Exchanges tighten OFS oversight, flag gaps

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Stock exchanges have tightened supervisory oversight around the offer for sale (OFS) mechanism, directing stock brokers to strengthen controls and monitoring of order placement, after observing certain deficiencies in the process.

In a notice dated July 27, the exchanges advised stock brokers to review their internal procedures and control framework governing OFS transactions.

"During the review of market oversight activities, it has been noticed that there are certain shortcomings in the process relating to the placement of offer for sale orders specifically for large-value and institutional orders," noted the exchanges, without specifying the shortcomings.

Sources added that during broker inspections, exchanges found that certain OFS orders were not being entered by authorised personnel, such as the operations team or non-dealing team who may lack the required certifications.

BROKERS ALSO NEED TO ENSURE THAT OFS BIDS AND ORDERS ARE PLACED ONLY THROUGH AUTHORISED PERSONNEL OPERATING TRADING TERMINALS

As OFS orders also sensitive orders, they should be treated on the same level, explained an expert.

As a supervisory oversight measure, it has been directed that all institutional orders without upfront margin will be reviewed during the OFS bidding window or trading hours to protect the interest of investors.

Further, audit trails and records will be maintained for all OFS-related activities.

The exchanges have also asked brokers to ensure that all terminals used for OFS bidding will be subject to the same access controls, monitoring mechanisms, and risk management controls as for terminals used in the capital market segment.

Brokers also need to ensure that OFS bids and orders on behalf of clients are placed only through authorised personnel operating the trading terminals and by those whose terminal or user details are registered with the exchanges. Exchanges noted that the measures are aimed at enhancing investor protection, reducing risks associated with order placement, and strengthening operational controls.

The OFS route, commonly used by promoters and large shareholders to pare stakes, involves significant transaction sizes and tight timelines, making robust controls critical.

In the first quarter of financial year 2027, a total of ₹18,941 crore has been raised via OFS through 14 issuances, according to the data by Prime Database. In FY26, it stood at ₹25,743 crore. Brokers have been advised to undertake periodic review of their OFS process and controls, and take necessary enhancement wherever required.