

SEBI revises capital adequacy and new liquid net worth requirements for Merchant Bankers

This Securities and Exchange Board of India (SEBI) vide its **Circular No. HO/49/11/11(106)2025-CFD-RAC-DIL3/I/1796/2026, dated January 02, 2026**, specifies the consequential requirements following the amendment of the SEBI (Merchant Bankers) Regulations, 1992, which becomes effective on January 03, 2026. The circular introduces revised capital adequacy and new liquid net worth requirements for Merchant Bankers (MBs), to be implemented in a phased manner for existing MBs by January 02, 2028.

Existing MBs are required to re-categorise as either Category I or Category II and intimate SEBI of their choice by January 02, 2027, and the failure to meet the requirements for a category will result in automatic designation to a lower category or a prohibition on undertaking new activities. The circular defines “liquid net worth” as net worth deployed in unencumbered liquid assets, subject to specified haircuts on instruments like government securities and listed equities. Furthermore, it caps the total underwriting obligations of an MB at 20 times its liquid net worth, with compliance required by January 02, 2028.

The regulations mandate new professional standards, requiring specific employees and compliance officers to obtain NISM certifications within stipulated timelines. The compliance officer must be separate and independent from the principal officer and other key employees, a requirement to be met by April 03, 2026. The principal officer must now have at least five years of experience in financial markets, with existing MBs required to comply by January 02, 2027. A significant operational change is the prohibition on outsourcing core merchant banking activities, and any existing agreements for such outsourced activities must be closed by April 03, 2026.

Merchant Bankers are now required to generate minimum revenue from permitted activities on a cumulative basis over three preceding financial years, with the first assessment commencing from April 01, 2029. The circular also specifies disclosure requirements for MBs involved only in the marketing of an issue where their personnel have a specified interest in the issuer company.

Finally, it lays down detailed conditions for MBs undertaking activities not regulated by SEBI, requiring them to be conducted on an arm's-length basis through a separate business unit (SBU) segregated by a “Chinese Wall”. This includes maintaining separate records, grievance mechanisms, and making explicit written disclosures to all stakeholders that such activities are outside SEBI's regulatory purview and its investor protection mechanisms are not available, with compliance for existing arrangements due by July 03, 2026.

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