

CIRCULAR

HO/49/11/11(106)2025-CFD-RAC-DIL3/II/1796/2026

January 02, 2026

To,

All Registered Merchant Bankers (MBs)

Madam/ Sir,

Subject: Specification of the consequential requirements with respect to Amendment of Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992

1. SEBI (Merchant Bankers) Amendment Regulations, 2025 has been notified on December 05, 2025 and shall be applicable w.e.f. January 03, 2026 (hereinafter being referred as “**Effective Date**”).
2. **Conditions for compliance with revised capital adequacy and new liquid net worth requirements as well as timelines to re-categorize as Category I or Category II; for Merchant Bankers:**
 - 2.1. In terms of clause (d) of regulation 6 of SEBI (Merchant Bankers) Regulations, 1992 (hereinafter being referred as “**MB Regulations**”), the revised net worth and liquid net worth as specified in regulations 7 and 7A are applicable as follows:
 - a) In case of applications made on or after January 03, 2026, the applicants shall fulfill the revised capital adequacy requirements under regulation 7 and new liquid net worth requirements under regulation 7(A) as on date of its application.
 - b) Existing Merchant Bankers (MBs) shall comply with the above requirements in phased manner as given at para 2.2. Those applicants who have filed application before January 03, 2026 and are granted registration subsequently are also considered as existing MBs for the purpose of this circular.
 - 2.2. For existing MBs, the MB Regulations empowers Board to specify the time and manner for its implementation. Accordingly, to ensure smooth adoption of these requirements, it has been decided that revised capital adequacy and new liquid net worth requirements shall apply to existing MBs in a phased manner as under:

Table (I): Phased implementation of capital adequacy and liquid net worth requirements

Category	Phase (I) - on or before January 02, 2027		Phase (II) - on or before January 02, 2028	
	capital adequacy being net worth	liquid net worth requirement	capital adequacy being net worth	liquid net worth requirement
Category I	Rs. 25 cr	Rs. 6.25 cr	Rs.50 cr	Rs.12.5 cr
Category II	Rs. 7.5 cr	Rs. 1.875 cr	Rs.10 cr	Rs.2.5 cr

2.3. In terms of amended sub-regulation (4) of regulation 3 of MB Regulations, every existing MB shall categorize itself either as Category I or Category II by complying with net worth and liquid net worth requirements within such time period and in the manner as specified by the Board. Accordingly, it is specified that:

2.3.1. an existing MB shall continue to work as Category I or Category II till January 02, 2027. However, it is required to intimate SEBI through email to mb@sebi.gov.in, on or before January 02, 2027, about the category that an MB intends to continue from January 03, 2027. Along with this email it is required to submit a Chartered Accountant certified Net worth Certificate (including component of liquid net worth) confirming compliance with net worth and liquid net worth requirements.

2.3.2. An existing MB who fails to comply with requirements for Category I, by end of Phase (I) or Phase (II), as given under Table I, shall be automatically designated as Category II MB.

2.3.3. Further, an existing MB who fails to comply with requirements for Category II, by end of Phase (I) or Phase (II), as given under Table I, shall not undertake any fresh permitted activity as specified in sub-regulation (1) of regulation 13A.

2.4. The MB shall submit a certificate from Chartered Accountant as part of Half Yearly Report certifying that the net worth and liquid net worth of the MB have been maintained as specified in MB Regulations, at all times during the corresponding half year period.

3. **Definition of liquid net worth:**

3.1. For the purpose of regulation 7A of MB Regulations, "liquid net worth" shall mean net worth deployed in unencumbered liquid assets, with applicable haircut as given in the following table:

Type of instrument*	Applicable haircut
Cash	0%
Bank fixed deposits	0%
Government securities	10%
Units of overnight mutual fund schemes, liquid mutual fund schemes or government securities mutual fund schemes (by whatever name called which invest in government securities)	10%
Listed securities of Nifty 500 companies held either as investment or Stock-in-Trade/ Inventories	30%

*Value of these instruments to be considered for calculating liquid net worth shall be the value as recorded in the books of accounts, on the date of computation of the net worth.

Illustration:

Particulars		Amount (Rs.)
Listed Shares	A	Rs. 200
G-Sec	B	Rs. 100
Total Marketable Securities	A+B	Rs. 300
Value to be considered for calculating liquid net worth		Rs. 230
70% of Listed Shares i.e., 70% of Rs. 200 = Rs. 140		
90% of G Sec i.e., 90% of Rs. 100 = Rs. 90		

4. Conditions for compliance in respect of underwriting obligations:

- 4.1. In terms of newly inserted sub-regulation (2) of Regulation 22B of MB Regulations, total underwriting obligations of MB shall not exceed 20 times of its liquid net worth. For existing MBs, Board has been empowered to specify the time and manner of compliance. Accordingly, it is specified that existing MBs shall comply with this requirement within two years from the effective date, i.e., by January 02, 2028.
- 4.2. The MB is also mandated to submit a certificate issued by Chartered Accountant providing the value of total underwriting obligations of the MB, as a part of Half Yearly Report. The certificate should also certify compliance with the sub-regulation (2) of regulation 22B by the MB.

5. **Compliance with Conditions for requisite certification:**

- 5.1. In terms of existing clause (b) of regulation 6 of MB Regulations, an applicant is required to have in its employment, a minimum of two persons who are professionally qualified in finance or law or accountancy or business management from a Government recognized university or institution or who have a recognized degree in finance or law or accountancy or business management from a foreign university or institution.
- 5.2. In terms of newly inserted clause (ba) of regulation 6 of MB Regulations, such employees and the compliance officer are required to obtain such certification(s) as may be specified by the Board.
- 5.3. It is, accordingly, specified that the employees of an applicant, as specified in clause (b) of Regulation 6, shall possess the certificate for NISM Series-IX: Merchant Banking Certification Examination at the time of application.

For an existing MB,

- a) an existing employee shall obtain requisite certification within one year from effective date, i.e., on or before January 02, 2027.
 - b) the employees, who are appointed on or after January 3, 2026, shall be required to obtain requisite certification within ninety days from the date of his/ her appointment.
- 5.4. Further, the compliance officer of an applicant shall possess certificates for NISM-Series-IX: Merchant Banking Certification Examination and NISM-Series-III A: Securities Intermediaries Compliance (Non-Fund) Certification Examination at the time of application.

For an existing MB,

- a) an existing compliance officer shall obtain requisite certifications within one year i.e., on or before January 02, 2027.
- b) the compliance officer, who is appointed on or after January 3, 2026, shall be required to obtain requisite certifications within ninety days from the date of his/ her appointment.

6. **Requirement of compliance officer to be independent from other employees**

- 6.1. In terms of newly inserted clause (i) of sub-regulation (2) of regulation 28A of MB Regulations, the compliance officer shall be separate and independent from the principal officer and the employees referred to in clause (b) of regulation 6.
- 6.2. The Board has been empowered to specify time and manner of compliance with the provision for existing MBs. It is, accordingly, specified that existing MBs shall comply with the requirement of compliance officer to be separate and independent from principal officer and the employees referred to in clause (b) of regulation 6, within ninety days from the effective date, i.e., on or before April 03, 2026.
- 6.3. For any registration granted on or after April 03, 2026, for the application filed before January 03, 2026, this condition shall be applicable from the date of grant of registration.

7. **Requirement of principal officer with relevant experience:**

- 7.1. According to substituted definition of principal officer in clause (d) of sub-regulation (1) of regulation 2 of MB Regulations, “principal officer” means an employee of the merchant banker, who has at least five years of experience in working in the financial markets, and who has been designated as such by the merchant banker, and is responsible for the decisions made by the merchant banker for the management or administration of merchant banking activities and all other operations of the merchant banker. An applicant is required to comply with the said requirement at the time of filing application with SEBI.
- 7.2. Board has been empowered to specify time and manner of compliance with the provision for existing MBs. It is accordingly specified that existing MBs shall comply with this requirement within one year from the effective date i.e., on or before January 02, 2027.

8. **Merchant Bankers not to outsource its core merchant banking activities:**

- 8.1. In terms of amended clause (i) of sub-regulation (1) of regulation 9A of MB Regulations, Merchant Bankers shall not outsource its core merchant banking activities from the effective date. Board has been empowered to specify time and manner of compliance of this provision for existing MBs.

It is, accordingly, specified that an existing MB having an open mandate/ existing agreement as on effective date, through which core merchant banking activities have been outsourced to a third party, shall be required to close the same within ninety days from the Effective Date. i.e., on or before April 03, 2026.

9. **Compliance with requirement of minimum revenue from permitted activities:**

- 9.1. In terms of clause (j) of sub-regulation (1) of regulation 9A and regulation 9C of MB Regulations, the MBs shall generate minimum revenue, as specified by the Board, from activities provided under sub-regulation (1) of regulation 13A.
- 9.2. The Board has been empowered to specify the minimum revenue that an MB has to generate from the permitted activities. It is, accordingly, specified that an MB shall generate minimum revenue, on a cumulative basis over the three immediately preceding financial years, as given below:
- (i) Category I: at least Rs. 25 crore
 - (ii) Category II: at least Rs. 5 crore
- 9.3. If an MB fails to generate minimum revenue, as given above, its certificate of registration is liable to be cancelled under summary proceedings under SEBI (Intermediaries) Regulations, 2008. The first assessment w.r.t. minimum revenue from permitted activities by MBs, will be carried out with effect from April 01, 2029.
- 9.4. Board has been empowered to specify circumstances under which the registration granted to an MB shall not be cancelled in case it is unable to meet the minimum revenue due to certain circumstance(s). Accordingly, it is specified that SEBI shall, *inter alia*, take into account the following circumstances in deciding whether to cancel the registration of an MB for not meeting minimum revenue criteria, namely:
- 9.4.1. Natural calamities like flood, earthquake,
 - 9.4.2. Outbreak of pandemic situations like COVID-19 etc.
 - 9.4.3. Global Economic Recession
 - 9.4.4. Geopolitical tensions and war
- 9.5. MBs are required to submit details of revenue from permitted activities to SEBI within three months from the end of each financial year, starting from FY 2026-27.

10. **Disclosure to be made by Merchant Banker where it is only involved in the marketing of an issue:**

- 10.1. In terms of regulation 21C of MB Regulations, an MB shall not lead manage any public issue, where its directors, other key managerial personnel, compliance officer, employees referred to in clause (b) of Regulation 6, or their relatives, individually or in aggregate hold more than 0.1% of the paid up share capital or shares whose nominal value is more than 10,00,000 rupees, whichever is lower, in the issuer.

Provided that an MB may be involved only in the marketing of such issues subject to appropriate disclosure as may be specified by the Board.

Accordingly, it is specified that the MBs shall inter-alia disclose the nature of the instrument/s, amount of investment/s and quantum of holding/s of the entities mentioned in regulation 21C, in the issuer company and their relationship with the MB, in the offer document and other marketing material of such issue/s.

This requirement shall be applicable to the public issues filed with SEBI or stock exchange(s), on or after the effective date, i.e., w.e.f. January 03, 2026.

11. Conditions to be complied by Merchant Bankers for carrying out activities other than permitted activities:

11.1. In terms of sub-regulation (2) of regulation 13A of MB Regulations, an MB may also undertake activities other than the permitted activities (as specified under sub-regulation (1) of regulation 13A), on an arms-length basis through separate business units of such MB. In this regard, the Board has been empowered to specify the manner and conditions, subject to which the MB may carry out such other activities.

11.2. Accordingly, following conditions are specified for carrying out such other activities, that are not regulated by SEBI:

11.2.1. The MB shall undertake such activities that are not regulated by SEBI only at arms' length basis through one or more separate business units (SBU) of the MB, segregated by a Chinese Wall and ring-fenced from the SEBI regulated activities. The segregation shall be done within a period of six months from the effective date, i.e., on or before July 03, 2026.

11.2.2. The MB shall ensure that the grievance redressal mechanism including escalation mechanism, if any, with respect to activities not regulated by SEBI, is separate and distinct from the grievance redressal mechanism provided for activities regulated by SEBI and is part of the SBU.

11.2.3. The MB shall prepare and maintain separate records in the SBU for the non-SEBI regulated activities.

11.2.4. The staff engaged in non-SEBI regulated activities, should be distinct from the staff handling activities regulated by SEBI. However, the staff can cross the Chinese wall, subject to due procedures approved by the board of directors of the entity. Such Chinese wall shall not be applicable for the Key Managerial Personnel.

11.2.5. The other resources, including the information technology infrastructure, may be shared between the activities regulated by SEBI and activities that are not regulated by SEBI, subject to due procedures approved by the board of directors of the MB.

11.2.6. The MB shall duly disclose on its website, the list of the activities that are not regulated by SEBI or any other Financial Sector Regulator (FSR), along with a disclosure that none of the SEBI investor protection mechanism will be available for any grievances or disputes arising out of or pertaining to non-SEBI regulated activities.

Existing MBs undertaking non-SEBI regulated activities as on the effective date shall make the said disclosure on its website, within thirty days from the effective date, i.e., on or before February 02, 2026.

11.2.7. If an MB undertakes activity regulated by other FSR, the name of the relevant FSR should also be specified in disclosures to relevant stakeholders. Further, the MB shall comply with the regulatory framework, if any, as may be specified by the respective FSR for the matters relating to policy eligibility criteria, risk management, investor grievance or dispute handling mechanism, inspection, enforcement and claims.

11.2.8. The MB shall ensure that its advertising, marketing material and its webpage displaying information pertaining to SEBI regulated activities shall be separate and distinct from that of non-SEBI regulated activities.

11.2.9. Before undertaking any activities which are not regulated by SEBI, there shall be an upfront written disclosure by the MB, as mentioned at para (11.2.6) and (11.2.7) above, to the relevant stakeholders including clients, beneficiaries and counterparties. The said disclosure shall be made on all engagement letters, contracts, agreements, and business communication, that such activities do not fall within the regulatory purview of SEBI. In this regard, confirmation/ acknowledgement shall also be obtained from the stakeholders at the time of engagement, that they have been informed about the nature of the activity, risks involved and non-availability of any SEBI investor protection mechanism.

11.2.10. For the existing and ongoing mandates/ arrangements w.r.t the non-SEBI regulated activities, an MB shall make disclosures, as mentioned at para (11.2.6) and (11.2.7) above, and obtain confirmation/ acknowledgement from the stakeholders including clients, beneficiaries and counterparties, and submit a compliance report to the Board, within a period of six months from the effective date, i.e., on or before July 03, 2026.

- 11.3. The MB shall ensure that, in respect of activities not regulated by the SEBI, it submits an undertaking as part of the half-yearly report confirming compliance with requirements of regulation 13A and the conditions prescribed at para 11.2, duly reviewed and approved by its board of directors.
- 11.4. Further, as specified in the first proviso to sub-regulation (2) of regulation 13A, a person holding a Certificate of Registration under MB regulations, which is also regulated by the Reserve Bank of India, shall undertake the merchant banking activities specified under sub-regulation (1) of regulation 13A, through a separate business unit. Therefore, the terms and conditions specified at para 11.2 above shall be complied with by such SBU.
12. This circular is issued in exercise of the powers conferred by Section 11(1) of the Securities and Exchange Board of India Act, 1992
13. This circular is available at www.sebi.gov.in under the category 'Legal → Circulars'.

Yours faithfully,

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