuation except as specified by the Board from time to time.

9.3.2. While, MBs shall not be permitted to undertake any new assignments from a date specified by the Board, they shall be given a glide path of 6 months to complete the existing assignments.



10. Review of Capital Adequacy Requirements and introduction of categorisation

10.1. Existing Regulatory Provisions

- 10.1.1. Regulation 6(d) r/w Regulation 7 r/w Regulation 9(d) of MB Regulations requires MBs to maintain net worth of not less than five crore rupees, at all times.
- 10.1.2. Regulation 3(2A)(i) of MB Regulations provides that MB registration shall be granted only under Category I.

10.2. Rationale

- 10.2.1. At present, minimum net worth requirement for merchant banker is **Rupees five crores**. This threshold was revised in 1995 from one crore rupees in 1992.
- 10.2.2. Over the past three decades, Indian capital markets have matured in terms of market capitalisation, increased investor participation and market processes. Further, over the years, there has been a significant increase in terms of number of issuances, fundraising and capital formation in the country. Accordingly, the same needs to be encapsulated in the proposed net worth requirements.
- 10.2.3. The current equivalent value of Rs. 5 crore vis-à-vis 1995 based on certain parameters is as follows:

Table 1 : Change in value (Between 1995 and 2024)

Basis	Present Value of ₹ 5 crore
Market Capitalisation	Rs. 529.21 crores
Stock market growth (NIFTY Index)	Rs. 100.17 Crores
GDP growth	Rs. 31.63 Crores
Cost Inflation Index (CII) of Income Tax Department	Rs. 26.37 Crores

- 10.2.4. In light of the above, an increase in net worth is required to align the same with the present value.



- 10.2.5. The enhanced capital adequacy threshold is required to ensure:
- matured intermediaries participate in the securities market to shoulder the responsibilities as a merchant banker. This will be in the interest of orderly development of market eco-system, given the advent of newer products and new-age tools.
 - quality intermediation and deterrent to non-serious applicants.
 - applicants with adequate financial capabilities and sufficient resources such as key personnel/ manpower, systems, compliance requirements are eligible.
- 10.2.6. Adequate net worth would enable merchant bankers to build intellectual capital, develop efficient systems and infrastructure and adopt finest technology to ensure quality 'issue' and related services.
- 10.2.7. The Association of Investment Bankers of India ("AIBI") has recommended that the minimum net worth for Merchant Bankers may be revised to Rs. 50 crores.
- 10.2.8. However, increasing capital adequacy requirements for all merchant bankers may not be suitable, since one-size fits all approach may not be appropriate based on variations in the average issue size on Main Board versus SME. Accordingly, it is proposed to introduce categorisation of merchant banker based on net worth and activity. Merchant Bankers willing to invest in higher financial and infrastructure capabilities may be entrusted to undertake all permitted merchant banking activities. Other merchant bankers may be permitted to undertake all permitted activities other than Main Board Public Issues.
- 10.2.9. Further, in terms of MB Regulations, net worth is a pre-requisite condition for registration and is required to be maintained on continuous basis. Therefore, MBs not meeting the net worth requirement may not be eligible to undertake any merchant banking activity. Accordingly, a specific provision w.r.t to non-compliance in meeting the minimum net worth requirement also needs to be introduced.

10.3. Proposal

- 10.3.1. Merchant bankers may be categorised into two categories based on net worth and activities to be undertaken, viz Category 1 and Category 2.



The proposed categorisation is as follows-

i. Category 1 –

- a. Net worth not less than Rs. 50 crores, at all times
- b. Shall be permitted to undertake all permitted activities

ii. Category 2 –

- a. Net worth not less than Rs. 10 crores, at all times
- b. Shall be permitted to undertake all permitted activities except Main Board Issues

10.3.2. The existing registered merchant bankers shall be given a period of two years from a specified date to increase their net worth progressively as follows:

i. Category 1 –

- a. 1st year - Rs.25 crore
- b. 2nd year – Rs. 50 crore*

ii. Category 2 –

- a. 1st year – Rs.7.5 crore
- b. 2nd year – Rs. 10 crore*

(*) Cumulative

10.3.3. Further, any merchant banker who intends to change its Category may do so as may be specified by SEBI.

10.3.4. Merchant Banker who fails to maintain or meet the minimum net worth requirement shall not undertake any activity until the proposed net worth requirement is met.

11. Cancellation of Merchant Banking registration for merchant banker not engaged in permitted activity.

11.1. Existing Regulatory Provisions

11.1.1. Under the present regulatory framework, there is no provision in this regard.

11.2. Rationale

11.2.1. Under the present regulatory framework, there is no specific provision for cancellation of registration pursuant to failure by merchant banker to engage in SEBI permitted activities.



- 11.2.2. As mentioned in earlier para's, the purpose of obtaining SEBI Registration by merchant bankers is to engage in issue management and its related activities. However, it has been observed that some of the merchant bankers are only engaged in activities other than issue management and its related activities. Accordingly, the continuance of such entities as merchant bankers in the securities market is not justified.
- 11.2.3. In view of the same, in order to encourage SEBI registered MBs to engage in merchant banking activities, merchant bankers should be mandated to earn minimum revenues from permitted activities. This will entail relevance of SEBI registration and ensure only serious players carry on the permitted activities.

11.3. Proposal

- 11.3.1. The registration granted to a merchant banker shall be cancelled as per the procedure specified by the Board, if it fails to:
- For Category 1: Earn a revenue of at least Rs. 25 crores in three immediately preceding financial years, on a combined basis, from permitted activities
- For Category 2: Earn a revenue of at least Rs. 5 crores in three immediately preceding financial years, on a combined basis, from permitted activities

12. Align the definition of net worth with Companies Act, 2013.

12.1. Existing Regulatory Provisions

- 12.1.1. Regulation 6(d) r/w Regulation 7 r/w Regulation 9(d) of MB Regulations requires MBs to maintain net worth of not less than five crore rupees, at all times.
- 12.1.2. Explanation to Regulation 7 of MB Regulations defines net worth as sum of paid up capital and free reserves.
- 12.1.3. Section 2(1) (s) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('LODR') refers to Companies Act, 2013 for the definition of net worth
- 12.1.4. Section 2(1) (hh) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 ('ICDR') defines net worth, similar to the definition of networth as per the Companies Act, 2013.



12.2. Rationale

- 12.2.1. In order to bring uniformity with Companies Act and other SEBI Regulations such as ICDR, LODR, the definition of 'net worth' needs to be aligned with the Companies Act.
- 12.2.2. The definition of body corporate under Companies Act, 2013 also includes Limited Liability Partnership ('LLPs'). However, definition of net worth for LLPs has not been provided in the existing MB Regulations and Companies Act, 2013. There is a need to remove the ambiguity and maintain uniformity amongst MBs incorporated in form of LLPs registered as MBs.

12.3. Proposal

- 12.3.1. It is proposed that definition of net worth² shall have the same meaning as prescribed in section 2(57) of Companies Act, 2013. The same has been reproduced below for reference
'net worth' means the "aggregate value of the paid-up share capital and all reserves created out of the profits and securities premium account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the audited balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation"
- 12.3.2. In case of LLPs, the net worth may be defined as sum of Partner Contribution (Fixed) plus Reserves and Surplus/ Free Reserves.

13. Introduction of minimum liquid net worth.

13.1. Existing Regulatory Provisions

- 13.1.1. Under the present regulatory framework, there is no provision in this regard.

13.2. Rationale

- 13.2.1. During processing of registration applications and review of periodic submissions, it is observed that some of the MBs have provided loans/advances or invested in its group entities/ given capital advances. In such scenarios, the objective of the requirement to maintain net worth is not

² The same was also part of Consultation Paper dated May 21, 2024 on the recommendations of the Expert Committee for facilitating Ease of Doing Business under MB Regulations, BTI Regulations and Buyback Regulations.



being met, for the reason that such net worth may not reflect the required net worth in spirit, is illiquid in nature and may not be readily available with the merchant banker.

13.2.2. Liquid net worth represents the net worth portion that can be easily converted into cash. Liquid net worth plays a critical role in ensuring sound financial health, operational resilience and helps intermediaries navigate through uncertainties, as it is readily available when the need arises.

13.2.3. For a merchant banker, liquid net worth may be required for the purpose of underwriting and other obligations under the various SEBI Regulations.

13.2.4. The requirement for Liquid net worth ,

- a. acts as entry barrier,
- b. can be easily ascertainable at any point of time
- c. relatively better quality intermediation
- d. ensures only serious merchant bankers with adequate financial resources operate in the securities market.

13.2.5. Further, Regulation 260 of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 states –

“(1) The initial public offer shall be underwritten for hundred per cent of the offer and shall not be restricted upto the minimum subscription level.

(2) The lead manager(s) shall underwrite at least fifteen per cent. of the issue size on their own account(s)..... “

13.2.6. Furthermore, SEBI, vide circular dated July 31, 2023 for Online Dispute Resolution (ODR) states -

“In case the Market Participant wishes to pursue online arbitration (which will be administered by the ODR Institution which facilitated the conduct of conciliation), then the Market Participant must deposit 75% of the admissible claim value with the relevant MII prior to initiation of the online arbitration and make the payment of fees as applicable for online arbitration.”

13.3. Proposal

13.3.1. It is proposed that the merchant banker shall maintain liquid net worth of at least 25% of the minimum net worth requirement, at all times, as follows:

Category 1 – Rs. 12.5 crores (25% of Rs. 50 crores)

Category 2 – Rs. 2.5 crores (25% of Rs. 10 crores)

Wherein,

Liquid net worth means “*net worth deployed in unencumbered liquid assets*”

Liquid asset may be defined as “*low risk asset that can easily be converted into cash in a short period of time, such as cash, fixed deposits, government securities, money markets instruments, treasury bills, repo on government securities and acceptable marketable securities with applicable hair cut*”³”

13.3.2. It is proposed to give glide path of two years to comply with the minimum liquid net worth requirement, as follows:

Table 2: Proposed liquid net worth requirements

Particulars	Year 1	Year 2
Category 1	25% of Rs. 25 crore = <u>Rs. 6.25 crore</u>	25% of Rs. 50 Cr = <u>Rs. 12.5 Cr</u>
Category 2	25% of Rs. 7.5 crore = <u>Rs. 1.875 crore</u>	25% of Rs. 10 Cr = <u>Rs.2.5 Cr</u>

13.3.3. If the merchant bankers are not able to meet the proposed liquid net worth requirement within the prescribed time period, they shall not be eligible to undertake the permitted activities, till the time they comply with the requirements.

14. **Review of legal structures to be permitted for grant of registration**

14.1. Existing Regulatory Provisions

14.1.1. Regulation 6(a) of MB Regulations states

“the applicant shall be a body corporate other than a non-banking financial company as defined under clause (f) of section 45-I of the Reserve Bank of India Act, 1934 (2 of 1934), as amended from time to time

Provided that the merchant banker who has been granted registration by the Reserve Bank of India to act as a primary or satellite dealer may carry on such activity subject to the condition that it shall not accept or hold public deposit”

³ As per SEBI’s Master Circular for Sock Exchanges and Clearing Corporations



14.1.2. As per Regulation 2(1)(aa) of MB Regulations, "body corporate" shall have the meaning assigned to it in or under clause (11) of section 2 of the Companies Act, 2013.

2.(11) of the Companies Act, 2013, "body corporate" or "corporation" includes a company incorporated outside India, but does not include-
(i) a co-operative society registered under any law relating to co-operative societies; and
(ii) any other body corporate (not being a company as defined in this Act), which the Central Government may, by notification, specify in this behalf;

14.2. Rationale

14.2.1. The existing definition of 'body corporate' under Companies Act, 2013 permits 'body corporate incorporated outside India' eligible for registration.

14.2.2. There is an inherent challenge in supervision and enforcement for 'body corporate' incorporated outside India. However, foreign banks licensed by RBI to undertake financial business in India, shall be eligible for merchant banking registration.

14.2.3. Accordingly, it is felt that the Regulation 6(a) needs to be modified to limit registration(s) to body corporates incorporated in India with an exception to foreign banks registered with RBI to undertake financial business in India.

14.2.4. Further, as per Sub-rule (6) of Rule 3 of The Companies (Incorporation) Rules, 2014, One Person Company ('OPC') cannot carry out Non-Banking Financial Investment activities including investment in securities of any body corporate. Merchant Bankers are permitted to enter into underwriting arrangements in accordance with applicable SEBI Regulations. Merchant Bankers engaged in lead managing SME issues are required to underwrite at least fifteen percent on own account.

14.2.5. Accordingly, it may not be appropriate to permit OPC for Merchant Banking registration.

14.3. Proposal

14.3.1. It is proposed to exclude the following body corporates from being eligible for grant of registration as merchant banker:

14.3.1.1. body corporates incorporated outside India, except foreign banks licensed by RBI to undertake financial business in India; and

14.3.1.2. One Person Company



15. Review of multiple merchant banking registration within the same group

15.1. Existing Regulatory Provisions

15.1.1. Regulation 6(c) of MB Regulations relating to criteria for grant of MB registration provide that *‘a person directly or indirectly connected with the applicant has not been granted registration by the Board.*

Explanation: For the purposes of this clause the expression “directly or indirectly connected” means any person being an associate, subsidiary or inter-connected or group company of the applicant in case of the applicant being a body corporate;

15.1.2. SEBI, vide para 3 of Master Circular for MBs dated September 26, 2023 (previously RMB Circular no.1 (2002-2003) dated September 17, 2002), has clarified that

“the Board may consider grant of certificate to an applicant, notwithstanding that another entity in the same group has been previously granted registration by the Board, if the following conditions are fulfilled:

- a. The entities are incorporated as separate legal entities.*
- b. The entities have independent Board of Directors. Independent Board of Directors for this purpose means that common directors should not be in majority in both the Boards.*
- c. There is absolute arm’s length relationship with reference to their operations.*
- d. The key personnel and infrastructure are independently available for each entity.*
- e. Each entity has independent regulatory controls and supervisory mechanism.”*

15.2. Rationale

15.2.1. The practice of multiple merchant banking registrations could be prone to misuse. For example, if a merchant banker is debarred from undertaking certain merchant banking activities through a regulatory order, may shift such activities to its other related/connected merchant banker. Accordingly, merchant bankers may use multiple registration within a group as means to circumvent regulatory action/ enforcement.

15.2.2. Further, multiple merchant banking registrations within a group is not desirable from the perspective of enablement of institution building. Single registration is also expected to streamline regulatory oversight.



15.2.3. SEBI (Debenture Trustees) Regulations, 1993, SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993, etc. also enshrine similar provision under Regulation 6(c) of MB Regulations.

15.2.4. Banks and Public Financial Institution, which are under the regulatory purview of Reserve Bank of India. In order to manage its overall risk and compliance, they may find it more operationally convenient to segregate its capital market related activity in a separate entity. Accordingly, Banks and PFIs may be permitted more than one registration within a group.

15.3. Proposal

15.3.1. It is proposed that merchant bankers, other than Banks and Public Financial Institution ('PFI') and their group companies, shall ensure that there is single registration within the same group.

15.3.2. Further, a time period of one year to the existing MBs, other than Banks and PFIs, holding more than one registration within a group to ensure single registration within the same group to be given.

15.3.3. Banks, PFIs and their group companies shall ensure that the following conditions are fulfilled –

- a. The entities are incorporated as separate legal entities.
- b. The entities have independent Board of Directors. Independent Board of Directors for this purpose means that common directors should not be in majority in both the Boards.
- c. There is absolute arm's length relationship with reference to their operations.
- d. The key personnel and infrastructure are independently available for each entity.
- e. Each entity has independent regulatory controls and supervisory mechanism.
- f. Any other condition as may be prescribed by the board from time to time”



16. Review of underwriting Obligations

Review of Minimum Underwriting Obligations

16.1. Existing Regulatory Provisions

16.1.1. Regulation 22 of MB Regulations requires that, in case of every issue managed; the lead merchant banker shall accept a minimum underwriting obligation of five per cent of the total underwriting commitment or twenty-five lacs rupees, whichever is less.

16.2. Rationale

16.2.1. The minimum underwriting obligations as prescribed in Regulation 22 of MB Regulations is not in-line with the requirements under certain SEBI Regulations such as;

16.2.1.1. Regulation 40 of ICDR Regulations, inter-alia, prescribes provision related to underwriting of initial public offer (IPO).

a) Wherein issuer is making an IPO, other than book building, then issuer shall prior to filing of prospectus, enter into underwriting agreement for maximum number of shares to be subscribed or number of shares to be subscribed pursuant to rejection of applications.

b) Wherein issuer is making a public issue through book building process, the issuer shall prior to filing of prospectus enter in to underwriting agreement.

16.2.1.2. Regulation 260 of ICDR Regulations (SME IPOs) provides that hundred percent of the offer be underwritten. Further, the lead manager shall underwrite at least fifteen per cent of the issue size on its own account.

16.3. Proposal

16.3.1. In order to align the underwriting obligations with SEBI's regulatory requirements, merchant Bankers shall engage in underwriting activities as specified by Board from time to time.

Review of maximum underwriting threshold

16.4. Existing Regulatory Provisions

- 16.4.1. Regulation 2(h) of MB Regulations defines 'underwriting' as an '*agreement to subscribe to or procure subscription for securities, issued or offered for sale, remaining unsubscribed*'
- 16.4.2. Regulation 22(B) of MB Regulations prescribes that at any point of time, the total underwriting obligations by an MB, under all the agreements, shall not exceed twenty times of the net worth of the Merchant Banker.

16.5. Rationale

- 16.5.1. The repealed SEBI (Underwriters) Regulations, 1993 provided that the underwriting obligations shall not exceed 20 times of net worth. Vide amendment dated March 30, 2021, SEBI (Underwriters) Regulations, 2021 was repealed and the same was suitably incorporated as part of MB Regulations and SEBI (Stock Broker) Regulations, 1992.
- 16.5.2. It is felt that the threshold of 20 times of net worth is apparently high and needs to be aligned with the market risk.
- 16.5.3. Master Circular - Reserve bank of India (Non-banking Financial Company – Scale Based Regulation) Directions, 2023 provides that the leverage ratio of NBFCs (except NBFC-MFIs, NBFCs-ML and above) shall not be more than seven, at any time.
- 16.5.4. Underwriting is primarily an activity wherein merchant bankers are required to subscribe to or procure subscription of securities on own account. Accordingly, it may prudent to link threshold of underwriting with liquid net worth of the merchant banker.
- 16.5.5. In view of the above, the threshold for underwriting obligations may be prescribed at seven times of net worth or twenty times of liquid net worth, whichever is lower. Further, in order to encourage merchant bankers to maintain higher proportion as liquid net worth, merchant bankers maintaining more than 35% of net worth as liquid net worth shall be given benefit of maintaining higher liquid net worth.

16.6. Proposal

16.6.1. The underwriting threshold to be prescribed at *7 times of net worth or 20 times of liquid net worth, whichever is lower.*

Provided, where the MB maintains more than 35% of its net worth as liquid net worth, it may be eligible for 20 times of liquid net worth.

Table 3: Illustration for underwriting obligations

Particulars	Net worth	Liquid net worth (LNW)	7 times of net worth	20 times of liquid net worth	Threshold permitted as per proposal 16.6.1
At 25% LNW	50	12.5	350	250	250
At 35% LNW	50	17.5	350	350	350
At 50% LNW	50	25	350	500	500
At 25% LNW	10	2.5	70	50	50
At 35% LNW	10	3.5	70	70	70
At 50% LNW	10	5	70	100	100

17. Review of ‘Merchant banker not to act as such for an associate’

17.1. Existing Regulatory Provisions

17.1.1. Regulation 21A of MB Regulations is reproduced here as under

“21A - Merchant banker not to act as such for an associate

(1) A merchant banker shall not lead manage any issue or be associated with any activity undertaken under any regulations made by the Board, if he is a promoter or a director or an associate of the issuer of securities or of any person making an offer to sell or purchase securities in terms of any regulations made by the Board:

Provided that a merchant banker who is an associate of such issuer or person may be appointed, if he is involved only in the marketing of the issue or offer.

Explanation: For the purposes of this regulation, a merchant banker shall be deemed to be an “associate of the issuer or person” if

- (i) either of them controls, directly or indirectly through its subsidiary or holding company, not less than fifteen per cent. of the voting rights in the other; or*
- (ii) either of them, directly or indirectly, by itself or in combination with other persons, exercises control over the other; or*
- (iii) there is a common director, excluding nominee director, amongst the issuer, its subsidiary or holding company and the merchant banker “*



17.2. Rationale

MBs not to act in its own issue

17.2.1. In order to avoid conflict of interest and ensure independent due diligence, MB may be restrained to be appointed as lead manager in its own issue.

For revision of threshold for 'Associate of Issuer or Person'

17.2.2. Explanation (i) of Regulation 21A of MB Regulations provides that where merchant banker or Issuer/person, directly or indirectly have over fifteen per cent of voting rights, shall be deemed to be an "associate of the issuer or person."

17.2.3. However, section 90 of the Companies Act, 2013 r/w the Companies (Significant Beneficial Owners) Rules, 2018 provides significant beneficial owner as person(s) who has not less than 10% of the shares/voting rights or right to receive dividend.

17.2.4. Further, Companies Act provide special rights where shareholding is more than 10% e.g. Calling of EGM (Sec 100(2)), Demand for Poll (Sec 109(1))

17.2.5. SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993), SEBI (Credit Rating Agencies) Regulations, 1999 and SEBI (Portfolio Managers) Regulations, 2020 provide the threshold of 10% of voting rights for the purpose of determination of an associate.

17.3. Proposal

17.3.1. It is proposed that in addition to the provision as per Regulation 21A, MBs may not be permitted to manage its own issue to avoid conflict of interest and ensure independent due diligence.

17.3.2. The present threshold of 15% under Explanation (i) of Regulation 21A of shareholding/ voting rights may be reduced to 10% for the purpose of treatment as an 'Associate to an Issuer'.



18. Directors, key personnel, Compliance Officer and their relatives not to hold securities in the issuer company.

18.1. Existing Regulatory Provisions

18.1.1. Under the present regulatory framework, there is no provision in this regard.

18.2. Rationale

18.2.1. During processing of IPO documents, certain instances have been observed, wherein the directors and other key personnel and their relatives(s) were holding shares in the issuer company.

18.2.2. This may lead to conflict of interest and compromised due diligence.

18.3. Proposal

18.3.1. It is proposed that merchant banker shall not lead manage any issue or be associated with any permitted activity under SEBI Regulations, if its directors or key personnel or compliance officer or their relative(s), individually or in aggregate holds, *more than 0.1% of the issuer's paid up share capital or nominal value of Rs. 10,00,000, whichever is lower.*

However, holdings, if any, through mutual funds shall be excluded from the above.

The definition of relative shall be in line with definition of 'relative' under Income Tax Act, 1961 and include HUF.

19. Proposal on strengthening eligibility requirements.

Enhancing minimum personnel, experience and eligibility criteria:

19.1. Existing Regulatory Provisions

19.1.1. Regulation 6(b) of MB Regulations requires that merchant banker shall have, in his employment minimum two persons who have the experience to conduct the business of MB.



- 19.1.2. In this regard SEBI, vide FAQs on Registered intermediaries provide that the applicant should have at least two persons, who have an experience of at least two years in the relevant field. Further, the following may be considered as relevant experience for Merchant Banking
- Working with a registered Merchant Banker.
 - Advisors to an Issue as part of a CA firm

19.2. Rationale

- 19.2.1. Merchant Bankers are required to deal with complex transactions, which require knowledge and experience of multiple laws and industry practices. Accordingly, education qualification and work experience of personnel employed by merchant banker is critical to ensure quality and good governance standards.
- 19.2.2. In view of the same, the minimum experience for such personnel needs to be strengthened. Under present framework, such personnel are required to have at least 2 years of experience, which is now proposed to be increased to 5 years.
- 19.2.3. For Category 1 merchant bankers, which have been entrusted to undertake main board Public Issues, minimum number of employees engaged in merchant banking should be increased. This will entail that Category 1 merchant banker have in its employment sufficient human resource with adequate level of expertise and calibre.

19.3. Proposal

- 19.3.1. For the proposed Category 1 MBs, at least five years of relevant experience for minimum two employees may be required. For Category 2 MBs, the existing requirement of two years may be continued.
- 19.3.2. The proposed Category 1 MBs shall be mandated to have minimum five employees handling core merchant banking activities. For Category 2 MBs, the existing requirement of minimum two employees may be continued.
- 19.3.3. The proposed eligibility criteria of key personnel shall be applicable from a date specified by the Board.



Strengthen qualification for Compliance Officer

19.4. Existing Regulatory Provisions

19.4.1. Regulation 28A of MB Regulations requires that every MB shall appoint a Compliance Officer who shall be responsible for monitoring the compliance of the Act, rules and regulations, notifications, guidelines, instructions, etc., issued by the Board or the Central Government and for redressal of investors' grievances.

19.5. Rationale

19.5.1. The Compliance Officer is responsible for monitoring and reporting of all legal and regulatory compliances. Considering the crucial role in ensuring legal and regulatory compliance, it is felt that Compliance Officer should have minimum relevant educational qualification and work experience.

19.5.2. Further, in order to avoid any possible conflict of interest; the role of Compliance Officer shall be exclusive and independent. This will ensure segregation of roles and responsibilities.

19.5.3. Regulation 6 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, provides up to three months to fill vacancy in compliance officer.

19.6. Proposal

19.6.1. It is suggested to rephrase the requirement prescribed at Regulation 28A, such that merchant bankers shall have a Compliance Officer at all the times.

19.6.2. It is suggested that Compliance Officer should have minimum qualification of Company Secretary or graduate degree in law from a university/ institution recognised by government.

19.6.3. The Compliance Officer must have a minimum work experience of at least two years post qualification in activities relating to corporate or secretarial compliance.

19.6.4. Further, the role of Compliance Officer shall be separate and independent from the role of KMPs and Principal Officer.

19.6.5. The merchant banker shall fill any vacancy in the office of the Compliance Officer at the earliest and in any case not later than three months from the

date of such vacancy. Further, merchant banker shall not fill such vacancy by appointing a person in interim capacity, unless such appointment is made in accordance with the laws applicable in case of a fresh appointment to such office and the obligations under such laws are made applicable to such person.

19.6.6. Existing Compliance Officers may continue provided, they have professional qualification with a minimum five years of post-qualification work experience relating to corporate or secretarial compliance and have obtained the following NISM Certifications, from a date specified by the Board:

- a. NISM-Series-IX: Merchant Banking Certification Examination
- b. NISM-Series-IIIA: Securities Intermediaries Compliance (Non-Fund) Certification Examination

Table 4: Summary of proposed minimum manpower requirements

Category	Particulars	Existing	Proposed			
			KMP	Team (others)	Compliance Officer	Total Employees
Category 1	No. of Employees	2	2	3	1	6
	Min. Experience	2 years	5 years	-	2 years	-
Category 2	No. of Employees	-	2	-	1	3
	Min. Experience	-	2 years	-	2 years	-

Proposal on obtaining relevant NISM Certification by key employees & Compliance Officer

19.7. Regulatory Provisions

19.7.1. In terms of sub-regulation (1) of regulation 3 of the Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007 (the Regulations), the Board may require, by notification, any category of associated persons as defined in the Regulations to obtain requisite certification(s).



19.7.2. Further, SEBI, vide notification dated March 11, 2013 and August 02, 2013 has mandated the following:

SEBI, notification dated March 11, 2013 (For Compliance Officer)	a. The person associated as Compliance officer shall obtain certification from the National Institute of Securities Markets (hereinafter referred to as "NISM") by passing the NISM-Series-III A: Securities Intermediaries Compliance (Non-Fund) Certification Examination ('SICCE'). b. An intermediary who engages or employs such associated person shall ensure such person obtains SICCE certificate within one year from the date of his employment.
SEBI, notification dated August 02, 2013 (For KMPs)	c. MBs shall ensure that at least two person designated, as Key Management Personnel shall obtain certification from the National Institute of Securities Markets (hereinafter referred to as 'NISM' by passing the NISM-Series-IX: Merchant Banking Certification Examination ('MBCE'). d. a Merchant Banker, who engages or employs any such associated person shall ensure that such person obtains certification by passing MBCE within one year from the date of his employment

19.8. Rationale

19.8.1. NISM is an examination test which examines the competence and knowledge of key employees and Compliance Officer to effectively and efficiently discharge their roles and responsibilities

19.8.2. The time span of one year for obtaining NISM certification was introduced back in 2013.

19.8.3. Sufficient period of time has elapsed since the introduction of the same. The same needs to be reviewed.

19.9. Proposal

19.9.1. It is proposed that the MBs shall ensure that the person employed under Regulation 6(b) and Compliance Officer shall obtain and possess prescribed NISM Certificate at all times:



- i. Prior to grant of registration under MB regulations (for fresh registration).
- ii. Within 90 days of appointment (in case of existing registered merchant bankers).

Enhancing qualification of Principal Officer

19.10. Existing Regulatory Provisions

19.10.1. Regulation 2(1)(d) of MB Regulations defines 'principal officer' as
(i) proprietor, in the case of a proprietary concern,
(ii) partner, in the case of a partnership firm,
(iii) director, in the case of a body corporate who is responsible for the activities of the merchant banker.

19.10.2. As per Rule 7 of Prevention of Money Laundering (Maintenance of Records) Rules, 2005, every reporting entity shall communicate the name of its Principal Officer. As per Rule 2(f) of said Rules, "Principal Officer" means an officer designated by a reporting entity, provided that such officer shall be an officer at the management level." The said Rules are applicable to intermediaries including MBs.

19.11. Rationale

19.11.1. Under the existing requirement, merchant bankers are required to appoint a principal officer who is proprietor (for *proprietary concern*), partner (for partnership firm) or Director (for a body corporate). It may be noted that only body corporate does not include proprietor and partnership. Accordingly the same are redundant as on date⁴.

19.11.2. There has been inputs from Merchant banking industry that corporates are usually engaged in multiple lines of business and accordingly directors may not be directly involved in the day-to-day activities of the merchant banker. Accordingly, it may be judicious that business head or such person who is responsible for the management and administration of the merchant banker, be designated as a 'principal officer'.

19.11.3. Under the present framework, the role and responsibility of Principal Officer has not been explicitly defined.

⁴ The same was also part of *Consultation Paper dated May 21, 2024 on the recommendations of the Expert Committee for facilitating Ease of Doing Business under MB Regulations, BTI Regulations and Buyback Regulations*



19.11.4. Further, considering the crucial role of Principal officer, a minimum work experience be mandated so that personnel with requisite experience are only designated for the said role.

19.12. **Proposal**

19.12.1. The Principal officer may be defined as -

“an employee of the merchant banker who has been designated as such by the merchant banker and is responsible for:

- i. the decisions made by the merchant banker for the management or administration of merchant banking activity*
- ii. all other operations of the merchant banker”*

19.12.2. Principal Officer to be mandated to have at least five years of experience in financial market.

19.12.3. The same shall be applicable for the appointment/ designation of principal officer(s) from a date specified by the Board.

20. **Proposal on penal provisions on failure of payment of renewal fees.**

20.1. **Existing Regulatory Provisions**

20.1.1. Regulation 12(2) of MB Regulations provides that the Board may suspend the MB certificate of registration where the MB fails to pay the renewal fees within the prescribed time.

20.1.2. Under the present framework, MBs are required to pay the following fees:

Table 5: Merchant Banking Fees

Particulars	Amount
Application Fees (one-time)	Rupees Fifty thousand
Registration Fees	Rupees twenty lakhs for five years
Renewal Fees	Rupees nine lakhs for three years.



20.2. Rationale

- 20.2.1. Under the present framework, payment of fees within the prescribed time is a condition for continuance of registration.
- 20.2.2. No penal provision has been provided in the MB Regulations for failure to pay the renewal fees within the prescribed time period.

20.3. Proposal

- 20.3.1. It has been proposed that a penal interest at 15%p.a. for each month of delay or part thereof to be charged, in case of delay in payment of renewal fees by merchant bankers.
- 20.3.2. Further, MBs shall not undertake any business or clients from the day such fees become due and remains unpaid. Further, SEBI may initiate action as deemed fit for non-payment or delay in payment of renewal fees.

Additional Proposals on Other Aspects of MB Regulations

21. Review of application for grant of Certificate of registration

21.1. Existing Regulatory Provisions

- 21.1.1. Regulation 3(2) provides that the application for a merchant banker shall be made for any one of the following categories namely:—
- (a) Category I, that is—
- (i) to carry on any activity of the issue management, which will, inter alia, consist of preparation of prospectus and other information relating to the issue, determining financial structure, tie up of financiers and final allotment and refund of the subscriptions; and*
- (ii) to act as adviser, consultant, manager, underwriter, portfolio manager;*
- (b) Category II, that is to act as adviser, consultant, co-manager, underwriter, portfolio manager;
- (c) Category III, that is to act as underwriter, adviser, consultant to an issue;
- (d) Category IV, that is to act only as adviser or consultant to an issue.



21.1.2. Regulation 3(2A)(i) states that notwithstanding anything above, the application shall be made only for category I merchant banker and has done away with category II, III and IV

21.1.3. An applicant can carry on the activity as portfolio manager only if he obtains separate certificate of registration under the provisions of the Securities and Exchange Board of India (Portfolio Manager) Regulations, 1993.

21.2. Rationale

21.2.1. Under the existing framework, an entity can be registered as MB only under Category I. Merchant Bankers are no longer granted registration under Category II, III and IV and hence the same needs to be deleted.

21.2.2. With respect to the existing reference to 'portfolio manager', as there is separate regulation – "Securities and Exchange Board of India (Portfolio Managers) Regulations, 2020", the same may also be deleted from the Regulations.

21.3. Proposal

21.3.1. The categorisation mentioned above needs to be deleted and the proposed categorisation i.e. Category 1 and Category 2 may suitably be incorporated.

22. Maintenance of books of account, records and other documents

22.1. Existing Regulatory Provisions

22.1.1. Regulation 16 mandates merchant bankers to preserve the books of account and other records and documents for a period of five years

22.2. Rationale

22.2.1. Section 128(5) of Companies Act, 2013 requires every company to maintain books of accounts for not less than eight financial years immediately preceding a financial year.

22.2.2. As nature of the activities handled by MBs requires them to handle confidential data of the companies and to possess price sensitive information, it is felt that data localisation in India is required to prevent any potential data leak/ theft.



22.3. Proposal

- 22.3.1. It is suggested that on lines with Companies Act, 2013, Merchant Bankers shall be mandated to maintain books of accounts for at least eight years
- 22.3.2. Merchant Bankers shall be advised to maintain all the data and information in India only.

23. Acquisition of shares prohibited

23.1. Existing Regulatory Provisions

- 23.1.1. Regulation 26 – Acquisition of shares prohibited states

“No merchant banker or any of its directors, partner or manager or principal officer shall either on their respective accounts or through their associates or relatives, enter into any transaction in securities of bodies corporate on the basis of unpublished price sensitive information obtained by them during the course of any professional assignment either from the clients or otherwise.”

23.2. Rationale

- 23.2.1. There is an anomaly between the heading of Regulation 26 and its provisions. The heading seems to suggest that only “acquisition of shares” by merchant bankers and other specified persons is prohibited whereas the provisions of Regulation 26 prohibits any transaction in securities of bodies corporate on the basis of unpublished price sensitive information, by the aforesaid persons.
- 23.2.2. Further, the condition of prohibiting acquisition of securities is only limited to merchant banker, its directors, partner, manager, principal officer and their associates or relatives, but does not cover compliance officer or its associates/ relatives. Considering the nature of duties of compliance officer, the said prohibition may also be extended to compliance officer, its associates and relatives.

23.3. Proposal

- 23.3.1. It is suggested to modify the heading to “Any transaction in securities” by making appropriate amendment in SEBI MB Regulations.



23.3.2. Compliance officer of merchant banker, its associates and relatives shall also be included for prohibition of acquisition of securities in bodies corporate on the basis of price sensitive information obtained by them during the course of any professional assignment either from clients or otherwise.

24. Information to the Board

24.1. Existing Regulatory Provisions

24.1.1. Regulation 27 states that -

Every merchant banker shall submit to the Board complete particulars of any transaction for acquisition of securities of any body corporate whose issue is being managed by that merchant banker within fifteen days from the date of entering into such transaction.

Provided that complete particulars of any transaction for acquisition of securities made in pursuance of underwriting or market making obligations in accordance with Chapter XA of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 shall be submitted to the Board on quarterly basis.

24.2. Rationale

24.2.1. It is suggested that any acquisition of securities whose issue is being managed by the MB may be submitted as a part of half-yearly report instead of present requirement of 15 days from the date of entering into such transaction.

24.2.2. In addition to above, complete particulars of any transactions for acquisition of securities made pursuance of underwriting or market making obligations may be submitted as a part of half-yearly report instead of present requirement of submission on quarterly basis.

24.3. Proposal

24.3.1. Merchant Bankers shall be advised to submit particulars of any transaction for acquisition of securities of any body corporate whose issue is being managed by that merchant banker and particulars of any transactions for acquisition of securities made pursuance of underwriting or market making obligations as a part of the half-yearly report to SEBI.



25. Merchant bankers not to undertake merchant banking activity without obtaining requisite registration from SEBI

25.1. Existing Regulatory Provisions

25.1.1. Under the present regulatory framework, there is no provision in this regard.

25.2. Rationale

25.2.1. An enabling clause to be introduced
Rule 3 of erstwhile SEBI (MB) Rules, 1992 provided that
“No person shall carry on any activity as a merchant banker unless he holds a certificate granted by the Board under the regulations.”

After repeal of said Rules on September 07, 2006, similar clause was not there in MB Regulations. Thus, proposed for inclusion

25.3. Proposal

25.3.1. A separate clause shall be introduced - No person shall act as a merchant banker, directly or indirectly, unless it has obtained a certificate of registration from the Board under these regulations

26. Guidelines on Outsourcing of Activities by Intermediaries

26.1. Existing Regulatory Provisions

26.1.1. SEBI Circular dated December 15, 2011: Guidelines on Outsourcing of Activities by Intermediaries

26.2. Rationale

26.2.1. In order to ensure high standards of service, core activity may not be allowed to be outsourced.

26.3. Proposal

26.3.1. MBs shall not be permitted to outsource core activities such as Due diligence of Issuer, preparation of Offer Document.



27. Power of the Board to issue clarifications

27.1. Existing Regulatory Provisions

27.1.1. Under the present regulatory framework, there is no provision in this regard.

27.2. Rationale

27.2.1. In order to remove any difficulties in respect of interpretation of MB Regulations, SEBI may issue clarifications in the form of circulars.

27.3. Proposal

27.3.1. An enabling clause to be introduced - *“In order to remove any difficulties in respect of the applicability or interpretation of these regulations, the Board may issue clarifications or guidelines in the form of circulars”*

28. Review of periodic report submitted by Merchant Bankers

28.1. Existing

28.1.1. Regulation 28(2) requires every merchant banker to submit a periodic report in such manner as may be specified by Board from time to time.

28.1.2. SEBI, vide para 7 of Master Circular for merchant bankers dated September 26, 2023 (previously SEBI Circular No.CIR/MIRSD/6/2012 dated May 14, 2012), prescribes a revised format of the periodic report and the Merchant Bankers were advised to submit the Report within three months of the expiry of the half-year ending March / September

28.2. Rationale

28.2.1. Considering the significant changes in the securities market since 2012, the format of the half-yearly report needs to be revised to capture the present day important parameters.

28.3. Proposal

28.3.1. The revised format of half-yearly format shall be prescribed by SEBI.



PUBLIC COMMENTS

1. Public Comments are solicited on the aforesaid recommendations with respect to review of Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992. The comments / suggestions along with rationale should be submitted no later than **September 18, 2024**, through the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

2. In case of any technical issue in submitting your comment through web based public comments form, you may write to consultationcfid@sebi.gov.in with the subject: "*Comments on the Review of Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992*".

The comments to be sent by email should only be in MS EXCEL file in the format prescribed as under:

https://www.sebi.gov.in/sebi_data/commondocs/aug-2024/Format_for_seeking_comments_Final_p.xlsx



भारतीय प्रतिभूति और विनिमय बोर्ड
Securities and Exchange Board of India