

Sebi to have a dept just to check misuse of IPO funds

Will also conduct foreign accounting, check price manipulation post-listing

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To rein in misuse of the initial public offering (IPO) proceeds, the capital markets regulator Securities and Exchange Board of India (Sebi) is all set to have a separate specialised department, which will detect possible irregularities in the utilisation of net proceeds and even do foreign accounting of such firms.

The move comes close on the heels of an extensive discussion it had with the finance ministry in November. The markets regulator has been asked to act on promoters diverting investor funds for personal gains.

The new wing will be known as the corporate finance investigation department, which will be headed by one of Sebi's executive directors. This department will have information technology solutions experts, particularly to detect the menace of frauds.

"Sebi is determined to ensure funds of investors are protected and not diverted for purposes other than those stated in the draft papers while approaching investors. However, in the past few years, the instances of companies side-stepping the rules have risen where it has been observed that promoters tend to take undue advantage of public issuances," said a government source privy to the development.

Highlighting the core function of the department, the source said that at present, such matters are mostly taken care of by the corporate finance department. But now, some of the ongoing serious cases will be handled by the new division.

Sebi chairman is learnt to have assigned senior official Nagendraa Parakh to take charge of the new division. He is currently heading market intermediaries.

The department will also keep a close watch on the price manipulation after debut on the exchanges.

"Though Sebi does an inspection of the role of brokers in stock price movements soon after listing in suspected cases, with



PUBLIC ISSUES THIS YEAR

2020	IPOs		SME IPOs	
	No. of issues	Issue amount (₹ cr)	No. of issues	Issue amount (₹ cr)
January	0	0	5	36.1
February	0	0	0	0
March	1	10,341	6	26.33
April	0	0	0	0
May	0	0	0	0
June	0	0	3	16.14
July	1	496	0	0
August	0	0	2	10.85
September	8	7,128	8	62.12
October	1	518	2	5.02
November	1	6,480	1	2.54
		24,962		159

Source : PRIME Database

the new department in place, the process will be further streamlined and each aspect will be scrutinised, including the role of merchant bankers in each public offering," said the source quoted earlier.

In 2016-17, Sebi had found in its investigation that the IPO proceeds were being misused in certain cases by way of siphoning off the money through inter-corporate deposits immediately after garnering the funds through the public issue.

Sebi, however, found a number of companies had stated in their offer documents that pending utilisation of net proceeds, the issuer would temporarily invest the same in various instruments.

However, companies are now using various new methods to siphon off funds. For instance, they involve their directors, employees, and even related entities to make the transaction complex. They even use certain assets of the company as collateral, including being co-borrower and/or guarantor, for enabling third parties to obtain loans without authorisation, said another source aware of the new techniques.

The regulator had time and again brought in relevant clauses and changes to the (Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2020.

Under close watch

- ₹25,000 crore has been raised so far this year through large IPOs
- SMEs' IPO have so far raised about ₹160 crore
- Next year, primary market likely to see at least 30 IPOs worth around ₹30,000
- 80 companies have approached Sebi for issues, including SMEs