

## **Amendments proposed to Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992**

### **1. Objective:**

1.1. This memorandum seeks the approval of the Board to amend the SEBI (Merchant Bankers) Regulations, 1992 (hereinafter referred to as “**MB Regulations**”) and issuance of relevant circulars for giving effect to the amendments.

2. (This has been excised for reasons of confidentiality)

### **3. Specifying Activity Based Regulation for MBs:**

(This has been excised for reasons of confidentiality)

#### **3.3. Proposal for consideration of the Board:**

Pursuant to inputs received from the market participants and due internal discussions and deliberations, it is now proposed that –

(A) a registered MB may be permitted to undertake activities that are not regulated by SEBI subject to the following conditions:

3.3.1. The activity(ies), (other than SEBI regulated activities), should pertain to the financial services sector, should be fee-based & be non-fund based activities and should be incidental, complementary, supplementary, ancillary or related to the Merchant Banking activity(ies). Further, if such activities fall under the purview of a Financial Sector Regulator (FSR) or Authority, the MB shall comply with the regulatory framework, if any, as may be specified by the respective FSR or Authority for the matters relating to policy, eligibility criteria, risk management, investor grievance or dispute handling mechanism, inspection, enforcement and claims.

“Financial Sector Regulator” shall mean an authority or body constituted under any law for the time being in force to regulate services or transactions of in the financial sector and includes the Reserve Bank of India (RBI), Insurance and Regulatory Development Authority (IRDA), Pension Funds Regulatory and Development Authority (PFRDA), International Financial Services Centres Authority (IFSCA), Ministry of Corporate Affairs (MCA), Insolvency and Bankruptcy Board of India (IBBI) or such other Authority as may be specified by the Board, from time to time.

- 3.3.2. MB shall undertake such activity(ies) that are not regulated by SEBI only at arms' length basis through one or more Separate Business Units (SBUs), while ensuring that these activities are segregated and ring-fenced from the SEBI regulated activities. MB can share resources with the SBU(s). Ideally, the staff appointed for MB activities should be separate with an operational Chinese wall. However, staff can be wall crossed subject to due procedures and documentation. Further, the top level management can also straddle the wall. MB shall prepare and maintain separate account and records for the SBU(s). The MB shall be required to comply with the requirement for operating through SBU(s) within six months from the date of the amendment notification or within such time period as may be specified by the Board by way of a circular.
- 3.3.3. MBs shall ensure that the minimum net worth requirement for an MB, as specified under the MB Regulations, shall be ring fenced from all or any impact arising out of undertaking the activities that are not regulated by SEBI.
- 3.3.4. MBs shall duly disclose the list of the activities that are not SEBI regulated activities on its website along with a disclosure that SEBI investor protection mechanisms such as SCORES or ODR (including Smart ODR) will not be available for any grievances or disputes arising out of or pertaining to such activities. An MB undertaking such activity(ies), as on the date of the amendment notification, shall make the said disclosure on its website, within thirty days from the date of the amendment notification. The webpage displaying information relating to activity(ies) not regulated by SEBI shall be segregated, separate and distinct from listing of MB activities regulated by SEBI. This shall also be undertaken for any advertising or marketing materials.
- 3.3.5. Before undertaking any activities which are not regulated by SEBI, there shall be an upfront written disclosure by the MB to the prospective clients, beneficiaries, counterparties and all other relevant stakeholders ("parties involved"), including on all engagement letters, contracts, agreements, and business communication that such activity(ies) do not fall within the regulatory purview of SEBI. In this regard, due confirmation/ acknowledgement shall also be obtained from the parties involved, at the

time of engagement or immediately thereafter, that they have been informed about the nature of the activity, risks involved and non-availability of any SEBI investor protection mechanism.

Further, for the existing/ ongoing contracts w.r.t such activities, an MB shall also undertake due notification to and obtain suitable confirmation/ acknowledgement from the clients, beneficiaries, counterparties and all other relevant stakeholders and submit a compliance report to SEBI, within six months from the date of the amendment notification or within such time period as may be specified by the Board by way of a circular.

3.3.6. MB shall ensure that the grievance redressal mechanism with respect to activities not regulated by SEBI including escalation mechanism, if any, shall be part of the SBU and completely distinct from the grievance redressal mechanism specified for SEBI regulated activities.

3.3.7. As part of the half-yearly compliance report filed with SEBI, the MB shall furnish compliance with the above specified conditions after due review by its Board of Directors if it undertakes any activities which are not regulated by SEBI.

3.3.8. Requiring hiving-off such activities to another legal entity or usage of a distinct brand is dispensed with.

(B) (This has been excised for reasons of confidentiality), the list of the permitted activities as approved by the Board in the meeting held on December 18, 2024, may be revised by including the following activity:

“secondary transactions of listed or proposed to be listed securities on a stock exchange recognized by the Board and activities incidental thereto”.

3.4. The aforementioned proposals have been discussed with (this has been excised for confidentiality); and their feedback on certain items have been suitably incorporated. It is noted that the original proposal was duly consulted and the current proposal relaxes the earlier requirement of hiving-off and aims to facilitate ease of doing business for the MBs. Accordingly, public consultation for the revised and final proposal has not been undertaken.

#### **4. Proposal for consideration of the Board:**

4.3. The Board is requested to:

4.3.1. consider and approve the proposals as mentioned under para 3.3 above.  
The draft regulations are placed at Annexure D;

- 4.3.2. approve the implementation of proposals 3.3.1, 3.3.2, 4.3, 5.3, 6.3, 7.3, 8.3, 9.3, 10.3, 11.3, 12.3, 13.3, 14.3, 15.3, 16.3, 17.3, 18.3 and 19.3 in December Board Memorandum (which were considered and approved with modification by the Board in the meeting held on December 18, 2024);
- 4.3.3. authorize the Chairman to make consequential and incidental changes and take necessary steps to give effect to the decisions of the Board.
- 4.4. The proposed amendments shall come into force thirty days from the date of their publication in the official gazette.

**Enclosures:**

1. Annexure A: Copy of December Board Memorandum
2. Annexure B: Copy of March Board Memorandum
3. Annexure C: Comments received from Industry Associations
4. Annexure D: Draft amendment to SEBI (Merchant Bankers) Regulations, 1992 and consequential amendment to the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011; SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 and SEBI (Intermediaries) Regulations, 2008

**Copy of December Board Memorandum**

(The same is available on SEBI website)

This may be accessed at

[https://www.sebi.gov.in/web/?file=https://www.sebi.gov.in/sebi\\_data/meetingfiles/jan-2025/1735725365656\\_1.pdf#page=1&zoom=page-width,-17,841](https://www.sebi.gov.in/web/?file=https://www.sebi.gov.in/sebi_data/meetingfiles/jan-2025/1735725365656_1.pdf#page=1&zoom=page-width,-17,841)

**Copy of March Board Memorandum**

(This has been excised for reasons of confidentiality)

**Comments received from Industry Associations**

(This has been excised for reasons of confidentiality)

**Draft amendment to SEBI (Merchant Bankers) Regulations, 1992 and consequential amendment to the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011; SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 and SEBI (Intermediaries) Regulations, 2008**

(This shall be notified at a later date)