

SEBI's Informal Guidance on AMC Net Worth Structure and Sponsor Eligibility

First Water Capital Advisory LLP sought interpretive guidance under the SEBI (Informal Guidance) Scheme, 2025 (**IG Scheme**), on specific provisions of the SEBI (Mutual Funds) Regulations, 2026 (MF Regulations 2026). SEBI has issued an Informal Guidance Letter dated April 20, 2026, Issue No. 1/9760/2026 in response to these two queries.

The two queries raised by First Water Capital Advisory LLP and SEBI's replies to those queries are as follows:

Query 1

Background/Context: Under Regulation 5(1)(e) of the MF Regulations 2026, an AMC registered via Route-2 must have a minimum net worth of ₹150 crore at the time of registration, contributed by the sponsor. The sponsor must also ensure the AMC maintains a continuous net worth of ₹50 crore in SEBI-specified assets (with additional profitability requirements over five consecutive years).

First Water's question: Can the sponsor meet the ₹150 crore net worth requirement by contributing ₹50 crore in equity capital and ₹100 crore in redeemable preference shares (redeemable only after the AMC achieves profits for five consecutive years), thereby satisfying the net worth clause?

SEBI's Response: SEBI declined to provide guidance on this query. It stated that the response "is not for concerns in terms of the policy of the IG Scheme 2025" (referring to para II(h) of the IG Scheme, which excludes policy matters). No interpretation or approval was given.

Query 2

First Water's question: Can a family trust serve as a sponsor of a mutual fund (or mutual fund lite) under the MF Regulations 2026?

SEBI's Response: No, a family trust cannot serve as a sponsor of a mutual fund or of a mutual fund lite. Since Regulation 2(1)(xx) of the MF Regulations 2026 defines "sponsor" as: "*sponsor means any person acting individually or in concert with another body corporate, who establishes a mutual fund or a mutual fund lite.*", a family trust does not qualify as a "body corporate."

ELP Comments

- SEBI declined to provide guidance on the first query, which is essentially whether the investment in redeemable preference shares of the AMC by the sponsor will count towards its net worth. The MF Regulations 2026 define "net worth" as follows:

"Net worth" means the aggregate of the paid up capital and free reserves after deducting therefrom, miscellaneous expenditure to the extent not written off or adjusted or deferred revenue expenditure, intangible assets, accumulated losses and any loans and advances given by the asset management company or MF Lite asset management company to either its sponsor, associates or group company of the sponsor and its associates or group company;

The MF Regulations 2026 do not define "paid up capital", but Regulation 2(2) of the MF Regulations 2026 says that if any word or expression is not defined in the MF Regulations, the definitions given in, inter alia, the Companies Act, 2013 ("CA 2013"), will apply.

Section 2(64) of CA 2013 defines "paid-up share capital" as the aggregate amount of money credited as paid-up on the shares issued by the company. The term "share" (Section 2(84)) covers both equity shares and preference shares

(including redeemable preference shares). Redeemable preference shares, once issued and paid-up, form part of the paid-up share capital until they are actually redeemed.

Under Route-2, an AMC must have a minimum net worth of ₹150 crore at the time of registration, contributed by the sponsor. After registration is complete, the AMC should maintain a net worth of ₹100 crore on a continuous basis. However, if the AMC has profits for five consecutive years, the net worth of the AMC can be ₹ 50 crore.

In light of the above, it is possible to take the view that, in response to Query no 1 from First Water Capital Advisory LLP, if a sponsor contributes ₹50 crore in equity capital and ₹100 crore in redeemable preference shares (redeemable only after the AMC achieves profits for five consecutive years), the net worth requirement under Regulation 5 of the MF Regulations would be satisfied.

- SEBI's response to the second query is based on a fundamental legal principle, namely that a trust is not a person or a legal entity or a juristic person. This principle arises from Common Law as well as Section 3 of the Indian Trusts Act, 1882, which defines a "trust" as:

"an obligation annexed to the ownership of property and arising out of a confidence reposed in and accepted by the owner, or declared and accepted by him, for the benefit of another, or of another and the owner." It is for this reason that, where a trust owns any property or executes any document, the trustee's name appears in the property register or the signature block.

Section 5 of the Limited Liability Partnership Act, 2008 ("LLP Act") embodies a rule similar to the one in Regulation 2(1)(xx) of the MF Regulations 2026, which is that only an individual or a body corporate can become a partner in an LLP. This implies that a trust cannot invest in or become a partner in an LLP. Read literally, this would prevent any trust, including SEBI-regulated trusts such as AIFs, REITs and InvITs, from holding LLP partnership interests. However, this issue was resolved by the Ministry of Corporate Affairs ("MCA") issuing General Circular No. 37/2014, dated 14 October 2014, which clarified that where a trust is regulated under SEBI-prescribed regulations, and its trustee is a body corporate, that corporate trustee may hold the partnership interest in its own name, without any statement that it is holding as trustee.

In the context of eligibility to be the sponsor of a mutual fund, if SEBI wanted to enable SEBI regulated entities such as AIFs, REITs, InvITs, which are set up in the form of trusts, to act as sponsors of mutual funds, SEBI could amend Regulation 2(1)(xx) to expressly include such regulated trusts or trusts whose trustees or beneficiaries have demonstrated experience in financial services, within the universe of eligible sponsors. Alternatively, SEBI could issue a circular similar to the one issued by the MCA in 2014 to achieve the same objective. The actual investment of such a trust/sponsor in the AMC would have to be held in the name of the trustee of such trust.

SEBI's letter and the applicant's original query letter can be accessed from [here](#).

We hope you have found this information useful. For any queries/clarifications, please write to us at insights@elp-in.com or write to our authors:

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