

# Study Notes for NISM Series IX: Merchant Banking Certification Examination

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**Examination Details**

Total Questions	100 X 1 Marks
Total marks	100
Type	Multiple Choice
Pass Score	60% = 60 marks
Duration	2 Hours
Negative marks	-0.25

**Chapter - Weightage**

Chapter no	Chapter name	Marks
1	Introduction to the Capital Market	7
2	Introduction to the Merchant Banking	15
3	Registration, Code of Conduct & General Obligations of Merchant Bankers in India	15
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# NISM Series-IX: Merchant Banking Certification Examination

## Chapter 1: Introduction to Capital Market

1. **Capital Market Role:** Facilitates transfer of funds from savers to efficient users, aiding economic development.
2. **Primary Market:** Platform for issuers to raise capital through new securities (IPOs, FPOs).
3. **Secondary Market:** Provides liquidity for securities already issued, traded between investors.
4. **Money Market:** Deals with short-term funds like Treasury Bills, Commercial Papers, and Certificates of Deposits.
5. **Equity Market Products:** Include equity shares, preference shares, convertibles, warrants, mutual funds, and ETFs.
6. **Equity Shares:** Represent fractional ownership in a company, bearing risks and rewards.
7. **Preference Shares:** Offer priority in dividends and capital repayment, redeemable within 20 years.
8. **Convertibles:** Debt or preference shares convertible into equity, e.g., FCDs, PCDs, CPS.
9. **Warrants:** Provide the right to buy equity shares at a specified price after a period.
10. **Mutual Funds:** Pool investor money for diversified investments based on objectives.
11. **Exchange Traded Funds (ETFs):** Track indices, traded like stocks, e.g., gold ETFs.
12. **Derivative Market Products:** Include futures and options on equities, currency, and commodities.
13. **Futures:** Standardized contracts to buy/sell assets at a future date and price.
14. **Options:** Calls (buy) and puts (sell) with no obligation, based on underlying assets.
15. **Currency Derivatives:** Include futures on USD-INR, EUR-INR, GBPINR, JPYINR, and cross-currency pairs.
16. **Commodity Derivatives:** Trade raw commodities like gold, silver, and agricultural goods.
17. **Interest Rate Futures:** Based on notional 10-year GOI securities, settled by physical delivery.
18. **Debt Market Products:** Include government securities and corporate bonds.
19. **Government Securities:** Gilt-edged, issued by central/state governments, no default risk.
20. **Corporate Bonds:** Issued for expansion, modernization, or acquisitions, often secured.
21. **Issuers:** Companies or corporations offering securities to raise funds.
22. **Investors:** Categorized as retail (up to ₹2 lakh), institutional (QIBs), and non-institutional.
23. **Intermediaries:** Include stock brokers, merchant bankers, custodians, depositories, and RTAs.
24. **Stock Brokers:** Execute trades on behalf of clients, registered with SEBI.
25. **Custodians:** Safeguard securities, settle trades for clients.
26. **Depositories:** Hold and transfer securities in dematerialized form (CDSL, NSDL).
27. **Depository Participants (DPs):** Agents of depositories, registered with SEBI.
28. **Merchant Bankers:** Manage issue processes, underwriting, and advisory services.
29. **Registrars and Transfer Agents (RTAs):** Handle investor applications and share transfers.
30. **Self-Certified Syndicate Banks (SCSBs):** Facilitate Application Supported by Blocked Amount (ASBA).

31. **SEBI Role:** Protects investors, regulates securities markets, and oversees intermediaries.
32. **RBI Role:** Regulates money market, sets SLR and CRR, manages government securities.
33. **MCA Role:** Administers Companies Act, 2013, regulates corporate sector.
34. **IRDAI Role:** Regulates insurance sector, protects policyholders.
35. **PFRDA Role:** Oversees pension sector, ensures retirement income solutions.
36. **MOF Role:** Regulates foreign investments via FEMA, 1999.
37. **Regulatory Overlap:** Companies issuing securities comply with SEBI, MCA, and RBI regulations.
38. **Investment Banker in Private Equity:** Advises on capital raising, valuations, and transaction structuring.
39. **Growth Plan Formulation:** Involves studying company performance and market trends.
40. **Transaction Structuring:** Determines instrument, quantum, and capital structure for private equity deals.
41. **Pre-Money Valuation:** Assesses company value for investor pitches.
42. **Offer Literature:** Prepares teasers, information memoranda, and financial models.
43. **Data Room Assistance:** Compiles documents for investor due diligence.
44. **Leading Transactions:** Manages deal process, negotiations, and document execution.
45. **Primary Market Transactions:** Include IPOs for first-time listings.
46. **Secondary Market Transactions:** Involve trading of listed securities on stock exchanges.
47. **OTC Market:** Informal, negotiated trades without stock exchange involvement.
48. **Exchange Traded Market:** Formal trading through SEBI-registered brokers.
49. **Debt Market Investors:** Include banks, insurance companies, mutual funds, and FPIs.

## Chapter 2: Introduction to Merchant Banking

1. **Merchant Banking Concept:** Fee-based advisory for corporations/governments on securities issuance.
2. **Merchant vs. Investment Banking:** Merchant banking focuses on issue management; investment banking includes broader capital market activities.
3. **Merchant Banking Services:** Include underwriting, portfolio management, project appraisal, and foreign trade financing.
4. **Investment Banking Scope:** Encompasses stock trading, market making, and M&A advisory.
5. **Merchant Banking Origin:** Began in Italy, spread to France and UK in the 17th-18th centuries.
6. **UK Merchant Banking:** Focused on bill discounting, capital issues, and fund management.
7. **US Investment Banking:** Evolved from merchant banking, includes proprietary trading.
8. **Glass-Steagall Act, 1933:** Separated commercial and investment banking in the US.
9. **Financial Modernisation Act, 1999:** Repealed Glass-Steagall, allowing banking consolidation.
10. **Dodd-Frank Act, 2010:** Regulated investment banks post-2008 crisis, introduced Volcker Rule.
11. **Merchant Banking in India:** Initiated by foreign banks like Grindlays (1967) and Citibank (1970).
12. **Banking Commission Report, 1972:** Recommended separate merchant banking structures.
13. **SBI Merchant Banking:** Established in 1972, followed by other public sector banks.
14. **ICICI Merchant Banking:** First financial institution to set up a division in 1973.
15. **Post-Liberalization (1991):** Merchant banking expanded to M&As and investment trusts.
16. **SBI Capital Markets:** Formed in 1986 as a merchant banking subsidiary.
17. **ICICI Securities:** Spun off in 1995 for investment banking services.
18. **AIBI Role:** Acts as a self-regulatory organization for merchant bankers in India.
19. **AIBI Formation:** Founded in 1993, recognized by SEBI for professional standards.
20. **AIBI Objectives:** Ensure ethical service delivery and represent industry to SEBI.
21. **SEBI Act, 1992:** Establishes SEBI to protect investors and regulate securities markets.
22. **SEBI Powers:** Include regulating stock exchanges, intermediaries, and prohibiting unfair practices.
23. **SEBI Penalties:** For non-compliance like failure to furnish information or redress grievances.
24. **Section 15A:** Penalty for failure to furnish documents/returns to SEBI.
25. **Section 15B:** Penalty for not entering client agreements.
26. **Section 15C:** Penalty for failing to redress investor grievances.
27. **Section 15G:** Penalty for insider trading, up to ₹25 crore or 3x profits.
28. **Section 15H:** Penalty for non-disclosure of share acquisitions/takeovers.
29. **Section 15HA:** Penalty for fraudulent trade practices, up to ₹25 crore or 3x profits.
30. **Section 15HB:** General penalty for non-specified violations, up to ₹1 crore.
31. **Securities Appellate Tribunal (SAT):** Hears appeals against SEBI orders.
32. **SAT Composition:** Presiding officer (Supreme Court/High Court judge) and two members.
33. **SAT Appeal Period:** 45 days from receipt of SEBI order.
34. **SAT Powers:** Similar to civil courts, e.g., summoning witnesses, reviewing decisions.
35. **SAT Procedure:** Guided by natural justice, not bound by Code of Civil Procedure.
36. **Appeal to Supreme Court:** Within 60 days of SAT order on questions of law.
37. **SCRA, 1956:** Defines securities, regulates stock exchanges and contracts.
38. **SCRA Objectives:** Prevent undesirable speculation, regulate securities transactions.
39. **SCRA Section 17A:** Requires public issues/listings to comply with SEBI regulations.

- 40. **SCRA Section 23A:** Penalties for failure to furnish information or maintain records.
- 41. **SCRR, 1957:** Provides procedures for stock exchange recognition and listing.
- 42. **SCRR Rule 19(1):** Public companies apply for listing with prescribed documents.
- 43. **SCRR Rule 19(2)(b):** Minimum public offer requirements based on post-issue capital.
- 44. **Minimum Offer (SCRR):** 25% for capital  $\leq$  ₹1600 crore; ₹400 crore for ₹1600-4000 crore; 10% for  $>$  ₹4000 crore.
- 45. **Merchant Banker Responsibility:** Ensure quality issues, compliance, and investor protection.
- 46. **Lead Manager:** Merchant banker leading a public offer in India.
- 47. **Investment Banking Evolution:** Driven by US banks' growth in 1990-2007.
- 48. **Merchant Banking Diversification:** Expanded to M&As, valuations, and investment trusts post-1991.
- 49. **SEBI's Regulatory Role:** Oversees intermediaries, prohibits insider trading, and regulates takeovers.

### Chapter 3: Registration, Code of Conduct & General Obligations of Merchant Bankers in India

1. **Merchant Banker Definition:** Entity engaged in issue management, advisory, or underwriting, registered with SEBI.
2. **SEBI (Merchant Bankers) Regulations, 1992:** Governs registration and operations.
3. **Registration Requirement:** Mandatory for merchant bankers to operate in securities markets.
4. **Eligibility Criteria:** Includes financial capacity, infrastructure, and professional competence.
5. **Categories of Registration:** Based on net worth and activities performed.
6. **Application Process:** Submit undertaking to SEBI for securities market activities only.
7. **Code of Conduct:** Ensures ethical practices, transparency, and investor protection.
8. **Integrity Maintenance:** Merchant bankers must uphold high integrity standards.
9. **Due Diligence:** Verify disclosures in offer documents for accuracy and adequacy.
10. **Client Agreements:** Must enter agreements with clients specifying obligations.
11. **Confidentiality:** Maintain confidentiality of client information unless legally required.
12. **Conflict of Interest:** Avoid conflicts and disclose any potential conflicts to clients.
13. **Professional Competence:** Exercise care and skill in all activities.
14. **Compliance with Laws:** Adhere to SEBI Act, SCRA, and other regulations.
15. **Investor Grievance Redressal:** Promptly address investor complaints.
16. **SCORES Platform:** SEBI's online system for investor grievance redressal.
17. **General Obligations:** Include maintaining records, submitting reports, and ensuring compliance.
18. **Due Diligence Certificate:** Furnished to SEBI with offer documents.
19. **Record Keeping:** Maintain books of accounts for specified periods.
20. **Disclosure Requirements:** Ensure true, fair, and adequate disclosures in offer documents.
21. **Public Offer Management:** Lead managers ensure compliance with issue processes.
22. **Underwriting Obligations:** Ensure firm arrangements for issue financing.
23. **Escrow Account Management:** Verify escrow arrangements for issue proceeds.
24. **SEBI Inspections:** Cooperate with SEBI for audits and inquiries.
25. **Penalty for Non-Compliance:** Fines for failing to furnish information or redress grievances.
26. **Client Servicing:** Provide fair and equitable treatment to all clients.
27. **Issue Management Role:** Coordinate with issuers, intermediaries, and regulators.
28. **SEBI Registration Renewal:** Periodic renewal required to continue operations.
29. **Code of Conduct Scope:** Applies to all SEBI-registered merchant bankers.
30. **Investor Protection:** Primary responsibility to safeguard investor interests.
31. **SCRA Compliance:** Adhere to securities contract regulations for issue management.
32. **SEBI Act Powers:** SEBI can summon, inspect, and penalize non-compliant bankers.
33. **SAT Appeals:** Merchant bankers can appeal SEBI orders to SAT within 45 days.
34. **Professional Standards:** Set by AIBI for merchant banking practices.
35. **Disclosure of Fees:** Transparent reporting of fees charged for services.
36. **Risk Management:** Ensure internal controls to mitigate operational risks.
37. **SEBI Circulars:** Follow additional guidelines issued by SEBI for compliance.
38. **Merchant Banker Categories:** Vary based on scope of activities and net worth.
39. **Non-Securities Activities:** Prohibited unless an undertaking is provided to SEBI.
40. **Public Announcement Compliance:** Ensure public announcements meet SEBI standards.
41. **Due Diligence Scope:** Covers issuer's financials, operations, and disclosures.

- 42. **SCORES Reporting:** Submit grievance redressal reports to SEBI via SCORES.
- 43. **SEBI Notification:** Merchant bankers subject to SEBI-specified regulations.
- 44. **Client Agreement Penalties:** Non-compliance leads to penalties under Section 15B.
- 45. **Grievance Redressal Timeframe:** Address complaints within SEBI-specified periods.
- 46. **Record Maintenance Period:** As per SEBI regulations, typically 5 years.
- 47. **SEBI's Civil Court Powers:** Apply to merchant bankers for document production.
- 48. **AIBI's Role in Standards:** Promotes ethical practices among merchant bankers.
- 49. **Regulatory Reporting:** Submit periodic compliance reports to SEBI.



#### Chapter 4: Issue Management – Important Terms

1. **Initial Public Offer (IPO):** First-time issuance of securities to the public for listing.
2. **Follow-on Public Offer (FPO):** Additional issuance of securities by a listed company.
3. **Offer for Sale (OFS):** Existing shareholders sell shares to the public.
4. **Rights Issue:** Shares offered to existing shareholders in proportion to their holdings.
5. **Preferential Issue:** Securities allotted to select investors on a preferential basis.
6. **Qualified Institutional Placement (QIP):** Private placement to qualified institutional buyers.
7. **Green Shoe Option:** Over-allotment option to stabilize share prices post-issue.
8. **Book Building:** Process to determine issue price based on investor bids.
9. **Fixed Price Issue:** Securities offered at a predetermined price.
10. **Red Herring Prospectus (RHP):** Preliminary prospectus without complete price/quantity details.
11. **Shelf Prospectus:** Allows multiple issues over time without new prospectus.
12. **Abridged Prospectus:** Summarized prospectus provided with application forms.
13. **Draft Offer Document:** Filed with SEBI for public comments before finalization.
14. **Offer Document:** Final document with all material disclosures for investors.
15. **Minimum Subscription:** Minimum applications required for an issue to proceed.
16. **Allotment:** Allocation of securities to applicants post-issue.
17. **Underwriting:** Agreement to subscribe to unsold securities in an issue.
18. **Lead Manager:** Merchant banker leading the issue management process.
19. **Syndicate Members:** Intermediaries assisting in issue distribution.
20. **Escrow Account:** Holds investor funds during the issue process.
21. **ASBA:** Application Supported by Blocked Amount for investor applications.
22. **Lock-in Period:** Time during which promoters' shares cannot be sold.
23. **Promoter:** Person/entity controlling the issuer company.
24. **Promoter Group:** Entities related to promoters, e.g., subsidiaries or associates.
25. **Anchor Investor:** Institutional investor subscribing before public issue opens.
26. **Retail Individual Investor (RII):** Investor applying up to ₹2 lakh in an issue.
27. **Non-Institutional Investor (NII):** Investor applying above ₹2 lakh, not a QIB.
28. **Qualified Institutional Buyer (QIB):** Institutional investors like mutual funds, FPIs.
29. **Basis of Allotment:** Method to allocate shares among applicants.
30. **Cut-off Price:** Price at which retail investors bid in book-built issues.
31. **Price Band:** Range within which bids are accepted in book building.
32. **Floor Price:** Minimum price in a book-built issue.
33. **Cap Price:** Maximum price in a book-built issue.
34. **Public Issue:** Offer of securities to the general public.
35. **Private Placement:** Offer to a select group of investors, not the public.
36. **Prospectus:** Document detailing issuer's financials, objectives, and risks.
37. **Debenture:** Debt instrument issued by companies, often secured.
38. **Convertible Debenture:** Debt convertible into equity shares.
39. **Rights Entitlement:** Right to subscribe to shares in a rights issue.
40. **Dematerialized Form:** Securities held electronically in depositories.
41. **Listing Agreement:** Contract between issuer and stock exchange for listing.
42. **Due Diligence:** Verification of issuer's disclosures by merchant bankers.

- 43. **SEBI ICDR Regulations:** Govern issue of capital and disclosure requirements.
- 44. **Offer Period:** Duration for which an issue remains open for subscription.
- 45. **Escrow Agreement:** Contract for managing issue proceeds in escrow.
- 46. **Debenture Trustee:** Oversees interests of debenture holders.
- 47. **Record Date:** Date to determine eligible shareholders for an issue.
- 48. **Application Form:** Form for investors to apply for securities.
- 49. **Over-Subscription:** Applications exceeding the offered securities.
- 50. **Refund Order:** Issued to return money to unsuccessful applicants.

## Chapter 5: Issue Management - Process and Underwriting

1. **Issue Management Process:** Involves planning, filing, marketing, and allotment of securities.
2. **Offer Document Filing:** Draft prospectus filed with SEBI and stock exchanges.
3. **Public Comments:** Draft offer document open for public comments for 7 days.
4. **Prospectus Finalization:** Incorporates public comments, filed with ROC and SEBI.
5. **Issue Opening:** Public issue opens for subscription as per offer document.
6. **Application Processing:** Registrar processes applications, identifies rejections.
7. **Basis of Allotment:** Prepared by registrar, approved by stock exchange.
8. **Allotment Approval:** Issuer's board allots securities post-exchange approval.
9. **Dematerialized Crediting:** Securities credited to investors' demat accounts.
10. **Refund Process:** Refunds issued for unsuccessful applications within timelines.
11. **Listing Approval:** Final approval from stock exchanges for trading.
12. **Underwriting Role:** Merchant bankers ensure subscription of unsold shares.
13. **Underwriting Agreement:** Specifies obligations of underwriters for issue.
14. **Minimum Subscription:** 90% of issue size required for issue to proceed.
15. **Failure of Minimum Subscription:** Entire application money refunded.
16. **Pricing Methods:** Fixed price or book building for issue pricing.
17. **Book Building Process:** Investors bid within price band, price finalized post-bidding.
18. **Price Band Requirement:** Minimum 105% of floor price in book-built issues.
19. **Anchor Investor Allocation:** Up to 60% of QIB portion, with lock-in period.
20. **Retail Investor Allocation:** Minimum 35% of issue size in public issues.
21. **Non-Institutional Allocation:** Minimum 15% of issue size in public issues.
22. **QIB Allocation:** Up to 50% of issue size in public issues.
23. **ASBA Mechanism:** Blocks funds in investor's account during application.
24. **Escrow Account Usage:** Holds investor funds until allotment.
25. **Post-Issue Reporting:** Merchant bankers submit compliance reports to SEBI.
26. **Due Diligence by Merchant Bankers:** Verify issuer's disclosures and compliance.
27. **Public Announcement:** Discloses issue details, published in newspapers.
28. **Lead Manager Responsibilities:** Coordinate issue process, ensure regulatory compliance.
29. **Issue Closure:** Issue closes after specified subscription period.
30. **Allotment Timelines:** Completed within SEBI-specified periods post-closure.
31. **Refund Timelines:** Refunds issued within 7 days of allotment approval.
32. **Interest on Refunds:** Paid if refunds delayed beyond specified period.
33. **SEBI ICDR Regulations, 2018:** Govern issue management processes.
34. **Companies Act, 2013:** Specifies disclosures in offer documents.
35. **Stock Exchange Role:** Approves basis of allotment and listing.
36. **Registrar's Role:** Processes applications, prepares allotment basis.
37. **Debenture Issuance:** Requires creation of debenture redemption reserve.
38. **Over-Subscription Handling:** Issuer may retain up to 100% of base issue size.
39. **Shelf Prospectus Usage:** For multiple issues over time by eligible issuers.
40. **Red Herring Prospectus:** Used in book-built issues, lacks final price details.
41. **Abridged Prospectus:** Provided with application forms for investor convenience.
42. **Lock-in Requirements:** Apply to promoters' shares post-issue.

- 43. **Issue Expenses:** Disclosed in offer document, borne by issuer.
- 44. **SEBI Circulars:** Provide additional guidelines for issue management.
- 45. **Underwriting Limit:** Lead manager underwrites at least 15% of SME issues.
- 46. **Minimum Allottees:** 50 prospective allottees required for IPOs.
- 47. **Application Size:** Minimum ₹1 lakh per application in SME issues.
- 48. **Offer for Sale (OFS):** Through stock exchange mechanism for listed companies.
- 49. **Post-Issue Compliance:** Includes listing, trading permissions, and reporting.

## Chapter 6: Issue Management - General Obligations of Merchant Bankers and Due Diligence

1. **General Obligations:** Ensure compliance, due diligence, and investor protection.
2. **Due Diligence Scope:** Verify issuer's financials, operations, and disclosures.
3. **Offer Document Accuracy:** Ensure true, fair, and adequate disclosures.
4. **SEBI ICDR Compliance:** Adhere to regulations for issue management.
5. **Public Announcement:** Contains material facts, published as per SEBI rules.
6. **Letter of Offer:** Filed with SEBI, includes detailed disclosures.
7. **Escrow Arrangements:** Merchant banker verifies funds for issue obligations.
8. **Preferential Issue:** Allotment to select investors, subject to lock-in.
9. **QIP Process:** Private placement to QIBs, no public offer required.
10. **Rights Issue:** Offered to existing shareholders, simplified process for fast-track.
11. **Indian Depository Receipts (IDRs):** Issued by foreign companies for Indian investors.
12. **Due Diligence Certificate:** Submitted to SEBI with draft offer document.
13. **Disclosure Verification:** Merchant banker confirms accuracy of offer document.
14. **Compliance with Companies Act:** Mandatory for issue-related disclosures.
15. **SEBI Circulars:** Provide additional guidelines for due diligence.
16. **Preferential Issue Pricing:** Based on SEBI-specified valuation norms.
17. **QIP Eligibility:** Listed companies with specific compliance records.
18. **Rights Issue Fast-Track:** Simplified process for compliant issuers.
19. **IDR Regulations:** Governed by SEBI and Companies Act, 2013.
20. **Lock-in for Preferential Issues:** Minimum 1-3 years for allotted shares.
21. **QIB Allocation in QIP:** 100% to qualified institutional buyers.
22. **Rights Issue Disclosures:** Include financials and shareholding patterns.
23. **IDR Listing:** Requires approval from Indian stock exchanges.
24. **Merchant Banker Coordination:** With issuers, registrars, and stock exchanges.
25. **Public Issue Timelines:** Adhere to SEBI-specified schedules.
26. **Due Diligence Report:** Details findings on issuer's operations and risks.
27. **Investor Grievance Handling:** Address complaints during issue process.
28. **SEBI Inspections:** Merchant bankers cooperate with regulatory audits.
29. **Escrow Account Release:** Balance released post-issue obligations.
30. **Preferential Issue Approvals:** Require shareholder and board approval.
31. **QIP Pricing:** Based on average market price over specified period.
32. **Rights Issue Application:** Via ASBA or physical forms.
33. **IDR Disclosures:** Include home country financials and risks.
34. **Post-Issue Reporting:** Submit compliance reports to SEBI and exchanges.
35. **Due Diligence Standards:** Follow AIBI's Due Diligence Manual.
36. **Preferential Issue Limits:** Restricted to specified investor categories.
37. **QIP Minimum Allottees:** At least 2 for issues up to ₹250 crore.
38. **Rights Issue Lock-in:** Not applicable for fast-track issues.
39. **IDR Redemption:** Subject to terms specified in offer document.
40. **Merchant Banker Liability:** Accountable for non-compliance in issues.
41. **SEBI Penalties:** Apply for false disclosures or process violations.
42. **Offer Document Filing:** With ROC, SEBI, and stock exchanges.

- 43. **Public Comments Period:** 7 days for draft offer document.
- 44. **Allotment Process:** Coordinated by merchant banker and registrar.
- 45. **Issue Closure Report:** Submitted to SEBI within 15 days.
- 46. **Due Diligence for QIP:** Includes valuation and investor eligibility.
- 47. **Rights Issue Timelines:** Shorter for fast-track compliant issuers.
- 48. **IDR Investor Protection:** Ensured through SEBI regulations.
- 49. **Merchant Banker Role in Compliance:** Central to issue success and regulation.

## Chapter 7: Other Merchant Banking Activities - Mergers, Acquisitions & Takeovers

1. **Mergers:** Combining two companies, not necessarily of equal stature.
2. **Acquisitions:** Purchase of one company by another, often for control.
3. **Takeovers:** Acquisition of substantial shares/voting rights for management control.
4. **SEBI SAST Regulations, 2011:** Govern substantial acquisitions and takeovers.
5. **SAST Objectives:** Ensure transparency, fairness, and equitable treatment.
6. **Open Offer:** Mandatory offer to public shareholders during takeovers.
7. **Trigger Points:** 25% or more share acquisition requires open offer.
8. **Merchant Banker Role:** Advises on valuation, structuring, and compliance.
9. **Public Announcement:** Required for open offers, contains material facts.
10. **Letter of Offer:** Details offer terms, filed with SEBI and exchanges.
11. **Escrow Account:** Holds funds for open offer obligations.
12. **Due Diligence:** Verify disclosures and compliance with SAST regulations.
13. **Offer Price:** Determined based on SEBI-specified parameters.
14. **Minimum Offer Size:** 26% of shares in open offer post-acquisition.
15. **Withdrawal Conditions:** Allowed if acquisition agreement is rescinded or SEBI permits.
16. **Public Announcement Withdrawal:** Published in same newspapers as original.
17. **SEBI Approval for Withdrawal:** Requires reasoned order from SEBI.
18. **Merchant Banker Coordination:** With acquirer, target company, and SEBI.
19. **Disclosure Requirements:** Include shareholding, offer price, and financials.
20. **Escrow Account Types:** Cash, bank guarantee, or combination.
21. **Offer Period:** Specified duration for shareholders to tender shares.
22. **SEBI Penalties:** For non-compliance with SAST regulations.
23. **Takeover Types:** Friendly or hostile, based on target company's consent.
24. **Valuation Methods:** Used to determine fair offer price.
25. **Shareholder Protection:** Ensured through mandatory open offers.
26. **Acquirer Definition:** Person/entity acquiring shares/control.
27. **Promoter Role:** Often involved in takeover negotiations.
28. **SEBI Circulars:** Provide additional guidelines for takeovers.
29. **Due Diligence Certificate:** Submitted with letter of offer to SEBI.
30. **Post-Offer Reporting:** Details of shares tendered and accepted.
31. **Takeover Compliance:** Adhere to SEBI, Companies Act, and SCRA.
32. **Open Offer Process:** Managed by merchant banker, includes bidding.
33. **Shareholder Voting:** Required for certain takeover approvals.
34. **Escrow Release:** Balance released after offer obligations met.
35. **Merchant Banker Liability:** Accountable for SAST compliance.
36. **Target Company:** Listed company subject to takeover.
37. **Offer Document Filing:** Within 2 days of public announcement.
38. **Disclosure of Shareholding:** Includes promoter and acquirer holdings.
39. **Takeover Financing:** Arranged through escrow or other means.
40. **SEBI Oversight:** Ensures fair treatment of public shareholders.
41. **Open Offer Timelines:** Specified by SEBI for completion.
42. **Merchant Banker's Advisory Role:** Guides acquirer on strategy and compliance.

- 43. **Hostile Takeover:** Acquisition without target company's consent.
- 44. **Friendly Takeover:** Negotiated with target company's approval.
- 45. **Share Acquisition Limits:** Trigger open offer at specified thresholds.
- 46. **SAST Penalties:** Up to ₹25 crore or 3x profits for violations.
- 47. **Public Shareholder Rights:** Protected through open offer disclosures.
- 48. **Takeover Documentation:** Includes public announcement and letter of offer.
- 49. **Merchant Banker's Due Diligence:** Critical for takeover success.



## Chapter 8: Other Merchant Banking Activities - Disinvestment, Buyback of Equity Shares

1. **Disinvestment Definition:** Sale of shares/voting rights in public sector undertakings.
2. **Disinvestment Types:** Offer for sale (OFS) or strategic sale to bidders.
3. **Merchant Banker Role in Disinvestment:** Advises on valuation, bidding, and compliance.
4. **DIPAM:** Department of Investment and Public Asset Management oversees disinvestment.
5. **DPE Guidelines:** Apply to PSU disinvestment and advisory transactions.
6. **Performance Indicators:** Six indicators for PSU performance evaluation.
7. **Net Profit to Net Worth:** Weightage of 25% in PSU scoring.
8. **Manpower Cost:** 15% weightage in PSU performance indicators.
9. **PBDIT to Capital Employed:** 15% weightage in PSU evaluation.
10. **Earnings Per Share (EPS):** Scoring scale for PSU performance.
11. **Buyback Regulations:** SEBI (Buy-Back of Securities) Regulations, 2018.
12. **Buyback Methods:** Tender offer, book building, or stock exchange (until March 31, 2025).
13. **Buyback Limit:** 25% or less of paid-up capital and free reserves.
14. **Debt-Equity Ratio:** Must be  $\leq 2:1$  post-buyback.
15. **Buyback Funding:** From free reserves, securities premium, or new issue proceeds.
16. **Prohibited Buyback Sources:** Subsidiary companies or defaulted loans.
17. **Buyback Restriction:** Not allowed for delisting purposes.
18. **Merchant Banker in Buyback:** Ensures compliance, public announcement, and due diligence.
19. **Public Announcement Contents:** Include buyback price, method, and disclosures.
20. **Letter of Offer:** Filed with SEBI, contains detailed disclosures.
21. **Escrow Account for Buyback:** Holds funds for buyback obligations.
22. **Due Diligence Certificate:** Submitted with draft letter of offer.
23. **Buyback Price Determination:** Assisted by merchant banker in book building.
24. **Final Report to SEBI:** Submitted within 15 days of buyback closure.
25. **Delisting Regulations:** SEBI (Delisting of Equity Shares) Regulations, 2021.
26. **Delisting Scope:** Applies to equity shares listed on recognized exchanges.
27. **Merchant Banker in Delisting:** Appointed before public announcement.
28. **Escrow for Delisting:** Cash or bank guarantee for offer consideration.
29. **Letter of Offer for Delisting:** Dispatched within 2 days of public announcement.
30. **Offer Price Determination:** Based on SEBI-specified factors.
31. **Public Announcement for Delisting:** Details success/failure of offer.
32. **Debt Securities Regulations:** SEBI (Issue and Listing of Debt Securities), 2008.
33. **Debt Issue Types:** Public issue or private placement of debt securities.
34. **Minimum Subscription for Debt:** 75% of base issue size.
35. **Debenture Redemption Reserve:** Required for debt securities.
36. **Base Issue Size:** Minimum ₹100 crore for public debt issues.
37. **Oversubscription Limit:** Up to 100% of base issue size.
38. **Merchant Banker in Debt Issues:** Ensures disclosures and compliance.
39. **Offer Document for Debt:** Contains Companies Act and SEBI disclosures.
40. **Due Diligence for Debt:** Verify accuracy of offer document disclosures.
41. **ASBA for Debt Issues:** Available for public issue applications.
42. **Share-Based Employee Benefits (SBEB):** Governed by SEBI regulations.

- 43. **Merchant Banker in SBEB:** Manages implementation until in-principal approval.
- 44. **Dissenting Shareholders:** Those voting against change in company objects.
- 45. **Exit Offer for Dissenting Shareholders:** Managed by merchant banker.
- 46. **SME Exchange:** Platform for listing SME securities.
- 47. **SME Issue Underwriting:** 100% underwritten, lead manager takes 15%.
- 48. **Market Making for SMEs:** Compulsory for 3 years post-listing.
- 49. **Alternative Investment Funds (AIFs):** Privately pooled investment vehicles.
- 50. **Merchant Banker in AIFs:** Provides due diligence certificate for placement memorandum.

**IMPORTANT NOTE :**

1. Attend **ALL** Questions.
2. For the questions you don't know the right answer – Try to eliminate the wrong answers and take a guess on the remaining answers.
3. DO NOT MEMORISE the questions & answers. It's not the right way to prepare for any NISM exam. Good understanding of Concepts is essential.

July 2025

*All the Best ☺*

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