NISM Series IX: Merchant Banking Certification Examination

Test Objectives

Chapter 1: Introduction to the Capital Market

1.1 Introduction to the Indian Capital Market

1.1.1 Explain the Capital market structure in India and the role of capital market in the economy.

1.1.2 Discuss the different Products in the Indian Market e.g Equity, Debt and Derivatives

1.1.3 Discuss the different Participants in the Indian Capital Market.

a) Issuers
b) Investors
c) Intermediaries

1.1.4 Discuss the Regulators and the Regulatory Framework of the Indian securities market in India.

Chapter 2: Introduction to the Merchant Banking

2.1 Concept and Evolution of Merchant Banking

2.1.1 Explain the concept of Merchant Banking;

2.1.1.1 Highlight the difference between merchant banking and commercial banking.

2.1.1.2 Difference between Merchant Banking and Investment Banking

2.1.2 Know the evolution of International merchant banking scenario.
Know the Glass-Steagall Act in brief and its repeal.

2.1.3 Merchant Banking in the International Scenario

2.1.4 Merchant Banks in the UK
Discuss the different activities (in brief) which a UK merchant banker is involved in.

2.1.5 Investment Banks in the US
Explain the Investment Banking in the US Scenario

2.2 Merchant Banking in India

2.2.1 Discuss the merchant banking in Indian context.
Understand how the foreign banks were primarily the players in the merchant banking activity.
Know how the Banking Commission report of 1972 asserted the need for these services by public sector banks. Know the current state of merchant banking activity in India.

2.3 Know the Regulations governing Merchant Banking Activity in India

2.3.1 SEBI Act, 1992

2.3.2 SEBI (Merchant Banking) Regulations 1992

2.3.3 SEBI (Issue of Capital and Disclosure Requirements) Regulations 2009,

2.3.4 Companies Act 1956,

2.3.5 Listing Agreement of the Stock Exchanges

2.3.6 SC(R)A 1956

2.3.7 SCRR 1957
2.3.8 SEBI (Prohibition of Insider Trading) Regulations, 1992
2.3.9 SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
2.3.10 SEBI (Bankers to the Issue) Regulations, 1994
2.3.11 SEBI (Registrars to the Issue and Share Transfer Agents) Regulations, 1993
2.3.12 SEBI (Delisting of Equity Shares) Regulations, 2008
2.3.13 SEBI (Intermediaries) Regulations, 2008
2.3.14 SEBI (Buyback of Securities) Regulations, 1998
2.3.15 SEBI (ESOP & ESPS) Guidelines, 1999
2.3.16 SEBI (Issue and listing of Debt Securities) Regulations, 2008
2.3.17 Competition Act, 2002
2.3.18 Foreign Exchange Management Act, 1999
2.3.19 SEBI (Underwriters) Regulations
2.3.20 SEBI (Depositories) Act
2.3.21 SEBI (Depositories and Participants) Regulations

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

3.1 Merchant Banking Activity

Explain very briefly the various activities undertaken by the merchant bankers in India.

3.2 Registration of Merchant Bankers

3.2.1 Definition of a merchant banker

Define merchant banker as given in the SEBI (Merchant Banking) Regulations

3.2.2 Who can be registered as a merchant banker?

3.2.3 Eligibility Criteria for registering as a Merchant Banker

3.2.3.1 Consideration of Application
3.2.3.2 Know the Capital Adequacy Requirements
3.2.3.3 Know the Criteria for fit and proper person
3.2.3.4 Know what Information, clarification and personal representation is required to be furnished

3.2.4 Registration Procedure, Renewal Fees and Validity

Know the procedure and conditions for registration of Merchant Bankers, validity of the registration certificate and the relevant fees

3.2.5 Renewal of Certificate

Know the procedure for renewal of the registration certificate granted to the Merchant Bankers.

3.2.6 Discuss the conditions of Registration

3.2.7 Know the registration requirements of Merchant Bankers as Underwriters

3.3 Code of Conduct for Merchant Bankers

Understand the SEBI prescribed Code of Conduct as specified in schedule III of the SEBI MB Regulations

3.4 General Obligations and Responsibilities

Understand the following:

3.4.1 Follow the code of Conduct
3.4.2 Maintain books of accounts, records etc
3.4.3 Submission of half-yearly results
3.4.4 Responsibilities of lead managers
3.4.5 Lead merchant banker not to associate with any Merchant Banker which is not holding SEBI registration
3.4.6 Underwriting Obligations
3.4.7 Acquisition of shares prohibited
3.4.8 Information to SEBI
3.4.9 Disclosures to SEBI
3.4.10 Appointment of compliance Officer

3.5 Redress of Investor Grievance and SCOREs

Chapter 4: Issue Management – Important Terms

4.1 Understand the various terms related to Public Offering

- Initial Public Offer
- Further Public Offer
  - (a) Offer for Sale
  - (b) Fresh Issue
- Net offer to Public
- Rights Issue
- Institutional Placement Programme
  - (a) Offer for Sale IPP
  - (b) FPO IPP
- QIP / Preferential Allotment
- Offer for sale through Stock Exchange Mechanism
- Offer Document, Draft Red Herring Prospectus, Red Herring Prospectus
- Book Building Process
- Fixed Price Issue
- Differential Pricing
- Fast Track Issue
- Green Shoe Option
- Safety Net
- ASBA
- Soft and Hard Underwriting
- Open and Closed Book
- Basis of Allocation
- Categories of Investors

(a) Retail Individual Investors (RIIs)
(b) Non Institutional Investors (NIIs)
(c) Qualified Institutional Investors (QIBs)
(d) Anchor Investors

- Designated Stock Exchange
- Employee
- Specified Securities

Chapter 5: Issue Management – Process and Underwriting

5.1 Issue Management

The process of issue management will be discussed as per different Regulations of the SEBI (ICDR) Regulations. We would discuss and highlight the merchant banker's role in it.

5.1.1 Understand the appointment of SEBI registered Intermediaries and other intermediaries (e.g. Legal Advisers, International Legal Counsel, Advertising Agency, and Research Agencies etc.)

5.1.2 Filing of Offer Document

Explain the process of filing of offer document by the issuer with the SEBI and the ROC with the help of the lead Merchant banker.

5.1.3 Documents to be submitted before opening of the Issue

Understand the documentation required to be done before opening of the issue eg.

- Copy of agreement between the Issuer and MB
- Copy of inter se allocation of responsibilities of each MB
- Certificate of compliance stating compliance of conditions
- Due diligence certificate while registering DRHP/ Red Herring Prospectus/ prospectus with the ROC/ final post issue report

5.1.4 In-Principle approval from recognized stock exchanges

Discuss and understand what type of approval is required from the stock exchanges for initial public issues as well as in the case for rights and further public offerings.

5.1.5 Draft Offer Document to be made Public

5.1.6 Opening of an issue

5.1.7 Dispatch of Issue Material and distribution

5.2 Pricing of an Issue

Discuss Regulation 28 of the regulation, as how the issuer determines the price of the security in consultation with the Lead Merchant Banker.

5.2.1 Differential pricing

5.2.2 Price and Price Band

5.3 Underwriting

Discuss the role of merchant banker in underwriting of an issue as given under Regulation 13 with focus on the prescribed conditions as given under the regulation.

5.4 Minimum Subscription/ [Minimum subscription in case of an Offer for Sale]

5.5 Allotment, Refund and Payment of Interest

Explain how the allotment, refund and payment of interest is done

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

6.1 General Obligations of Intermediaries with respect to Public Issues and Rights Issue

6.2 Preferential Issue

- Pricing

6.3 Qualified Institutional Placement

- Pricing and Restrictions on allotment
- Minimum number of allottees
- Restrictions on amount raised

6.4 Rights Issue

- Pre-issue advertisement for rights issue
- Utilisation of funds raised through rights issue
- Manner of disclosures in the offer document

6.5 Institutional Placement Programme

- Offer Document
- Pricing and allocation/allotment
- Restrictions
- Minimum number of allottees
- Restrictions on size of the offer
- Period of subscription and display of demand
- Transferability of eligible securities

6.6 Indian Depository Receipts

- Eligibility
- Conditions for issue of IDR
- Minimum Subscription
- Filing of Draft Prospectus, Due diligence Certificate, Payment of Fees and Issue of advertisements for IDR
- Post Issue Reports
- Undersubscribed Issue
- Finalisation of basis of allotment

6.7 Due Diligence

- Role of External parties in the due diligence process

- Key due diligence documents

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

7.1 Mergers , Acquisitions and Takeover

7.1.1 Understand Difference between Mergers, Acquisitions and Takeovers

7.2 Role of Merchant Banker in M&A and Takeover

7.3 SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011

7.3.1 Substantial acquisition of shares or voting rights

7.3.2 Voluntary Offer

7.3.3 Offer Size

7.3.4 Offer Price

7.3.5 Payment Mode

7.3.6 Exemptions

7.3.7 Process of Open Offer

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

8.1 Disinvestment

8.1.1 Appointment and Role of Merchant Banker in Disinvestment process

8.2 Discuss the Role of Merchant Banker in Buyback of Equity Shares

8.2.1 Obligations of Merchant Banker in Buy back of Equity Shares

8.3 Discuss the Role of Merchant Banker in Delisting of Shares

8.4 Discuss the Role of Merchant Bankers in Issue and listing of Debt Securities

8.4.1 Obligations of Merchant Banker Issue and Listing of Debt Securities

8.5 Discuss the Role of Merchant Banker in ESOPs