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"ASBA AND BANKING LIQUIDITY: A DOCTRINAL AND SYSTEMIC ANALYSIS OF REGULATORY ASYMMETRY IN INDIAN BANKING LAWS"

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I. INTRODUCTION

Over the last two decades, india's capital markets have undergone a profound transformation aimed at enhancing transparency, investor access, and procedural efficiency. A hallmark of this shift has been the securities and exchange board of india's (SEBI) initiative to modernize the public issue process. Among its most impactful reforms was the introduction of the applications supported by blocked amount (ASBA) mechanism in 2008, which allowed investors to apply for securities without the need to transfer funds upfront. Instead, the funds would remain in their bank accounts, blocked by a lien until allotment, thereby eliminating delays in refunds and reducing dependency on intermediaries[1]. This reform, codified under regulation 23 of the sebi (issue of capital and disclosure requirements) regulations, 2009 (icdr regulations), quickly became the default subscription mechanism for retail and institutional investors alike[2].

Yet, beneath ASBA's procedural clarity lies an underexplored friction — a structural tension that materializes not in the capital market it governs, but in the banking system that facilitates it. This paper examines a deceptively simple but institutionally significant question:

Can a legally valid, statutorily compliant investor protection mechanism inadvertently destabilize banking liquidity through structural asymmetry?

The working hypothesis of this paper is that ASBA, while lawful and investor-friendly in design, creates an unintended dislocation between SEBi's micro-prudential objectives and the

[1] SECURITIES AND EXCHANGE BOARD OF INDIA, *Applications Supported by Blocked Amount (ASBA) facility in Public Issues and Rights Issues*, Circular No. SEBI/CFD/DIL/ASBA/1/2009/30/12, 30 December 2009, available at: https://www.sebi.gov.in/legal/circulars/dec-2009/applications-supported-by-blocked-amount-asba-facility-in-public-issues-and-rights-issues_2902.html

[2] SECURITIES AND EXCHANGE BOARD OF INDIA, *SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009*, Regulation 23, available at: https://www.sebi.gov.in

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reserve bank of india's (RBI) macroeconomic mandate. We refer to this as regulatory asymmetry — a condition in which one regulatory institution's instrumentality imposes exogenous costs on another's operational or policy domain. In the case of ASBA, the blocking of investor funds results in a peculiar economic distortion: although these funds remain within the banking system and continue to be counted under net demand and time liabilities (NDTL) — thus attracting cash reserve ratio (CRR) and statutory liquidity ratio (SLR) requirements — they are functionally unusable for credit creation, investment, or liquidity balancing[3]. This phenomenon, while invisible to the retail applicant or capital market observer, triggers operational friction for banks, particularly during periods of monetary tightening, tax outflows, or large-scale public fundraisings.

The Disjunction Becomes Particularly Salient During Episodes Of IPO Oversubscription. In Such Cases, Large Volumes Of Funds Remain Blocked Across Multiple Banks For A Defined Window (Typically T–5 To T+2 Days), Compressing Short-Term Liquidity While Still Imposing Regulatory Compliance Costs On The Banks[4]. When Such ASBA-Induced Fund Immobilization Coincides With System-Wide Autonomous Liquidity Withdrawals — Such As Advance Tax Payments Or Monthly Goods And Services Tax (GST) Outflows — The Liquidity Stress Compounds, Often Necessitating Rbi Intervention Through Liquidity Adjustment Facility (LAF) Repos Or Foreign Exchange Swaps[5]. The 2022 LIC IPO, For Instance, Saw Over ₹73,000 Crore Blocked Under ASBA While Coinciding With A Quarter-End Tax Outflow Cycle — Prompting The RBI To Infuse ₹1.5 Lakh Crore Into The System To Avoid Market-Wide Liquidity Distortion[6].

This paper adopts a three-pronged methodology to investigate the phenomenon:

- *First, a doctrinal legal analysis of SEBI's icdr regulations, RBI's liquidity control frameworks (RBI act, 1934 and br act, 1949), and relevant circulars will establish the statutory architecture underpinning ASBA and monetary regulation.*

[3] RESERVE BANK OF INDIA, *Master Circular on Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)*, 2023; see also IMF, *Global Financial Stability Report*, October 2021, on liquidity mismatches in emerging markets.

[4] KPMG, *IPOs in India: FY24 Highlights*, available at: https://assets.kpmg.com/content/dam/kpmg/in/pdf/2024/01/kpmg-ipos-in-india-fy24.pdf

[5] *Advance tax outgo to raise call money rates*, LIVEMINT, 15 September 2022, available at: https://www.livemint.com/Politics/CkrWeDU0KSaKfO8zffRClK/Advance-tax-outgo-to-raise-call-money-rates.html

[6] *LIC IPO: RBI gears up to tackle cash crunch*, THE TIMES OF INDIA, 9 May 2022, available at: https://timesofindia.indiatimes.com/business/india-business/lic-ipo-rbi-gears-up-to-tackle-cash-crunch/articleshow/89576589.cms

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- *Second, an economic-institutional analysis will unpack the effect of ASBA on NDTL, CRR/SLR, interest cost burdens, and interbank liquidity behavior — drawing on concepts such as high-quality liquid assets (HQLA), call money rates, and repo market dynamics.*
- *Third, the paper relies on empirical illustrations, including the LIC IPO, to demonstrate how seemingly isolated investor-protection mechanisms can affect macro-level liquidity flows, central bank intervention patterns, and monetary policy calibration.*

The remainder of this paper is structured as follows:

Section ii provides a literature review across capital market infrastructure, banking liquidity dynamics, and regulatory coordination, and identifies the research gap.

Section iii constructs the doctrinal and institutional framework of asba, rbi's liquidity role, and judicial insights on inter-regulatory harmonization.

Section iv presents a detailed analysis of asba's systemic effects — segmented into typology of deposits, reserve burdens, fund immobilization timelines, fiscal liquidity overlaps, and empirical events.

Section v contrasts india's framework with global approaches to subscription liquidity.

Section vi proposes doctrinal, institutional, and technological reforms.

Section vii concludes with a normative reflection on regulatory asymmetry and inter-institutional coherence.

II. Literature Review and Research Gap

A meaningful analysis of ASBA's systemic consequences requires a cross-sectoral reading of scholarship across capital market regulation, monetary liquidity theory, and institutional interdependence. The purpose of this review is not merely to summarize prior literature, but to demarcate conceptual borders between what has been established and where this paper begins.

2.1 Capital Market Design and Investor Protection

The ASBA framework emerges from SEBI's broader commitment to protecting investor capital while simplifying IPO participation. Codified in Regulation 23 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, ASBA mandates that the application money for public issues remains blocked via a lien in the investor's account until allotment or refund, thereby eliminating refund delays and reducing the risk of intermediary misuse. The reform was part of SEBI's transition toward a risk-mitigated capital issuance system, ensuring that unallocated funds are neither diverted nor misappropriated — a concern well-evident in

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India's IPO ecosystem of the early 2000s.

SEBI's approach mirrors broader trends in global capital market design. In the United States, under SEC Rule 15c2-4, IPO funds are held in escrow until shares are allotted, with intermediary withdrawal prohibited unless conditions of issue are satisfied[7]. In the European Union, the Prospectus Regulation (EU) 2017/1129 [8] and accompanying national laws allow partial blocking or tiered allotment, usually coordinated by syndicate banks, with funds returned or released based on book-building outcomes. China, meanwhile, utilizes quota-linked bidding and centralized fund pooling managed by the China Securities Depository and Clearing Corporation, which temporarily sterilizes funds but allows for reflow within short windows[9].

However, in contrast to these systems, ASBA's reliance on a pure blocking mechanism without compensatory liquidity buffers makes it uniquely rigid. Most foreign regimes impose temporary restrictions with either escrow-based flexibility or institutional buffering mechanisms (e.g., underwriter holding or central clearinghouse optimization), minimizing systemic drag on bank liquidity. This regulatory inflexibility — though well-intentioned — is largely unchallenged in Indian legal or financial literature, which has traditionally viewed ASBA only through the lens of investor convenience.

2.2 Liquidity Management in Banking and Monetary Policy

On the monetary side, the Reserve Bank of India (RBI) — under the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949 — is entrusted with maintaining systemic liquidity and price stability, primarily through control over banks' reserve obligations and access to liquidity windows. The key instruments at RBI's disposal include:

- Cash Reserve Ratio (CRR): the mandatory portion of NDTL banks must park with the RBI.

[7] U.S. SECURITIES AND EXCHANGE COMMISSION, *Rule 15c2-4 under the Securities Exchange Act of 1934*, available at: https://www.ecfr.gov/current/title-17/chapter-II/part-240/section-240.15c2-4

[8] REGULATION (EU) 2017/1129 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC, OFFICIAL JOURNAL OF THE EUROPEAN UNION, L 168/12, 30 June 2017, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017R1129

[9] CHINA SECURITIES REGULATORY COMMISSION, *IPO Reform Guidelines*, 2022; see also: EUROPEAN SECURITIES AND MARKETS AUTHORITY (ESMA), *Prospectus Regulation 2017/1129*, available at: https://www.esma.europa.eu

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- Statutory Liquidity Ratio (SLR): a share of NDTL to be held in high-quality liquid assets (HQLA), often in government securities.
- Liquidity Adjustment Facility (LAF): allows short-term repo and reverse repo borrowing/lending with RBI.
- Variable Rate Reverse Repo (VRRR): a calibrated tool for absorbing excess liquidity from the banking system.

While these instruments are designed to allow predictive liquidity management, recent RBI reports have pointed out that non-core liquidity events — including tax outflows and capital market blockages — often render these tools reactive, rather than pre-emptive[10]. Moreover, literature on monetary sterilization has typically framed these concerns around foreign capital inflows or deficit monetization — not procedural blockages from domestic capital mobilization.

2.3 Interbank Liquidity Mechanics

Banking system liquidity operates on a daily fluctuation model, where banks continually rebalance their reserve holdings to meet CRR and SLR mandates in light of changing deposits. Here, instruments like the call money market, repo transactions, and Triparty Repo (TREPS) facilitate short-term borrowing and lending between banks and non-bank financial intermediaries (NBFIs), usually brokered by the Clearing Corporation of India Limited (CCIL).

In such a framework, the Net Demand and Time Liabilities (NDTL) figure is pivotal — forming the base for determining reserve obligations. When IPO applications are submitted through ASBA, the corresponding funds remain physically unmoved in the investor's account, yet are lien-marked and hence unusable by the bank for lending, investment, or liquidity adjustment. Despite their inaccessibility, these balances continue to be reflected on the liability side of the bank's balance sheet and are counted in the bank's Net Demand and Time Liabilities (NDTL) — thereby increasing CRR and SLR obligations without yielding any offsetting liquidity utility[11]. However, since these funds are lien-marked and unusable, the bank faces a liability–asset mismatch. Despite this, the academic literature on money markets in India has largely

[10] RESERVE BANK OF INDIA, *Report on Trend and Progress of Banking in India*, 2022-23, available at: https://www.rbi.org.in

[11] SECURITIES AND EXCHANGE BOARD OF INDIA, *General Information Document for Investing in Public Issues*, 2020, at 13–14, clarifying that ASBA funds remain "blocked in the ASBA Account until finalisation of the Basis of Allotment and consequent transfer… or until withdrawal or rejection of the Bid", available at: https://www.sebi.gov.in/sebi_data/commondocs/mar-2020/Annexure%20PO_p.pdf

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focused on macro-level liquidity trends, ignoring transaction-level distortions introduced by regulatory mechanisms like ASBA.

2.4 Identified Research Gap

This paper finds itself at the juncture of two fields that have remained untouched up until now: securities regulation and monetary policy design.

- There exists no scholarship, to date, that evaluates ASBA's impact on banking sector liquidity through the lens of reserve requirements, fund usability, or systemic liquidity stress.
- There is also a clear doctrinal silence on how SEBI's investor-centric mechanisms affect RBI's liquidity transmission objectives — a regulatory asymmetry that remains undocumented in legal and policy journals.
- Finally, while India's market reform literature frequently applauds ASBA as a procedural innovation, no work interrogates the opportunity cost of fund immobilization on banking profitability or credit flow disruption during peak fund-raising cycles.

This paper aims to fill this void through a legal-economic analysis that synthesizes SEBI's regulatory intent with RBI's liquidity objectives, exposing the functional tensions that arise when reformist micro-instruments (like ASBA) lack systemic insulation from macro-financial repercussions.

III. Legal and Institutional Architecture

A functioning financial system depends not only on distinct institutional mandates but also on the harmony between them. While it is well-established that capital markets and banking fall under separate domains in India's regulatory design, the introduction and operation of ASBA (Applications Supported by Blocked Amount) exemplifies how one regulator's procedural tool—though lawful—can have unintended consequences on another's core function. This section unpacks the legal doctrines, institutional mandates, constitutional architecture, and operational interfaces that have created the current asymmetry between SEBI's fund-blocking mechanism and RBI's liquidity responsibilities.

3.1 SEBI's Mandate and the ASBA Framework

The Securities and Exchange Board of India (SEBI) is empowered by the SEBI Act, 1992 to regulate securities markets and protect investors. Section 11 of the Act mandates SEBI to

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"promote the development of, and to regulate the securities market by such measures as it thinks fit"[12]. In exercise of this power, SEBI introduced ASBA as part of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR Regulations). Regulation 23 of the ICDR mandates that application money submitted by investors in a public issue be blocked via a lien in the applicant's bank account until allotment or refund[13].

ASBA's core objective was to reduce refund delays, prevent misuse of investor funds by intermediaries, and enhance transparency in the IPO application process. The blocked funds do not leave the bank account but are lien-marked, making them unusable by both the bank and the investor during the public issue process.

SEBI operationalized ASBA through key circulars issued in 2008 and 2009[14], designating certain commercial banks as Self-Certified Syndicate Banks (SCSBs). These banks are tasked with blocking funds, forwarding investor applications to stock exchanges, and releasing funds post-allotment.

In 2023, SEBI proposed extending ASBA to secondary market transactions, where funds would be blocked in real time during trading[15]. This marked a shift from a periodic to a potentially daily fund-blocking architecture, introducing system-wide implications for banking liquidity that go far beyond investor protection.

3.2 RBI's Liquidity Mandate and Reserve Design

India's banking system operates under the regulatory supervision of the Reserve Bank of India (RBI), which is entrusted with monetary policy, systemic liquidity, and financial stability under the Reserve Bank of India Act, 1934, and the Banking Regulation Act, 1949.

[12] SEBI Act, 1992, §11, available at: https://www.sebi.gov.in/acts/act15ac.pdf
[13] SEBI (ICDR) Regulations, 2009, Regulation 23, available at: https://www.sebi.gov.in/legal/regulations/jul-2009/sebi-issue-of-capital-and-disclosure-requirements-regulations-2009-last-amended-on-september-06-2023-_52383.html
[14] SEBI Circular No. SEBI/CFD/DIL/ASBA/1/2009/30/12, 30 Dec 2009, available at: https://www.sebi.gov.in/legal/circulars/dec-2009/applications-supported-by-blocked-amount-asba-facility-in-public-issues-and-rights-issues_2902.html
[15] SEBI Board Memo, Agenda Item No. 6, March 2023, available at: https://www.sebi.gov.in/sebi_data/meetingfiles/mar-2023/1679562249781_1.pdf

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Key Regulatory Concepts:

- Net Demand and Time Liabilities (NDTL): The total deposits that banks owe their customers, including demand liabilities (e.g., current and savings accounts) and time liabilities (e.g., fixed deposits), net of interbank liabilities. This figure is crucial because it forms the base on which banks are required to maintain reserves[16].
- Cash Reserve Ratio (CRR): A percentage of the NDTL that banks must maintain in the form of cash with the RBI. This reserve earns no interest and is a direct tool for monetary sterilization[17].
- Statutory Liquidity Ratio (SLR): Another percentage of NDTL that banks must hold in the form of high-quality liquid assets (HQLA), primarily government securities. SLR ensures solvency and supports the government bond market[18].
- Liquidity Adjustment Facility (LAF): A short-term window under which banks borrow or lend from RBI, depending on surplus or deficit liquidity[19].

In practice, RBI adjusts CRR and SLR requirements to control inflation, manage liquidity, and maintain macro-financial stability. However, these requirements apply uniformly to all components of NDTL, whether the funds are actually deployable or not.

This creates a critical tension: ASBA-blocked funds are still part of NDTL. Hence, banks must maintain CRR and SLR on balances they cannot access, and simultaneously pay interest to the depositor. These funds are not exempt under RBI's master circulars on reserve computation. This creates a negative carry and imposes a silent but quantifiable cost on the banking system.

3.3 Overlapping Institutional Authority and Constitutional Allocation

Under the Constitution of India, financial subjects are distributed across three lists in Schedule VII:

- Entry 45, Union List: Covers banking.
- Entry 48, Union List: Covers stock exchanges and capital markets.

[16] RBI, *Master Circular – CRR*, available at: https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9886
[17] RBI, *Master Circular – SLR*, available at: https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12223&Mode=0
[18] RBI, *Liquidity Management Framework*, available at: https://www.rbi.org.in/Scripts/BS_ViewMonetaryCreditPolicy.aspx?Id=12285
[19] MINISTRY OF FINANCE, *FSDC Press Release*, available at: https://dea.gov.in/sites/default/files/fsdc-press-release.pdf

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- Entry 7, Concurrent List: Includes contracts and securities — enabling shared jurisdiction between the Centre and the States[20].

SEBI draws power from laws rooted in the Concurrent List, while RBI operates under laws derived from Union List entries. This difference results in two regulators acting autonomously but without shared accountability.

While SEBI regulates ASBA as a procedural market mechanism, it does not evaluate or consider its impact on banking liquidity. Conversely, RBI bears the consequence—forced to accommodate tight liquidity conditions when ASBA-induced fund blockages coincide with fiscal outflows or monetary tightening.

Ideally, such frictions would be addressed in the Financial Stability and Development Council (FSDC), a non-statutory body formed in 2010 to ensure policy coherence between financial regulators. However, FSDC's proceedings are neither public nor binding. To date, there is no known record of SEBI–RBI coordination on the ASBA framework within the FSDC platform[21].

3.4 Judicial Principle: Coordinated Governance in Intersecting Domains

The case of *PTC India Ltd. v. Central Electricity Regulatory Commission* (2010) 4 SCC 603 offers useful jurisprudence on how overlapping regulatory statutes should be interpreted. The Supreme Court emphasized that in situations where multiple regulators operate in related domains, statutes must be read harmoniously, not in isolation.

While this decision was delivered in the context of electricity markets, the doctrine extends to financial regulation: when SEBI's rules impair RBI's liquidity functions, both regulators must evolve mechanisms for mutual accommodation, rather than asserting unilateral authority. The judgment supports a constitutional obligation of coordination, especially where the action of one authority produces systemic cost externalities for another[22].

3.5 Doctrinal Evidence of ASBA Fund Inaccessibility

SEBI's General Information Document for public issue investors explicitly states that ASBA

[20] THE CONSTITUTION OF INDIA, Schedule VII, available at: https://legislative.gov.in/constitution-of-india
[21] MINISTRY OF FINANCE, *FSDC Press Release*, available at: https://dea.gov.in/sites/default/files/fsdc-press-release.pdf
[22] *PTC India Ltd. v. Central Electricity Regulatory Commission*, (2010) 4 SCC 603.

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funds are blocked through a lien and remain inaccessible until allotment or refund. While funds never leave the investor's account, the bank is barred from utilizing them operationally during the lien period[23].

Yet, from a regulatory reporting perspective:

- These funds inflate NDTL, raising CRR and SLR requirements,
- Banks must pay interest on the balances,
- No RBI circular offers an exemption for lien-marked funds in reserve computations,
- These balances are not offset against usable liquidity when RBI assesses systemic tightness.

This doctrinal imbalance leads to structural distortion: banks report higher deposit liabilities (which attract reserve obligations) but face operational liquidity compression.

During large IPOs, such as the LIC IPO in 2022, over ₹73,000 crore was blocked system-wide under ASBA[24]. This occurred alongside quarter-end advance tax payments, which further drained bank liquidity. The RBI had to intervene with repo and forex swap operations to inject over ₹1.5 lakh crore into the system[25].

This episode demonstrates that ASBA's liquidity cost is real and measurable, even if unrecognized in its regulatory framework. It also illustrates the urgent need for reforms that align capital market efficiency with banking system resilience.

IV. The Systemic Impact of ASBA on Banking Liquidity

The ASBA framework, though constructed as a benign procedural safeguard for investors, generates measurable systemic consequences when observed through the lens of banking operations. This section unpacks the full scope of those effects — not through abstract theory, but through how funds behave, how banks respond, and how monetary policy is forced to adapt in real time. At the heart of the argument lies a structural paradox: funds are reported as present,

[23] SEBI, *General Information Document for Investing in Public Issues*, at 13, available at: https://www.sebi.gov.in/sebi_data/commondocs/mar-2020/Annexure%20PO_p.pdf

[24] *LIC IPO: RBI gears up to tackle cash crunch*, THE TIMES OF INDIA (9 May 2022), available at: https://timesofindia.indiatimes.com/business/india-business/lic-ipo-rbi-gears-up-to-tackle-cash-crunch/articleshow/89576589.cms

[25] RBI to conduct record $10 billion swap auction, BUSINESS TODAY (21 Feb 2025), available at: https://www.businesstoday.in/latest/economy/story/rbi-to-conduct-record-10-billion-dollarrupee-swap-auction-to-ease-liquidity-strain-465542-2025-02-21

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but are functionally absent; banks appear liquid on balance sheets, but operate in constrained corridors. This section deconstructs the timeline, sources, compliance burdens, and monetary interactions that create ASBA's macroeconomic drag.

4.1 The T–5 to T+2 Window: Liquidity Immobilization Timeline

In every public issue governed by ASBA, there exists a statutory blockage window that typically begins five days before the issue closes (T–5) and ends two days after the closure (T+2). During this seven-day span, investor funds are lien-marked in bank accounts but cannot be withdrawn, redeployed, or netted off against any banking liability. For banks, these balances:

- Appear as deposits under demand liabilities,
- Are counted in Net Demand and Time Liabilities (NDTL), and
- Yet remain unavailable for lending, investment, or interbank adjustments.

This seven-day immobilization cycle repeats with every IPO, FPO, or rights issue and becomes particularly destabilizing when multiple issuances overlap. Even in periods of surplus banking liquidity, sudden freezing of large volumes without offsetting inflows leads to liquidity forecasting errors and greater reliance on intraday or overnight funding markets[26]

4.2 Source-Based Typology: Fresh vs. Existing Deposits

To assess ASBA's systemic effects more granularly, it is essential to distinguish between the **source** of blocked funds:

1. Fresh Deposits

These are funds newly deposited into bank accounts specifically for IPO application. When these deposits enter the system, they:

- Increase NDTL, thereby triggering higher CRR and SLR requirements,
- Remain blocked under ASBA, and thus are unavailable for the bank's use,
- Cause the bank to maintain additional reserves without a corresponding increase in deployable liquidity.

The result is a scenario of "liquidity without utility" — a paradox where reserves are calculated on deposits that offer no operational value to the bank.

[26] KPMG, *IPOs in India: FY24 Highlights*, available at: https://assets.kpmg.com/content/dam/kpmg/in/pdf/2024/01/kpmg-ipos-in-india-fy24.pdf

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2. Existing Deposits

In this case, funds already present in savings or current accounts are utilized for ASBA applications. The NDTL does not increase, yet the outcome is equally problematic:

- The blocked amount becomes operationally dead,
- The bank continues to pay savings interest on funds it cannot use,
- No offsetting relief is granted in CRR/SLR computation.

This creates what is known as a "negative carry": the bank incurs cost without earning spread. Over time, this erodes profitability and creates perverse monetary incentives.

4.3 Reserve Compliance and Interest Burden

Regardless of the source of funds, banks must continue to fulfill statutory reserve obligations on ASBA-blocked balances. According to RBI's master circulars on CRR and SLR computation, no exemption exists for lien-marked funds or temporary blockages due to capital market activity[27].

The impact of this compliance is twofold:

- Banks must allocate cash (CRR) and liquid assets (SLR) against non-usable deposits.
- They must continue paying interest on the full balance, without generating returns.

This situation leads to an operational drag. While one or two IPOs might not destabilize the system, multiple concurrent issuances during peak fundraising seasons (such as Q3 and Q4 of India's fiscal year) can materially compress liquidity buffers and alter reserve deployment strategy.

Worse still, these pressures are often hidden from standard liquidity models because the headline NDTL remains healthy. This masks the strain until repo rates spike or call money markets tighten — indicators that emerge only after the system is already under duress[28].

4.4 Impacts of these Blocked Funds

To understand the intricate consequences of ASBA (Application Supported by Blocked Amount) funds on banking operations and broader economic liquidity, it is crucial to first unpack the role of bank deposits and the regulatory framework that governs them. Banks act

[27] Reserve Bank of India, *Master Circular – CRR and SLR Computation*, available at: https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9886

[28] *Fall in call money trades may limit RBI rate move impact*, IPA News Pack, available at: https://ipanewspack.com/fall-in-call-money-trades-may-limit-rbi-rate-move-impact/

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as financial intermediaries, collecting deposits from individuals and institutions and deploying these funds for both short-term and long-term lending. This process primarily fuels credit circulation, economic activity, and capital formation[29]. However, banks are not allowed to freely utilize the entirety of these deposits. They are mandated by regulatory authorities, such as the Reserve Bank of India (RBI), to maintain a certain percentage of their total deposits as reserves, in the form of the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). These reserve ratios serve critical macroeconomic and prudential objectives, including controlling inflation, ensuring solvency, and maintaining public confidence in the banking system. Importantly, these reserve requirements apply to all deposits held by the bank—regardless of whether the funds are actively being used or frozen due to regulatory obligations like ASBA[30].

It follows that any consistent change in bank deposits must be accompanied by a proportionate adjustment in the reserve base. For example, if a bank receives an influx of deposits, it must increase the quantum of reserves it maintains. Likewise, if deposits are withdrawn, the required reserves can decrease proportionately. This direct relationship creates a fundamental constraint on a bank's lendable surplus—the portion of deposits that can be used to issue loans and advances.

When IPOs (Initial Public Offerings) are floated in the market, retail and institutional investors apply for shares using the ASBA mechanism. In this system, investors' application money is blocked in their bank accounts rather than being debited immediately and transferred to the issuer. The blocked amount is earmarked for the IPO and cannot be accessed or utilized by either the investor or the bank during the IPO processing period, which can last from a few days to over a week depending on the size of the offering and regulatory processes[31].

Effectively, ASBA blocked funds are frozen deposits within the bank's system. Although they appear on the bank's balance sheet as liabilities (i.e., customer deposits), they are neither accessible for investment nor available to the bank for lending. This introduces a unique

[29] *Reserve Bank of India Functions and Working*, ch. 5 (2023), https://www.rbi.org.in.

[30] *Master Circular – Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR)*, Reserve Bank of India (Jul. 1, 2022), https://www.rbi.org.in

[31] *SEBI Circular on ASBA Mechanism for Public Issues*, SEBI/CFD/DIL/ASBA/1/2008/30/12 (Dec. 30, 2008), https://www.sebi.gov.in

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distortion into the otherwise liquid relationship between deposits and credit creation.

Crucially, despite being unusable, banks are still obligated to maintain reserve ratios against these ASBA-blocked deposits. For instance, if a bank holds ₹1,000 crore in ASBA-blocked funds during a major IPO week, it must maintain 4.5% CRR and ~18% SLR (as per existing RBI norms) on the entire ₹1,000 crore—adding up to ₹225 crore that must be held in reserve. These reserves themselves are not income-generating assets for the bank and, in the case of CRR, must be maintained in the form of cash with the RBI, yielding no interest[32].

This results in the creation of a dual-layered liquidity crunch on banks:

1. The first layer is the routine regulatory restriction where 30% or more of all deposits are already tied up in CRR and SLR, leaving about 70% of the total deposits as freely usable funds.
2. The second layer comes into play with ASBA, where the remaining 70% of funds now faces additional constraints—not due to regulation per se, but due to the blocked status of ASBA funds, which renders them temporarily inoperative.

This compounding effect has meaningful implications. During high-IPO activity periods, banks may show inflated deposit balances on paper, but the real, operational liquidity is severely reduced. This impacts their ability to meet short-term credit demands, fund working capital for businesses, or even respond to sudden withdrawal requests. The broader economy may experience a temporary tightening of liquidity, leading to an increase in short-term interest rates or greater reliance on inter-bank borrowing and refinancing mechanisms such as the RBI's Liquidity Adjustment Facility (LAF)[33].

Moreover, from a systemic risk perspective, this scenario creates a mismatch between reported deposit growth and actual credit availability. Investors and policymakers relying solely on deposit and reserve figures without factoring in ASBA blocks may misjudge the banking sector's capacity to support economic growth during IPO-heavy periods. This distortion, although temporary, becomes more significant in a country like India where IPOs are frequent

[32] *Statutory Liquidity Ratio and Cash Reserve Ratio Explained*, RBI FAQs, https://www.rbi.org.in/Scripts/FAQView.aspx?Id=92

[33] *Report on Trend and Progress of Banking in India*, RBI (2023), https://www.rbi.org.in/Scripts/AnnualPublications.aspx?head=Trend%20and%20Progress%20of%20Banking%20in%20India

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and attract large retail participation through ASBA.

4.5 Compounded Liquidity Compression: ASBA and Tax Outflows

India's banking liquidity cycles are already sensitive to autonomous drains, especially from:

- Advance tax payments (typically quarterly, with Q3 and Q4 being the most intense), and
- Monthly GST outflows, which withdraw funds from commercial banks to the government's Consolidated Fund.

These outflows create a vacuum in the banking system — funds leave deposit accounts and do not re-enter until the government spends them again. In the interim, the banking system experiences a monetary void, requiring support either via interbank borrowing or RBI liquidity infusions.

ASBA overlays a second vacuum: funds remain in the system but are unusable. When these two vacuums occur simultaneously or even adjacently (e.g., ASBA blocking in the week following a tax payment), the stress is compounded.

Even if IPO dates do not directly coincide with fiscal drains, the system-wide liquidity base remains constrained. This has real effects:

- RBI is forced to conduct Open Market Operations (OMOs),
- Forex swap auctions are used to inject durable liquidity[34],
- Call money rates spike, affecting smaller NBFCs and cooperative banks disproportionately.

The perception of liquidity stability diverges from actual fund usability, making it harder for RBI to calibrate short-term monetary interventions.

4.6 Empirical Illustration: LIC IPO and FY24 Fundraising Wave

The LIC IPO of 2022 is the clearest empirical illustration of ASBA's macro-liquidity impact. During the issue:

[34] *RBI to conduct record $10 billion swap auction*, Business Today (Feb 2025), available at: https://www.businesstoday.in/latest/economy/story/rbi-to-conduct-record-10-billion-dollarrupee-swap-auction-to-ease-liquidity-strain-465542-2025-02-21

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- Over ₹73,000 crore was blocked via ASBA[35],
- The issue was oversubscribed 2.95 times (average across segments), as against 21,000 crores being raised, meaning nearly ₹73,000 crore was effectively immobilized,
- RBI had to inject ₹1.5 lakh crore into the system through LAF repos and USD/INR swap windows to counteract the vacuum[36].

In FY24, India witnessed a record ₹23.1 lakh crore in total IPO application volumes against ₹61,000 crore actually raised, indicating a capital lock-in ratio of 37:1. Oversubscription levels reached:

- 81x for Qualified Institutional Buyers (QIBs),
- 30x for retail investors, and
- 375x in specific small- and mid-cap issues[37].

These figures underscore that while SEBI's framework ensures fairness in allotment and fund safety, it does so by creating a liquidity drag that is massive in scale but invisible in law.

V. Comparative Global Models for Subscription Handling

The impact of ASBA on India's banking liquidity becomes more pronounced when contrasted with international models for managing subscription funds during capital raises. Across major jurisdictions, mechanisms have evolved to not only protect investor interest but also to minimize systemic liquidity stress. While the Indian framework is lauded for its investor-centric design, it diverges substantially in terms of harmonization with banking operations. This section undertakes a comparative analysis of practices in the United States, the European Union, and China to highlight how legal design can either amplify or insulate macro-financial risk.

5.1 United States: Escrow-Based Fund Handling

The U.S. capital markets operate under the regulatory supervision of the Securities and Exchange Commission (SEC). For public offerings, Rule 15c2-4 under the Securities Exchange Act of 1934 mandates that all investor funds be held in a separate escrow account maintained

[35] *LIC IPO: RBI gears up to tackle cash crunch*, Times of India, available at: https://timesofindia.indiatimes.com/business/india-business/lic-ipo-rbi-gears-up-to-tackle-cash-crunch/articleshow/89576589.cms

[36] Reserve Bank of India, *Monetary Policy Report – April 2023*, available at: https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=55415

[37] Economic Times, *India Inc raises record ₹30 billion in 6 months riding FPO wave*, available at: https://economictimes.indiatimes.com/markets/ipos/fpos/india-inc-raises-record-30-billon-in-6-months-riding-fpo-wave/articleshow/111648268.cms

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by a qualified institution until the securities are allotted or the offering is withdrawn[38]. Escrow accounts are not part of the bank's operational funds and are:

- Excluded from the balance sheet of the underwriter,
- Not included in reserve computations or lending headroom,
- Released or returned promptly upon closure of the issue.

This ensures that there is no artificial inflation of banking liabilities. The real-time reflow of funds — either toward the issuer or back to the investor — happens without distorting banking liquidity. U.S. regulators also emphasize underwriter **due diligence**, which guarantees fund flow integrity through fiduciary obligations[39].

5.2 European Union: Staggered Flows and Underwriter Buffers

The European Union follows a subscription framework under the Prospectus Regulation (EU) 2017/1129, complemented by national market infrastructure rules. Typically, funds are collected via underwriters or syndicate banks and managed through staggered clearing mechanisms[40].

Key features include:

- The use of custodial institutions to temporarily hold investor funds,
- Delayed debit mechanisms, where only a portion of funds is blocked until book-building closes,
- Underwriter capital buffers, allowing partial pre-financing to reduce reliance on retail flows.
- This design ensures that banks are not saddled with inactive liabilities. Liquidity impact is further reduced through t+0 or t+1 netting cycles, especially in larger EU economies like Germany and France.

5.3 China: Tiered Bidding and Centralized Clearing

China's capital raising system is based on a quota-linked bidding model overseen by the China Securities Regulatory Commission (CSRC) and implemented through the China Securities Depository and Clearing Corporation (CSDC). When an IPO is announced:

[38] U.S. SEC, *Rule 15c2-4 under the Securities Exchange Act of 1934*, available at: https://www.ecfr.gov/current/title-17/chapter-II/part-240/section-240.15c2-4

[39] SEC Division of Corporation Finance, *Interpretive Guidance on Use of Escrow Accounts*, available at: https://www.sec.gov/divisions/corpfin/guidance/escrowfaq.htm

[40] Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32017R1129

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- Institutional and retail segments are handled through tiered subscription windows,
- Funds are pooled at the clearing house, not retained in commercial bank accounts,
- Unsuccessful bidders are refunded within 1–2 business days from CSDC's centralized account[41].

The advantage of this system lies in its design: banks are operationally insulated from the liquidity dynamics of public fundraising. Moreover, the centralization of fund flow allows the CSRC to monitor liquidity displacement and respond through monetary policy adjustments if needed.

5.4 India's Divergence: A Legal Innovation without Liquidity Insulation

While ASBA has dramatically improved investor access, reduced refund timelines, and digitized IPO participation, it suffers from a crucial flaw when seen from a systemic angle: it offers no structural insulation to banks.

Unlike escrow systems or clearinghouse-managed pools:

- Funds remain on the books of commercial banks,
- Are counted as part of NDTL,
- Require CRR/SLR compliance, and
- Do not benefit from any temporary carve-outs or exemptions.

Additionally, India lacks the concept of underwriter capital buffers to absorb early pressure or provide liquidity smoothing. The result is a framework where SEBI's procedural innovation is not matched by RBI's liquidity recognition, thereby exposing the banking system to a silent reserve burden.

In short, while other jurisdictions distribute the burden of fund immobility across custodians, underwriters, and clearing entities, India transfers the entire load to commercial banks, without reciprocal regulatory relief. This legal-economic misalignment underscores the need for a more coordinated approach that balances investor protection with banking system stability.

VI. Policy and Legal Recommendations

The preceding sections establish that while ASBA fulfills SEBI's micro-prudential objectives, its macroeconomic side effects on liquidity remain unaddressed. The solution does not lie in abandoning the mechanism but in insulating the banking system from its unintended monetary

[41] China Securities Depository and Clearing Corporation (CSDC), *IPO Clearing Process Overview*, available at: http://www.chinaclear.cn/zdjs/gsgg/202210/t20221001_93517.html

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burdens. This section proposes a multi-tiered set of reforms—legal, institutional, technological, and behavioral—grounded in both the economic logic of liquidity and the regulatory framework governing Indian finance. Each proposal aims to preserve investor protections while alleviating systemic distortions.

6.1 Legal and Regulatory Proposals

Temporary CRR/SLR Exemptions for ASBA-Tagged Balances

The Reserve Bank of India should consider notifying a **temporary exclusion window** for funds marked under ASBA from CRR and SLR computation. This exemption could be time-bound (e.g., T–2 to T+2) and specifically apply to accounts flagged via banking core systems. Since banks are unable to use these funds, their inclusion in NDTL is doctrinally unsound. A conditional exemption will:

- Reflect actual deployable liquidity,
- Prevent artificial reserve inflation, and
- Reduce reliance on overnight borrowing during IPO cycles.

This would require RBI to amend its master circular on reserve computation, and SEBI to cooperate by mandating proper tagging in coordination with SCSBs.

Liquidity Coordination Protocol Between SEBI and RBI

Much like the current system of monetary policy coordination between RBI and the Ministry of Finance, there is scope to establish a formal RBI-SEBI coordination protocol. The protocol should mandate:

- Advance notice to RBI of expected large-scale IPOs or FPOs,
- Real-time monitoring of ASBA-linked fund blockage,
- Predictive liquidity modelling incorporating public issue timelines.

Such an arrangement would allow RBI to preemptively adjust its LAF and VRRR operations, thereby avoiding last-minute injections or swap auctions.

6.2 Institutional Enhancements

Real-Time NDTL Dashboards via Depositories

Depositories like NSDL and CDSL, which handle the dematerialized layer of public issues, can be leveraged to generate real-time dashboards of ASBA applications tagged by PAN, bank, and quantum. These dashboards, accessible to RBI and lead banks, would offer:

- Dynamic visibility into fund lock-ins,

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- Predictive analytics for reserve planning,
- Alerts for concentrated exposure in specific banks.

This requires integration of registrar-level systems (RTA) with banking APIs and the central depository architecture, under the supervision of the Financial Stability and Development Council (FSDC).

FSDC-Backed Liquidity Trigger Mechanism

FSDC, though non-statutory, can evolve into a real-time coordinating body during high-stakes capital market activity. It should be empowered to issue non-binding liquidity advisories, triggering coordination when cumulative ASBA exposure crosses a system-wide threshold (e.g., 0.3% of aggregate NDTL). This enables:

- Seamless engagement between SEBI, RBI, and depositories,
- Early detection of overlapping liquidity events (e.g., tax drains, IPOs),
- Strategic scheduling of public issues in harmony with macroeconomic constraints.

6.3 Technological Reforms

Blockchain-Based Refund Protocols

Refunds from failed allotments can be expedited via a blockchain-backed refund engine. This system would:

- Execute smart contracts once allotment data is finalized,
- Instantly release lien from investor accounts,
- Eliminate reconciliation delays from registrars.

Smart contract–enabled registrars could integrate with banking APIs using a single, auditable ledger. This would bring Indian infrastructure at par with global fintech standards, without changing the underlying legal framework.

Smart Contract–Linked Dynamic Unblocking

Where possible, registrars can adopt tiered unblocking using verified allotment algorithms. For example:

- If 50% of QIB quota is unsubscribed by T–1, half of the corresponding funds could be unblocked early.
- Retail bids beyond maximum permissible allotment can be automatically adjusted pre-T+2.

Such precision can minimize unnecessary immobilization, while respecting SEBI's investor

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protection ethos.

6.4 Behavioral Nudges and Systemic Timing Adjustments

Avoidance of Clustering Around Fiscal Outflows

SEBI and merchant bankers can voluntarily avoid scheduling IPO closures near known fiscal drain dates, such as advance tax deadlines or GST filing windows. Through regulatory advisories (not mandatory caps), the market can be nudged toward temporal dispersion, reducing systemic compression.

Subscription Caps During Stress Windows

During periods of heightened liquidity risk, SEBI can impose temporary subscription ceilings on certain investor categories (e.g., QIBs or HNIs), or adopt tiered allotment models where excessive oversubscription is moderated in advance. These steps will:

- Prevent runaway over-blockage,
- Enable smoother refund cycles,
- Improve monetary stability during heavy IPO seasons.

Together, these legal, institutional, technological, and behavioral interventions would move India closer to a harmonized regulatory regime—one where innovation in capital access is matched by foresight in liquidity management.

VII. Conclusion

The ASBA mechanism, though conceived as a forward-looking reform to democratize capital markets and insulate investors from intermediary risk, has revealed a structural blind spot in India's regulatory architecture. It unintentionally imposes liquidity constraints on the banking system—constraints that are not recognized in either statutory design or macroeconomic policy tools.

In conclusion, while ASBA has been a positive step in ensuring investor protection and efficient IPO processing, it also introduces hidden costs and limitations on the banking system. Banks are compelled to comply with reserve mandates even against frozen funds, thereby facing an unintended liquidity trap. A deeper understanding of these impacts is vital for both financial institutions and regulators to better calibrate monetary policy, credit supply, and investor mechanisms during such capital market events. At the heart of this paper lies a central contradiction: ASBA-tagged funds are legally visible but economically unusable. They appear

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in bank liabilities, trigger reserve obligations, and accrue interest costs—yet cannot be deployed for credit, investment, or liquidity management. This doctrinal inconsistency represents more than a technical oversight; it reflects a broader failure to reconcile sectoral mandates within a unified financial ecosystem.

Through legal-doctrinal analysis, economic dissection, and comparative benchmarking, this study has shown that SEBI's investor-centric design inadvertently encroaches upon RBI's liquidity mandate. The paper does not call for dismantling ASBA but for reimagining it in a way that preserves investor trust without sacrificing systemic liquidity.

As India's capital markets expand and IPO activity intensifies, this regulatory asymmetry will only grow in scale and consequence. The time is ripe for targeted legal exemptions, institutional coordination, technological enhancements, and behavioral nudges. These reforms must uphold investor protection while restoring balance to the monetary framework.

In sum, a resilient financial system demands more than innovation—it requires regulatory symphony, not solo performances. ASBA's next evolution must strike that harmony.