

***Fintech Founders'***  
***Quick Reference Sheet***

*on*

**SEBI Licenses**

*This is a 3 part series where we cover licenses issued by authorities:  
IRDAI, RBI and SEBI*

## Asset Management Company

*AMC is a firm that invests the funds pooled from individual investors in securities with the objective of optimal return for investors in exchange for a fee. AMC maintains the diversity of portfolio by investing in both high-risk and low-risk securities such as stock, debt, real- estate, shares, bonds, pension funds, etc.*

### Eligibility:

- Registered as a company under Companies Act 2013
- Sponsors of mutual funds should have a NW of Rs 150 Cr (100 Cr liquid nw and Rs 50 Cr as 5-year running expenses) (*Proposed*). Earlier total NW reqt. was Rs. 100 Cr
- Sponsor's positive liquid NW is more than proposed capital contribution to AMC
- AMC min. NW should be Rs 50 Cr.
- If Sponsor doesn't fulfil above reqt, then AMC's min. NW should be Rs. 100 Cr and maintain this NW until they achieve profits for 5 consecutive years.
- At least 2 individuals in the company must have a minimum of 5 years of investment or portfolio management experience.

*Considering the lesser risk inherent in managing passively managed MF schemes, SEBI has proposed MF Lite regulations for passive AMCs, relaxation ranges from lower net worth and profitability criteria for sponsors and AMCs to reduced reporting requirements*

## Depository Participant

*DP is an agent of the SEBI registered depository (NSDL and CDSL). They are intermediaries between the depository and the investors offering services such as dematerialization, rematerialization, pledging and hypothecation of securities. They also provide the investors with a statement of their accounts at regular intervals*

### Eligibility:

- **The entity should fall under one of the following categories:** a public financial institution, a stockbroker/custodian with SEBI COR, scheduled bank/foreign bank operating in India with the approval of the RBI, or a clearing corporation of a stock exchange, RTA, NBFC under specific conditions
- For CDSL DP, the minimum Net Worth required is Rs 5 Cr (from Feb 23, 2024).
- For NSDL and DP, the minimum Net Worth required is Rs 3 Cr. A broker with a Net Worth < Rs 1 Cr can be a Limited participant of the Depository.

*No person shall buy, sell or otherwise deal in securities as a foreign venture capital investor unless it has obtained a certificate granted by a designated depository participant on behalf of the Board (SEBI)*

## Registered Investment Advisor

*RIA is an entity (individual/business) that wishes to engage in providing unsolicited investment advice to its clients regarding investing, purchasing, selling, or dealing in investment products.*

### Eligibility:

- Min exp required is 5 years, while those associated with investment advice (junior to mid-level roles) need a min of 2 years.
- Postgraduate degree/diploma is required.
- Certification of financial planning from NISM or Certified Financial Planner.
- Min Net Worth (Individual): Rs 5 Lakh
- Min Net Worth (Corporate): Rs 50 Lakh
- Fees Charged: Max of Rs 1.25 Lakh/ 2.5% of assets under advice. Either way, the mode of fees cannot change within a gap of 12 months.
- ***In consultation paper issued on Aug'24, SEBI has proposed to relax eligibility norms and reduce entry barriers for new RIA, also allowing part-time RIAs to cater to large investor base***
- *Individual RIAs must not give advice around Will and Estate Planning, gold and real-estate advisory (Proposed)*
- *Regulated entities should not have not direct/indirect association with unregistered RIAs who offer advice or make claims on the performance of any security.*

## Mutual Fund Distributor

*MFDs are financial intermediaries involved in the sales and distribution of mutual funds schemes to prospective investors. They operate under the oversight of SEBI and AMFI.*

### Eligibility:

- The MFD license aspirant must obtain the requisite NISM Series V-A MFD Certification Exam
- Register with AMFI and obtain an AMFI Registration Number (ARN).
- After obtaining ARN, candidates must approach Asset Management Companies (AMCs) for empanelment.
- The applicant must possess at least 2 years of experience in the Securities Market
- No minimum net worth requirement
- Only deal in distribution of mutual fund schemes
- *MFD are agents of AMCs and thus, earn fees for selling mutual fund schemes which comprises of upfront and trail commission as % of AUM*
- *MFD don't manage funds within a scheme*
- ***MFDs have to obtain distribution license from APMI to sell PMS products by Jan 1, 2025***

## Portfolio Management Services

*Professional portfolio manager, authorised by SEBI provides PMS investment services based on their client's financial goals, risk appetite and expectations of the investment returns. It can either advise or direct or undertake on behalf of the client (whether as a discretionary portfolio manager or otherwise), the management or administration of a portfolio of securities or the funds of the client.*

### Eligibility:

- The applicant must be a body corporate. Individuals are not allowed to apply.
- Min. NW of applicant entity - Rs 5 Cr.
- **Principal Officer** who leads PMS activities – min. qualification in finance/law/CFA and appeared/passed NISM XXI-A and XXI-B exams and min. exp. 5 years in finance (investment management)
- **Must assign a Compliance Officer** and at least one employee (other than Principal and Compliance Officers) with at least 2 years of experience in investment management.
- PMS providers have to accept a min. of Rs 50 Lakh from each client and thus should focus on HNIs and ultra HNIs as clients.

*Since there is a significant gap in the min. investment threshold of MF (Rs.500) and PMS/ AIF (Rs.50 L/ Rs. 1Cr), SEBI has proposed to introduce a 'New Asset Class' with min. investment threshold of Rs.10L*

## Execution Only Platforms (MF)

*EOPs are digital platforms that facilitate transactions such as subscriptions, redemption, and switch transactions in direct plans of mutual fund schemes without offering any investment advice. There are 2 types of EOPs:*

- *Category 1 EOP - a body corporate and must serve as an agent of the AMCs and interface its systems with the AMCs or TRAs that such AMCs have authorised.*
- *Category 2 EOP -register as stockbrokers and can only conduct business on the platforms provided by the stock exchanges.*

### Eligibility:

- Min. base Net Worth of Rs 1 Cr
- Must appoint a Compliance Officer
- Must appoint a minimum 2 qualified KMPs with experience of at least 3 years in the securities market
- Unlike CAT 1 EOP, CAT 2 EOPs are not allowed to aggregate transactions for direct plans of mutual fund schemes; instead, they must offer direct services to investors.

*All digital platforms that were just offering execution services to investors will have to register themselves as an EOP with Sebi or AMFI. EOP regulations also apply to stock brokers, who offered direct plans of mutual funds, but didn't charge any brokerage or fees.*

## Online Bond Platform Providers

*OBPP can be either fintech company or stock broker offering an online platform for retail investors to buy and sell bonds. Deals in listed corporate bonds, T-bills, Sovereign Listed Gold Bonds, securitized debt instruments (SDI), etc.*

### Eligibility:

- Register as a stockbroker in the debt segment of the stock exchange
- For Trading Member, base NW - Rs 1 Cr or variable NW 10% of average daily cash balance of clients retained with member across segments/exchanges in the previous 6 months (whichever is higher)
- Appoint a company secretary as the compliance officer before applying.
- Appoint 2 qualified Key Managerial Personnel (min. 3 yrs exp, securities market)
- SEBI Complaints Redress System (SCORES) authentication and establish a well-defined mechanism to address grievances.

- ***Only offer listed debt securities or debt securities proposed for listing***
- ***Listed debt securities originally issued via public or private placement can be offered on OBPP for secondary trading***
- ***Debt market was traditionally dominated by Institutional Investors. Surge in retail participation with reduction in ticket size of corporate bonds from Rs. 1 lakh to Rs. 10,000***

## Registrar Transfer Agents

*RTAs are responsible for maintaining records of investors' transactions and ownership details in mutual funds, stocks, and other securities, including organizations that facilitate the transfer of securities between buyers and sellers. They maintain accurate records of investor holdings, process dividend payments, and offer various administrative services to both investors and AMCs.*

### Eligibility:

- Cat 1 RTA
  - Min NW of Rs 50 Lakh
  - Registration Fee of Rs 6 Lakh
- Cat 2 RTA
  - Min NW of Rs 25 Lakh.
  - Registration Fees of Rs 2 Lakh

***The registrar of an issue shall not be associated with a corporate entity when acting as registrar for any security issue of that entity. A person or corporate entity will be considered associated if:***

- ***Holding > 10% of the voting power directly or indirectly;***
- ***Being appointed as a director/promoter or having a relative appointed as a director or promoter of the body corporate.***

## Stock Brokers

*Brokerage firm acts as a middleman providing a trading platform to buy and sell securities. Every time an investor buys a stock, a transaction fee is charged. Types of brokerage firms:*

- **Full-service Brokers** (advisory services & charge fees based on executed trades)
- **Discount Brokers** (w/o advisory/market research, flat fee, hence lower)
- **Sub-broker** is an agent of stockbroker and acts on its behalf but not stock exchange member
- **Stockbrokers must have clearing rights** to become clearing members or self-clearing members for trading, clearing, and settlement. They can either be clearing members themselves or arrange for another broker to handle clearing activities, and separate registration as a clearing member is not mandatory for registered stockbrokers.

### Eligibility:

- SEBI offers a standard registration certificate after setting a standard for issuing brokerage services. Both CCI and the Stock exchange should give an NOC.
- **Membership fee** charged by the respective exchange:
  - **NSE:** Application processing fee of Rs 10,000 and a 1-time admission fee Rs. 50K to Rs. 5 L (depending on segments – Debt, Commodities, F&O, etc.)
  - **BSE:** Admission fee for Equity and Derivates: Rs 5K and Annul fees Rs. 50K
- **Deposit requirement NSE:** (For Corporate/LLP) Rs. 50 L to Rs. 1.35 Cr for Capital Market Segment, Rs. 25-75L in F&O and Rs. 1-10 L for debt segment across membership type – Trading Member (TM), TM + SCM (Self-Clearing Member), TM + CM(Clearing Member) and PCM (Professional Clearing Member)
- **Base Net worth requirement NSE:** (For Corporate/LLP) Rs. 1-50 Cr across Capital Market, F&O and Debt segment across membership type – TM, TM+SCM, TM+CM, PCM
- **BSE- Min. net worth** criteria for becoming a Trading Member of the Exchange is 30 Lakhs. This net worth criteria is applicable to individuals as well as to corporate applicants. For derivatives segment, net worth reqt, varies from Rs. 25 L to Rs. 3 Cr across membership type – TM, TM+SCM, TM+CM, PCM
- **BSE base min. capital deposit** varies from Rs. 10-50 L depending on trading member profile/activities. There is no lock-in on deposit.

- *Stock Brokers are required to preserve all books of account and records for a min. period of five years*
- *Every stock broker must appoint a compliance officer responsible for ensuring adherence to regulatory requirements and addressing investors' grievances.*

## Alternative Investment Fund

*AIF means any fund incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate which,*

*(i) is a privately pooled investment vehicle which collects funds from investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors; and (ii) not covered under the SEBI(Mutual Funds) Regulations, 1996, SEBI (Collective Investment Schemes) Regulations, 1999*

### Eligibility:

- Each AIF scheme (excl. social impact) min. corpus Rs. 25 Cr; IM/Sponsor to have continuing interest in fund at least 2.5% of corpus/ Rs. 5 Cr whichever is lower
- Min. investment from an investor Rs. 1Cr (exceptions in case of investors who are employees or directors of AIF/IM invest min. Rs. 25 L)
- AIF shall issue units in demat form; no scheme of AIF shall have >1K investors.
- IM team must have a min. of 5-10 years of experience, with at least 1 key personnel needs to have NISM Series-XIX-C: AIF Managers Certification.
- While most AIFs are registered as Trusts, fund managers often register as LLPs. There are 3 categories of AIFs –
  - **CAT I AIF** – VC funds investing in startups, social ventures, SMEs.
  - **CAT II AIF** – PE, debt funds, or FoF, but don't use leverage.
  - **CAT III AIF** – Includes funds using diverse or complex trading strategies and use leverage including through investment in listed or unlisted derivatives. Ex- Hedge funds

***CAT I and CAT II funds are close-ended – the min. tenure prescribed is 3 years, and the AIF shall fix the max. tenure***

- ***CAT I & II AIFs – Up to 25% of investible funds in one investee company***
- ***CAT III AIFs – Up to 10% of investible funds in one investee company***

*Close ended AIF units may be listed on stock exchange subject to a minimum tradable lot of Rs. 1 Cr. Listing shall be permitted only after final close of fund or scheme*

*Dissolution period to liquidate assets after the expiry of the liquidation period (being one year from end of tenure). It cannot be longer than the scheme's original tenure*

## Merchant Bankers

*Entity engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as a manager, consultant or rendering corporate advisory service in relation to such issue management. There were 4 categories: CAT I, II, III, IV.*

### Eligibility:

- Must be a body corporate, excluding an NBFC as defined in clause (f) of section 45-I of the RBI Act, 1934. However, a merchant banker registered by the RBI as a primary or satellite dealer may engage in such activities, provided they do not accept or hold public deposits.
- Registration fees: Rs 5 Lakh
- A renewal fee of Rs 2.5 Lakh every 3 years
- Capital Adequacy Requirement is > Rs 5 Cr
- Net Worth for CAT I: Rs 5 Cr
- Net Worth for CAT II: Rs 50 Lakh
- Net Worth for CAT III: Rs 20 Lakh
- Net Worth for CAT IV: NIL

***SEBI consultation paper Aug'24 - proposed changes aim to eliminate inactive entities which include Increase in net worth requirement for CAT I and II bankers, license holders must generate a certain income from core merchant banking activities, CAT II bankers cannot take mandate for mainboard IPOs.***

## Credit Rating Agency

*CRA as a body corporate which is engaged in, or proposes to be engaged in, the business of rating of securities that are listed or proposed to be listed on a stock exchange recognized by the SEBI*

### Eligibility:

- Registered as a company under the Companies Act 2013
- MOA specified rating activity as one of its main objects
- Minimum Net Worth of Rs 25 Cr
- Promoter has min shareholding of 26% for a min. period of 3 years
- CRA shall not hold 10% or more directly or indirectly in other CRA
- This is not applied to Pension Funds, Insurance Schemes and MF Schemes
- *In India, the debt issuing entity pays for the credit rating.*
- *Credit ratings are not a recommendation to buy, hold or sell a debt instrument. It's a professional opinion*
- *Rating is not a one-time exercise. CRA continuously monitor the securities rated by them*
- ***As per 2024 guidelines, CRAs communicate ratings to companies within one working day of the rating committee meeting, with an outer limit set to ensure promptness.***



If you are building in Fintech, please write to us!



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**This is a reference sheet on the SEBI licenses for a founder building in Fintech.**

**Please feel free to reach out to us at [deal@gembacapital.in](mailto:deal@gembacapital.in) if you are building in this space.**