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Regulatory Updates

Mr. Sumit Agrawal, Managing Partner of Regstreet Law Advisors and a former officer of SEBI

These are some of the key regulatory developments relevant to merchant bankers notified by SEBI over the preceding one-year period up to January 02, 2026, spanning amendments to core regulations, operational circulars, consultation papers and new compliance frameworks. Collectively, they reflect heightened regulatory focus on disclosure standards, technology use, governance, capital-raising processes and intermediary accountability impacting merchant banking activities.

1. **Securities and Exchange Board of India (Intermediaries) (Amendment) Regulations, 2025**
SEBI, through the Intermediaries (Amendment) Regulations, 2025 notified on February 06, 2025, has amended the SEBI (Intermediaries) Regulations, 2008 by introducing a new Chapter IIIB titled "Usage of Artificial Intelligence and Machine Learning (AI/ML) tools and techniques by persons regulated by SEBI."

Key changes introduced by the amendment

- A. **Insertion of a new Chapter IIIB in the Intermediaries Regulations, 2008:** A dedicated chapter on responsibility for the use of AI has been inserted after Chapter IIIA and before Chapter IV.

- B. **Exclusive responsibility imposed on regulated entities using AI/ML tools:** Any SEBI-regulated person using AI/ML tools – whether internally developed or procured from third-party technology providers – shall be solely responsible for:
 - privacy, security and integrity of investors' and stakeholders' data, including fiduciary data;
 - outputs generated from the use of AI/ML tools that are relied upon or acted upon; and
 - compliance with applicable laws arising from use of AI/ML.

- C. **Board's power to take action for violations:** SEBI may take enforcement action for violation of the above responsibilities, including action under Chapter V of the Intermediaries Regulations (enquiry, suspension/cancellation, penalties etc.).

- D. **Definition of "AI and ML tools and techniques" included:** The amendment clarifies that AI/ML tools may include:
 - any application, software program or executable system, or
 - a combination thereof, used either internally (for investing/trading support, investment strategy dissemination, advisory functions, compliance purposes, business management etc.), or offered to investors/stakeholders as part of products/services.

The amendment introduces a standalone regulatory framework assigning full accountability to intermediaries for the use of AI/ML tools, including responsibility for data protection, quality of outputs and legal compliance, with SEBI empowered to take action for violations.



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Merchant Banker Due Diligence: Evolving Expectations and Emerging Ambiguities in SEBI's Enforcement Landscape

Mr. Sumit Agrawal¹ Managing Partner of Regstreet Law Advisors and a former officer of SEBI

I. Introduction

One of the most persistent and debated questions in capital market practice concerns the point at which a merchant banker's duty of due diligence ends and the work of a forensic auditor or investigative agency begins. As India's public issue framework has grown more complex, the conversation around the merchant banker's role has intensified. Market participants increasingly wonder whether SEBI's expectations now require merchant bankers to move beyond traditional verification and undertake investigative, almost forensic, scrutiny, raising fundamental questions about the true limits of "due diligence."

As of December 01, 2025, there are 237 SEBI registered merchant bankers in India. These intermediaries occupy a central position in the country's primary market framework. Whether in an IPO, FPO, rights issue, or open offer, their role extends far beyond drafting documents and coordinating the regulatory process. SEBI itself has articulated the significance of this role: "The role of a merchant banker in the securities market is very important in the process of issue management. The

merchant banker plays a vital role in channeling the financial surplus of the society into productive investment avenues. A Merchant Banker is appointed for the purpose of managing the issue of an IPO of a Company and it plays a fiduciary role by coordinating the activities of the Company, the Regulatory Bodies, and the Investors. It is evident that the Merchant Banker is the focal point in a public issue, without him acting diligently and complying strictly with the letter and spirit of the rules and regulations framed there under, the issue cannot be properly regulated and investors are put to grave danger, which is not in the interest of the securities market."

The SEBI (Merchant Bankers) Regulations, 1992 ("MB Regulations") prescribe structural and conduct standards, and the Master Circular of September 26, 2023, sets out extensive procedural responsibilities through pre-issue and post-issue due-diligence

certifications, reporting obligations and governance requirements.

Yet, the foundational concept driving these obligations i.e. "due diligence" remains deliberately open-ended. While the MB Regulations repeatedly require merchant bankers to exercise "due diligence," "proper care," and "independent professional judgement,"³ they do not define how far a merchant banker must go in verifying issuer / acquirer's information. There is no statutory threshold for the depth of inquiry, nor a documented guidance on when reliance on issuer documents is acceptable and when independent validation becomes necessary.

This absence of defined contours has meant that SEBI's enforcement actions have effectively become the primary source through which the scope of due diligence is interpreted. The do's and don'ts for a merchant banker's due diligence has evolved over a period of time through legislative interpretation by both SEBI and the Securities Appellate Tribunal. Over time, SEBI's orders have expanded expectations, ranging from independent verification of promoter shareholding histories to cross-checking foreign corporate registries, validating property

¹ Sumit Agrawal is the Managing Partner of Regstreet Law Advisors and a former officer of SEBI. The views expressed are personal. He was assisted by Adv. Kavish Garach, Senior Associate at Regstreet Law Advisors.
² WTM Order dated December 28, 2011 in the matter of dealings in the IPO of RDB Rasayans Ltd of bearing reference no. WTM/PS/45/ID9/DEC/2011
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SUMIT AGRAWAL
FOUNDER AND MANAGING PARTNER



KAVISH GARACH
SENIOR ASSOCIATE