

## SEBI OVERHAULS MERCHANT BANKING FRAMEWORK: CAPITAL, STAFFING & OPERATIONAL NORMS



**Circular no.:** HO/49/11/11(106)2025-CFD-RAC-DIL3//1796/202

**Date of Issue:** January 02, 2026 | **Effective from** January 3, 2026

### 1. The Update

SEBI has introduced a comprehensive set of consequential requirements that mandate a phased increase in capital adequacy, stricter personnel certification, and the mandatory segregation of non-SEBI regulated activities. The circular also imposes a total ban on the outsourcing of core merchant banking functions and establishes minimum revenue benchmarks to maintain registration.

### 2. The Shift: Old vs. New

- **Capital Base:** Previously, capital was measured primarily by net worth. The new framework introduces Liquid Net Worth (LNW) as a critical secondary requirement, ensuring that a portion of the capital is held in unencumbered, high-quality liquid assets like cash or government securities.
- **Operational Control:** Where core activities might have been outsourced previously, the new rules mandate that all core functions must be handled in-house, requiring all existing outsourcing agreements to be terminated.
- **Independence:** The Compliance Officer, who may have previously been part of general staff, must now be entirely separate and independent from the Principal Officer and other specific employees.

### ***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

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### 3. Affected Regulations

- Regulation 7 & 7A: Revised Net Worth and new Liquid Net Worth requirements.
- Regulation 22B: New caps on underwriting obligations.
- Regulation 9A & 9C: Prohibition on outsourcing and minimum revenue mandates.
- Regulation 13A: Framework for conducting non-SEBI regulated activities through separate business units.

### 4. Key Compliance Action Points

- Capital Infusion: Existing Category I MBs must increase their Net Worth to ₹50 crore and Liquid Net Worth to ₹12.5 crore by January 2, 2028, through a two-phase implementation.
- Certification: All specified employees and Compliance Officers must obtain NISM Series-IX certification. Existing staff have until January 2, 2027, to comply.
- Structural Segregation: MBs conducting non-SEBI activities must establish a "Chinese Wall" and separate business units (SBUs) by July 3, 2026.
- Mandate Closure: Any open mandates for outsourced core activities must be closed by April 3, 2026.

### 5. Regulatory Impact

This overhaul is expected to consolidate the sector, as smaller players may struggle to meet the five-fold increase in capital requirements for Category I status. The mandate for minimum cumulative revenue, ₹25 crore for Category I and ₹5 crore for Category II over three years, ensures that only active, viable entities remain in the market. Furthermore, by capping underwriting at 20 times the liquid net worth, SEBI is significantly reducing the systemic risk posed by over-leveraged intermediaries.

[Click here to read the SEBI circular](#)

#### KNOWLEDGE DESK

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