

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:4

ANSWERED ON:17.02.2006

IRREGULARITIES IN IPO

Chandrappan Shri C.K.;Singh Shri Rajiv Ranjan (Lalan)

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has noticed any scam/irregularities in the issue of Initial, Public Offer (IPO) of shares in recent past;
- (b) if so, the details thereof;
- (c) whether the Government has conducted any inquiry in this regard;
- (d) if so, the details thereof;
- (e) the action taken/being taken by the Government against the guilty banks/financial institutions/individuals; and
- (f) the preventive steps taken / proposed to be taken to avoid such scams / irregularities in future?

Answer

MINISTER OF FINANCE (SH. P. CHIDAMBARAM)

(a) to (t) : A statement is placed on the Table of the House.

Statement referred to in the reply to Lok Sabha Starred Question. No. 4 regarding `Irregularities in IPO` by Shri Rajiv Ranjan Singh ``Lalan`` and Shri C. K Chandrappan on 17.02.2006.

(a) and (b): SEBI has noticed certain irregularities in the issue of Initial Public Offering (IPO) shares in the recent past while examining the dealings in shares relating to the IPOs of the Yes Bank Ltd. and IDFC. The enquiries and investigations made so far by RBI and SEBI seem to indicate that a few entities opened thousands of demat accounts with Depository Participants (DPs) and bank accounts with Banks in the names of fictitious / benami individuals. They applied for shares in IPOs from these benami / fictitious accounts in sizes permissible for retail individual investors (RIs) and obtained allotment. As a result, the genuine RIs failed to get allotment or got allotment of fewer shares than they would have otherwise got.

(c) and (d): The enquiries and investigation made so far by RBI and SEBI seem to indicate that the bank accounts with Banks and demat accounts with depository,s participants (DPs) were opened without adherence to prescribed procedures. Some Banks extended IPO finance and facilitated movement of funds in violation of the guidelines.

(e) and (f): The penal actions taken by SEBI include: debaring concerned entities from dealing in securities market / dealing in IPO; directing the concerned DPs participants not to open fresh demat accounts till further directions; directing the depositories to enhance their surveillance system, and ordering inspection of the concerned Registrar to Issue and Merchant Bankers. In order to prevent recurrence of the irregularities, the measures taken by SEBI include: directing the depositories to advise their respective DPs to verify the genuineness of the demat account-holders where 20 or more demat account-holders have a common address; advising them to identify all the other IPOs during 2004 and 2005 wherein the same modus operandi had been adopted by the identified entities; directing them to form a co-ordination committee to co-ordinate with the surveillance department of SEBI for monitoring abnormal transactions in demat accounts; and advising them that in case of IPOs they should activate the Indian Securities Numbering System (ISIN) only on the date of commencement of trading on the stock exchanges.

The penal actions taken by RBI include imposition of penalties ranging from Rs.5 lakh to Rs. 20 lakh against 7 Banks taking into account the extent and enormity of the violation of the RBI guidelines. Other measures include: advising all scheduled commercial banks, excluding RRBs, to conduct a review of IPO financing and related matters, like opening of multiple accounts, adherence to KYC/AML guidelines and RBI instructions on IPO financing, advances against shares, etc.; prohibiting the Banks from crediting `account payee` cheques to account of any person other than the payee named therein; and taking up an examination of the internal control systems and processes in the banks to assess the areas of weakness with regard to KYC, IPO finance, advances against shares and internal controls etc.