

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:396
ANSWERED ON:09.08.2002
FAIR PRICE FOR INITIAL PUBLIC OFFERS
UMMAREDDY VENKATESWARLU

Will the Minister of FINANCE be pleased to state:

- (a) whether the SEBI has adequate powers and responsibilities to ensure that companies fix a fair price for their 'initial public offering' (IPOs)
- (b) if so, the extent to which SEBI is qualified and has the resources to ensure that valuation guidelines are observed ;
- (c) whether there has been any updating of the valuation guidelines affecting IPOs of companies;
- (d) if so, the details thereof; and
- (e) if not, the steps proposed to be taken to have such guidelines updated and enforced?

Answer

THE MINISTER OF FINANCE AND COMPANY AFFAIRS (SHRI JASWANT SINGH) :

(a) to (e) Prior to the establishment of the Securities and Exchange Board of India (SEBI) as a statutory body in 1992, capital markets were regulated by the office of the Controller of Capital Issues (CCI) established under the Capital Issues (Control) Act, 1947. Following the repeal of this Act in May 1992, Government has done away with the control on issue of capital and premium thereof by Indian companies. Companies are free to price their issues subject to justification of the same in their offer documents. SEBI has stipulated detailed guidelines for disclosure and investor protection, namely, the SEBI Guidelines on Disclosure and Investor Protection (DIP), in June, 1992. SEBI reviews these guidelines and issues clarifications from time to time. These guidelines require, inter alia, the disclosure of accounting ratios and justification of the issue price based on these ratios. If the ratios do not justify the issue price, the issuer cannot proceed with the issue. Moreover, projections and estimated financial information are not allowed in the offer documents and cannot be used for justification of pricing.