

V. UNVEILING THE ISSUES AND CHALLENGES RELATED TO RED HERRING PROSPECTUS: THROUGH THE LENS OF CORPORATE GOVERNANCE

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ABSTRACT

The process of Initial Public Offering (“**IPO**”) begins with the preparation of certain essential documents. The Prospectus is one such document that plays a significant role in the IPO process. It provides crucial details about the company to the potential investors, helping them in making informed investment decisions. Prior to the issuance of the Prospectus, the company issues the Red Herring Prospectus (“**RHP**”), which provides all crucial details of the company and the IPO, while excluding the details of exact price and the quantum of the securities being offered. While company puts rigorous efforts into preparing the RHP so as to safeguard the interest of the stakeholders, but at times it confronts various obstacles that renders the ultimate object of RHP unaccomplished. This paper critically analyses the idea of RHP and highlights the prevailing challenges related to it that are frustrating its objective, in light of relevant judicial pronouncements. Further, this paper also evaluates the prevailing challenges related to the RHP through the lens of corporate governance, thereby assesses the impact of these challenges over the principles of corporate governance. Lastly, the paper examines the existing regulatory framework and disclosure requirements related to the RHP and also put forward few suggestive measures to further strengthen the existing regulatory framework that can ultimately help in navigating through the highlighted challenges, can further uphold the investor’s confidence and ensure adherence to corporate governance standards.

Keywords: Corporate Governance, Disclosure Requirements, Initial Public Offering, Misstatement, Red Herring Prospectus, SEBI.

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I. INTRODUCTION

Post the incorporation of a company, the subsequent stage that follows is the raising of capital. A public company raises capital in various forms, which includes issuance of securities in form of shares or debentures in the market. A company raises capital for various purposes such as capital expansion, diversification of business etc. In the process of raising the capital, the company launches its IPO, to invite the interested investors to purchase shares of the company. The launching of an IPO is a complex process that involves preparation of plethora of documents, and among such documents, one preliminary document issued by the company at the time of IPO is the ‘Prospectus’. The issuance of prospectus marks the initiation of the IPO process. A prospectus is the offer document through which companies invite the investors to purchase their securities. Section 2(70) of the Companies Act, 2013 defines the ‘Prospectus’.¹ But before issuing Prospectus, the company issues the Draft Red Herring Prospectus (“**DRHP**”) and Red Herring Prospectus (“**RHP**”).

When a company seeks to raise funds from the public through an IPO, it first submits a DRHP to Securities and Exchange Board of India (“**SEBI**”).

¹ The Companies Act, 2013, s 2(70).

This document must receive approval and clarification from SEBI, once SEBI approves the DRHP, it is revised and finalized into the RHP.² The RHP is the updated version of DRHP that includes all crucial details of the company that are sufficient for the investor to make an informed decision, though it excludes the details of exact price and quantity of the securities being offered. Further, this RHP has to be filed with SEBI and the stock exchange and on receiving the required clearance, it is finalised into the final prospectus.

While the RHP and the prospectus are issued for the purpose of safeguarding the interest of potential investors by disclosing the accurate information about the company, issues of mis-statement, non-disclosure of material information, the claiming of public issue as private placement, and other non-legal issue such as prolonged time and heavy cost of preparation defeats its primary purpose.

Moreover, these issues also impact the governance pattern of the company and ultimately harm the interests of potential investors. Therefore, this paper will analyse all these legal as well as non-legal issues pertaining to the RHP and assess their impact on the governance pattern of the company and will recommend certain measures that can help to tackle these issues and help in upholding the principles of corporate governance and the interest of potential investors.

II. RED HERRING PROSPECTUS: A COMPREHENSIVE OVERVIEW

A prospectus is a document issued by the company that invites the public or the potential investors to subscribe to its securities. It is the ‘offer document’

² Denny B. Justin, ‘Understanding DRHP, RHP, and Prospectus’ (*National Institute of Securities Markets*, 1 January 2024) <<https://www.nism.ac.in/2024/01/understanding-drhp-rhp-and-prospectus/>> accessed 08 February 2025.

through which the company makes an offer of sale to the public at large.³ Section 2 (70) of the Companies Act, 2013 defines the term ‘prospectus’.⁴ The primary objective behind the issuance of prospectus is to provide comprehensive details about the company and the securities being offered to the interested investors. It is only the public company that can prepare the prospectus to issue shares and debentures, a private company cannot do so.⁵ Under the Companies Act, 2013, a public company invites the general public to subscribe to its share capital to raise funds for various purposes.⁶ In contrast, a private company is limited by share capital and does not offer its securities to the public.⁷ Public and private companies differ on several key aspects, including the requirement of minimum and maximum number of members and directors, transferability of shares etc.

There is variety of prospectus given under the Companies Act, 2013 and the RHP is one such type of prospectuses that is issued by the company prior to the issuance of prospectus. A sequence is followed before the company issues its Prospectus. Firstly, the company launching its IPO issues the DRHP.

The DRHP is the initial document submitted to the regulatory authorities i.e. SEBI and to the stock exchange by the company planning to launch an IPO or a Public Issuance. The rationale behind filing DRHP is to get it reviewed and get clarification from SEBI and to seek public comments, therefore it is not shared with the investors, and investors are warned not to base their investment decision on the DRHP. It is only when the DRHP receives the required approval from SEBI, it was updated and finalised into the RHP.

³ Malcolm V. Katrak and Jigar S. Parmar, ‘Paralyzing Small Investors under the Guise of Melioration: A Critical Evaluation of SEBI ICDR Fifth and Seventh Amendment Notifications’ (2016) 3(2) RFMLR 74.

⁴ The Companies Act 2013 (n 1).

⁵ The Companies Act, 2013, s 23 (1)(a).

⁶ The Companies Act, 2013, s 2 (71).

⁷ The Companies Act, 2013, s 2 (68).

A Red Herring Prospectus is a preliminary document submitted by a company to the SEBI when it plans to raise capital through an IPO. The issuance of RHP is noteworthy as it furnished crucial information about the company that helps investors decide whether to invest in the IPO or not.⁸ The purpose behind RHP is to inform the potential investors about the key details such as the company's business model, operations, financial status etc. Furthermore, it explains the company's objectives for raising the funds, its intended use, and highlights the potential risks for investors,⁹ as required under Schedule VI of ICDR Regulations, 2018.¹⁰ The word 'Red Herring' indicates a disclaimer on the cover of the document which signifies that the prospectus is incomplete.

The RHP is submitted before the regulatory authority prior to the 'Final Prospectus' and omits the details of exact price and the quantum of the securities being offered which are later covered in the Final Prospectus.¹¹ Instead of giving these exact details of Price and Quantity of securities, the RHP only provides a 'price band' as mandated under Regulation 29 of ICDR Regulations, 2018,¹² and determines final price later before the filing of Prospectus with ROC. This price band in RHP allows merchant bankers handling the public offer to test the demand for securities proposed to be offered and the price at which investors are willing to buy shares, hence facilitating them in determining the final price and quantity of the securities,

⁸ K. Sravani & K. Guna Sekhar, 'Red Herring Prospectus' (2021) 4 Int'l JL Mgmt & Human 3611 <<https://ijlmh.com/paper/red-herring-prospectus/>> accessed 08 January 2025.

⁹ 'What is draft red herring prospectus?' (*Economic Times*, 6 April 2020) <https://economictimes.indiatimes.com/markets/ipos/fpos/what-is-draft-red-herring-prospectus/articleshow/75005637.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst> accessed 10 January 2025.

¹⁰ SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, Schedule VI (5).

¹¹ P V Subramanyam, 'What is Red Herring Prospectus?' (*Money Control*, 9 September 2014) <<https://www.moneycontrol.com/news/business/personal-finance/what-is-red-herring-prospectus-1306873.html>> accessed 10 January 2025.

¹² SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018, s. 29.

while taking into account the fair picture of the market. The RHP is accessible to the general public on various forums including the official website of the company issuing the offer document, SEBI's official website that hosts all approved RHP's and the website of the stock exchange wherein the IPO is intended to be listed.¹³

III. PROCEDURE FOR ISSUANCE OF RHP

The procedure for issuing the RHP involves multiple steps governed by laws and regulations set by the SEBI and the Companies Act, 2013. An issuer coming out with an IPO is required to follow the following steps with respect to the issuance of RHP.

- Firstly, company appoints, lead managers, solicitors, and other professionals to issue securities.
- The issuer company through the lead managers (SEBI registered merchant bankers) has to file a 'Draft Red Herring Prospectus' ("**DRHP**") with both SEBI and the stock exchanges wherein the specified securities are proposed to be listed.
- The DRHP that contains all the disclosures as mandated under Schedule VI of the ICDR Regulation is made accessible on the Website of SEBI and the stock exchanges wherein the specified securities are proposed to be listed for a minimum period of 21 days, for seeking public comments.
- After filing the DRHP, issuers may engage in publicity and marketing activities for their issue, in accordance with the guidelines outlined in Schedule IX of ICDR Regulations, 2018 which sets forth norms governing Public Communications and Publicity Materials for issuers.

¹³ SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018, s. 26.

- Stock Exchanges must grant in-principle approval for the listing of securities and communicate this approval to SEBI. And as a part of the review process, SEBI also seeks clarifications on the DRHP from the Lead Manager. After which SEBI issues an Observation Letter within 30 days of either receiving satisfactory responses to its clarifications or the in-principal approval from the stock exchange, whichever is later.
- The issuer then files the updated DRHP incorporating the changes and the observations issued by SEBI. SEBI then reviews the changes made to the updated- DRHP.
- Following this, the issuer proceeds with the filing of the Red Herring Prospectus (“**RHP**”) with the Registrar of Companies (“**ROC**”). The issuer is required to make a price band advertisement after filing the RHP two days before the issue opens.
- The issue remains open for a minimum of three days. Upon the successful closure of the issue, the issuer files the final prospectus with SEBI and the RoC.¹⁴

IV. PREVAILING ISSUES AND CHALLENGES IN RESPECT OF RHP

The issuance of RHP encounters several challenges that requires proper attention, so as to make the RHP an informative document that can be beneficial for every stakeholder involved in the IPO process.

¹⁴ ‘Introduction of pre-filing of offer documents as an optional alternative mechanism for the purpose of Initial Public Offer on the Main Board’ (*SEBI*) <https://www.sebi.gov.in/sebi_data/meetingfiles/nov-2022/1667447898345_1.pdf> accessed 13 January 2025.

A. Misstatement or Misrepresentation in RHP

Misrepresentation or Misstatement is one of the major issues pertaining to the RHP. In context of prospectus the terms ‘misrepresentation’ or ‘misstatement’ does not have any precise definition under the Companies Act, 2013. It may be described as any act of making a false statement, which is misleading, or omitting material information, or providing misleading information in the Prospectus.¹⁵

Despite the detailed disclosures provided in the RHP, the possibility of inadvertent or intentional misstatements persists and any inconsistency or omission pertaining to the material information of the company can draw legal consequences. It is the duty on the part of the company and the concerned person appointed by the company to make accurate statements in the RHP, because the false and misleading information in the RHP can entail both civil and criminal liability under the Indian law.

The issue of misstatement was brought before the court in case of *Ajay Jain v. Registrar of Companies*¹⁶ wherein a complaint was filed by the complainant that, the petitioner a public limited company had issued the prospectus, wherein it had claimed to undertake the business of leasing activities and business of hire purchase of properties. However, their balance sheet showed that the funds they raised were deployed as advances to the other companies owned by the directors, further the petitioner company indulged in activities that was neither its object nor its business, and the majority of fund were siphoned off for altogether a different object, therefore the allegation of

¹⁵ Soumya Mishra, ‘Misrepresentation in Prospectus: An Analysis of Civil and Criminal Liabilities’ (2023) 5(4) *International Journal of Advanced Engineering and Management (IJAEM)*

<https://ijaem.net/issue_dcp/Misrepresentation%20in%20Prospectus%20%20An%20Analysis%20of%20Civil%20and%20Criminal%20Liabilities.pdf> accessed on 14 January 2025.

¹⁶ *Ajay Jain v. Registrar of Companies NCT of Delhi & Haryana*, [2010] SCC OnLine Del 3335.

untrue and misleading statement in the prospectus was levelled against it. The court herein has held that the petitioner company at the time of issuing prospectus made statements to the investors that it will undertake leasing activities and also gave the projection of profit, however it had invested the entire funds in the companies of the directors, thus prima facie it is apparent that directors had no intention to carry out the business set out in the prospectus, therefore the statement made in prospectus was false, deliberately made even after knowing the fact that fund will be utilized for some other purpose, this makes a case of making a deliberate misstatement in the prospectus.¹⁷

1. CIVIL AND CRIMINAL LIABILITY FOR MISSTATEMENT/MISREPRESENTATION

Misrepresentation, whether intentional or inadvertent, in an RHP attracts both civil and criminal liability under the Companies Act, 2013. Pursuant to Sections 34 and 35 of the Act, the legal proceeding or action can be initiated by the investors who are adversely affected by the misleading or omitted information in the prospectus. However, the remedy can be availed only by those investors who invested their money by relying upon the information disclosed in the prospectus.

Section 34 imposes criminal liability for untrue or misleading statements, or omissions that could likely to mislead.¹⁸ However, proviso of Section 34 provides the exception which will apply if the issuer can prove the misstatement was immaterial or if issuer believed it to be true at the time of issuance.¹⁹ On the other hand, Section 35 (1) imposes civil liability on directors, promoters, experts, or those authorizing the issue of prospectus to

¹⁷ *ibid.*

¹⁸ The Companies Act, 2013, s 34.

¹⁹ *ibid.*

compensate investors for loss caused due to misstatement in the prospectus.²⁰ However, Section 35 (2) provides some exceptions in cases when director withdraw his consent before issuance of prospectus or when the prospectus is issued without his knowledge or consent.²¹

2. CAN MINOR REPRESENTED AS PROMOTOR IN PROSPECTUS BE HELD LIABLE FOR MISREPRESENTATION?

This question arose before the apex court in the case of *Ritesh Agarwal and Anr. v. Securities and Exchange Board of India*²² wherein the Supreme Court addressed the liability of minors represented as promoters in a prospectus for misrepresentation and fraud. The Court unequivocally held that “minors, in regards to the Indian Contract Act, 1872, cannot be held liable for any misstatement in prospectus under the provisions of the said Act. The court further held that while SEBI, as the regulatory authority, may take action against persons who undertook those fraudulent activities, and they may be held liable for misrepresentation before prospective investors and statutory authorities, such actions do not extend liability to minors.²³ The same, however, would itself not mean that a minor would not be penalised for entering into a contract that per se was not enforceable. A contract must be entered into by a person who can make a promise or make an offer. If he cannot make an offer or in his favour an offer cannot be made, the contract would be void as an agreement which is not enforceable in law would be void. Thus, the

²⁰ The Companies Act, 2013, s 35 (1).

²¹ The Companies Act, 2013, s 35 (2).

²² *Ritesh Agarwal and Anr. v. Securities and Exchange Board of India and Ors.*, (2008) 8 SCC 205.

²³ Manendra Singh, ‘Liability for Misstatement in Prospectus: Where to Stop?’ (*Manupatra*) <<https://www.manupatra.com/roundup/320/Articles/Liability%20for%20Misstatement%20in.pdf>> accessed 18 January 2025.

position is clear if birth certificates establish the minority status of the alleged promoters, they cannot be held guilty for misrepresentation or fraud.”²⁴

B. Non-Disclosure/Omission of material information

The ICDR Regulations prescribe the manner of disclosures in the offer documents, emphasizing the necessity of providing material information to promote informed investment decisions. However, the non-disclosure of critical information in a red herring prospectus undermines the fundamental objective of these regulations and impairs transparency within the securities market, thereby affecting its integrity. Moreover, omission of material details in a RHP constitutes a grave issue with significant legal and regulatory implications.

Usually when non-disclosure is detected, the regulatory authorities typically mandate corrective actions, such as revising the prospectus, providing supplementary information, or addressing compliance concerns raised during scrutiny. In case of failure to comply with the mandate, such non-disclosure may then attract regulatory actions, that include the imposition of fines, penalties, or restrictions on the issuer or its directors.²⁵ Additionally, investors incurred loss due to such non-disclosure may initiate legal proceedings against the company, alleging fraud or misrepresentation. The liability for the non-disclosure will be same as that applicable for the Misrepresentation. Companies Act, 2013 imposes both Criminal as well as Civil Liability in case of omission of Material Information in the Prospectus.

²⁴ *ibid.*

²⁵ Dr. Rajeev Babel, ‘Non-Disclosure of material facts in the offer documents may debar from accessing the Securities Market’ (*Taxmann*, 19 January 2017) <<https://www.taxmann.com/research/company-and-sebi/top-story/105010000000013640/non-disclosure-of-material-facts-in-the-offer-documents-may-debar-from-accessing-the-securities-market-experts-opinion>> accessed 18 January 2025.

There are several instances, wherein SEBI had detected the non-disclosures in the RHP and had taken appropriate steps against the same. In case of *Electrosteel Steels Ltd. v. Securities and Exchange Board of India*,²⁶ the issue of non-disclosure of material information in the RHP was examined. The primary concern pertained to the failure to disclose the fact that Ministry of Environment and Forests had rejected a proposal for iron ore mines of Electrosteel Castings Ltd. (“ECL”) the promoter company of ESL, of which Axis, SBI and Edelweiss were Book Running Lead Managers (“BRLMs”) for the IPO. As the BRLMs for the IPO, Axis, SBI, and Edelweiss were found to have violated Clause 36 of the Listing Agreement for failing to disclose this material information regarding rejection for forest clearance of iron ore mine both in the RHP and to the stock exchanges, thereby depriving shareholders of essential information, SEBI categorically held that the BRLMs had knowingly suppressed the rejection of the forest clearance proposal for the Kodolabad Iron Ore Mine and, thereby misled investors by concealing material information, this omission was deemed a failure of due diligence, constituting a violation of the SEBI ICDR Regulations, 2009 and the SEBI (Merchant Bankers) Regulations, 1992. Despite these serious findings, SEBI did not impose suspension or cancellation of the BRLMs’ registration certificates. Instead, the regulatory action was limited to a monetary penalty imposed on the entities.²⁷

²⁶ *Electrosteel Steels Ltd. v. Securities and Exchange Board of India*, [2019] SCC OnLine SAT 244.

²⁷ Yash J. Ashar, Anjaneya Das & CAM Markets Team, ‘To Disclose or Not to Disclose? An Analysis of the Order of the Securities Appellate Tribunal in *Electrosteel Steels Limited v. Securities and Exchange Board of India*’ (*Cyril Amarchand Mangaldas*, 2 December 2019) <<https://corporate.cyrilamarchandblogs.com/2019/12/order-of-securities-appellate-tribunal-electrosteel-steels-limited-v-securities-and-exchange-board-of-india/>> accessed 19 January 2025.

In the matter of *DLF v. SEBI*,²⁸ the DLF initially filed a DRHP stating that ‘Sudipti Estates Pvt. Ltd.’ (“SEPL”) was a collaborative venture of the company. However, this stance was altered in a later prospectus issued by them after revoking the previous one. A complaint was then filed, highlighting that two wholly-owned subsidiaries, disclosed in DLF’s prospectus, were the sole shareholders of SEPL. Despite this, DLF’s revised prospectus stated that SEPL was not a co-venture.²⁹ In response to the complaint the SEBI acted and had restrained DLF, its five directors, and its CFO from accessing the securities market and prohibited them from dealing in securities for three years, on the ground of deliberate suppression of material information in its red-herring prospectus. DLF countered that ‘the non-disclosure of this relationship wouldn’t have impacted investor decisions and argued that there was no proof of any profits made by the use of unfair means through its association with the subsidiaries.’ Consequently, they sought SEBI’s prohibition order to be set aside before the Securities Appellate Tribunal (“SAT”). However, SAT found DLF guilty of violating DIP guidelines and RFUTP guidelines due to the concealment of details regarding its subsidiaries but criticized SEBI’s prohibitory order.³⁰ The Tribunal ruled that DLF had not misled investors with any deceptive material or document and also held that prohibiting DLF from transacting in securities for three years would harm the interest of the investors, therefore while considering several Mitigating factors in favour of Appellant SAT reduced the restraint of three years to a period of six months as imposed by the prohibitory order of SEBI.

²⁸ *DLF Limited v. Securities and Exchange Board of India*, [2015] SCC OnLine SAT 54.

²⁹ Vinod Kothari, ‘SAT Order in the DLF Case: Controlling SEBI’s Punitive Vehemence’ (*India Corp Law*, 16 March 2015) <<https://indiacorplaw.in/2015/03/sat-order-in-dlf-case-controlling-sebis.html>> accessed 20 January 2025.

³⁰ Arpita Karmakar, ‘SEBI Order Against DLF: Reversed’ (*Mondaq*, 22 April 2015) <<https://www.mondaq.com/india/securities/391192/sebi-order-against-dlf-reversed>> accessed 24 January 2025.

In another case of *P.G. Electroplast v. SEBI*³¹ the appellant had disclosed in the prospectus that the company intended to invest the Initial Public Offering (IPO) proceeds in interest-bearing instruments. However, SEBI objected when the company subsequently invested these proceeds in ICDs (Inter-Corporate Deposits), arguing that the prospectus had failed to specifically mention this investment avenue. The Security Appellate Tribunal held that the non-disclosure of ICDs was a technical omission rather than a substantive misstatement. It reasoned that the absence of the specific term “ICD” in the prospectus did not amount to deliberate misrepresentation or form part of a larger scheme to raise funds through an IPO and subsequently funding operation of group company through ICDs thereby siphoning off money from investors. The Tribunal opined that the word “liquid instrument” used in the prospectus was wide enough to encompass ICDs. Accordingly, the Tribunal concluded that the appellant had not engaged in misstatement or any fraudulent conduct warranting regulatory action.³²

Further, the courts have also time and again reiterated the importance of SEBI’s role in examining the offer document and ensuring obedience towards the disclosure norms. In *Kimsuk Krishna Sinha v. SEBI*,³³ the Delhi High Court had held that SEBI is empowered to examine the offer document and insist on truthful disclosure even after the public issue is closed. It was observed by the court that “SEBI is enabled and empowered to examine the DRHP and insist on complete and truthful disclosure of all relevant facts therein. The very purpose of having an independent regulatory authority like SEBI, and vesting it with statutory powers of inquiry, is to enable it to take

³¹ *P.G. Electroplast Ltd. v. Securities and Exchange Board of India*, [2019] SCC OnLine SAT 148.

³² *ibid.*

³³ *Kimsuk Krishna Sinha v. Securities & Exchange Board of India*, [2010] SCC OnLine Del 1448.

prompt action in matters relating to the issue and transfer of shares. Particularly, SEBI is expected to be the sentinel, read the fine print of prospectuses keeping the investors' interests in view. It has both a preventive and corrective role to perform.”³⁴

C. Claiming the Public Issuance of Shares as Private Distribution

Fabrication of public issuance of shares as private placement compromises the integrity of the IPO process, disrupts equitable market access and exposes significant risks for investors. In securities market, a public issuance of shares is subject to stringent regulatory oversight, disclosure obligations, preparing prospectus, adherence to the listing norms etc. On the contrary, the private placements are targeted at a selected group of investors and are comparatively subject to fewer regulatory disclosures. Thus, as a matter of course by framing public issuance of shares as private distribution, issuer attempts to circumvent stringent regulatory obligations and reduce public scrutiny. There have been multiple instances wherein companies have avoided filing prospectus after raising or issuing funds under the guise of private distribution.

One such instance was brought forth in *In Re: Gitanjali Udyog Ltd. and Ors*³⁵ case wherein “The company had published offers for ‘Non-convertible Debentures’ (“NCDs”) to a limited number of investors, later asserting that it was a private distribution. The offer was made to entities such as financial institutions, mutual funds, HUFs, and corporate bodies. SEBI discovered this through the prospectus and offer documents and determined that the issuance was not a private distribution but a public offering. Thereafter, SEBI ruled that the issuance of NCDs was of a public nature and had to comply with public issue norms, requiring the company to register the prospectus with the

³⁴ C R Datta, *Company Law* (7th edn, Eastern Law House 2021).

³⁵ *In Re: Gitanjali Udyog Ltd. And Ors*, [2016] SCC OnLine SEBI 361.

‘Registrar of Companies’ (ROC) prior to the issuance. SEBI further directed the Gitanjali Udyog Ltd. and its directors to refund money collected through NCD to the allottees with interest of ‘15% per annum’, and restrained them from accessing capital market and dealing in securities market for a period of four years.”³⁶

D. Costly and Prolonged process

The preparation and issuance of RHP is burdensome process and is often criticized for being expensive and time-consuming, that can deter companies, especially small and mid-sized enterprises from entering the capital market. The process necessitates the involvement of multiple stakeholders including legal, financial and marketing experts, in addition to the regulatory requirement and extensive documentation. Moreover, the delays caused due to regulatory scrutiny results in delaying the whole IPO process.

V. IMPACT ON CORPORATE GOVERNANCE

Governance is a crucial aspect of human life, required for the peaceful coexistence of the individuals. Similarly for the companies that are affecting large chunk of population a proper framework of governance is needed to create a corporate culture of consciousness, transparency, and openness and to facilitate the smooth functioning of the business world. The concept of corporate governance has gained significant prominence in modern-day corporate law. The aftermath of big corporate scandals, such as the Satyam Computers scam necessitated the robust and effective governance of companies to safeguard the rights and interests of shareholders and proprietors.³⁷

³⁶ *ibid.*

³⁷ Anand Swaroop Das and Anand Narayan, ‘Sebi’s Jurisdiction on Corporate Governance in India: A Critical Assessment’ (2013) 1(7) JCLG 950.

The Corporations pool capital from a large investor base, both within domestic as well as international capital markets. In this context, investment is ultimately an act of trust in the ability of a corporation's management. When an investor allocates funds to a corporation, there exists an expectation that the board of directors and management will act as trustees, and ensure safety of the capital and earn returns that exceed the cost of capital. In this regard Investors expect management to act in their best interests and adopt good corporate governance practices. The term 'Corporate Governance' has a very wide connotation; there is no such universally accepted definition of corporate governance.³⁸ The understanding of "corporate governance" is still a matter of interpretation. Hence, based on the growth of capitalism and its tenets, corporate governance is defined differently at different times.³⁹

There are various committees constituted at national and international level have attempted to define the concept of corporate governance.⁴⁰ In India N.R. Narayana Murthy Committee on Corporate Governance had attempted to define corporate governance, as per this committee, "*Corporate Governance is the acceptance by management, of the inalienable rights of shareholders as the true owners of the corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, about ethical business conduct and about making a distinction between personal and corporate funds in the management of a company.*"⁴¹

Moreover, Securities Exchange Board of India ("SEBI") had also gave its definition of corporate governance in 2003, as per SEBI "*Corporate*

³⁸ Susheela S Kulkarni, 'Independent directors and their role in corporate governance' [2019] 148 CLA (Mag).

³⁹ N.L. Mitra, 'Corporate Governance: A Sojourn to Find a Yardstick' (2014) 56(4) JILI 437.

⁴⁰ Ekta Selarka, 'Corporate Governance Practices in India' (2018) Madras School of Economics Working Paper 173/2018, <<https://www.mse.ac.in/wp-content/uploads/2018/08/Working-Paper-173.pdf>> accessed 27 April 2025.

⁴¹ *Report of Narayana Murthy Committee on Corporate Governance*, (2003).

*governance is all about ethical conduct in business... Corporate governance deals with conducting the affairs of a company such that there is fairness to all stakeholders and that its actions benefit the greatest number of stakeholders. It is about openness, integrity and accountability”*⁴²

Further the Institute of Company Secretaries of India has also given its definition of Corporate Governance as “*Corporate Governance is the application of best management practices, compliance of law in true letter and spirit and adherence to ethical standards for effective management and distribution of wealth and discharge of social responsibility for sustainable development of all stakeholders.*”⁴³

These definitions had crafted the understanding of corporate governance in India. Through these definitions, corporate governance has been construed as both narrow as well as a broad concept. As per these definitions, the idea of corporate governance encompasses various facets that includes managing the relationships between shareholder and stakeholders, protection of best interest of stakeholders, adherence to ethical standards and best management practices. India’s corporate governance norms are encapsulated in Clause 49 of the Listing Agreement.⁴⁴ Clause 49, which has been described as a “watershed event in Indian corporate governance,” established a number of corporate governance requirements with a focus on corporate boards and disclosure to shareholders.⁴⁵

⁴² *Report of the SEBI Committee on Corporate Governance*, (2003).

⁴³ Smita Jain, ‘Corporate Governance — National and International Scenario’ <<https://www.icsi.edu/media/webmodules/programmes/33nc/33souvearticle-smitajain.pdf>> accessed 29 January 2025.

⁴⁴ Anand Swaroop Das (n 37).

⁴⁵ Black, Bernard S. and Khanna, Vikramaditya S., ‘Can Corporate Governance Reforms Increase Firm Market Values? Event Study Evidence from India’ (2007). U of Michigan Law & Econ Research Paper No. 07-002 <<http://dx.doi.org/10.2139/ssrn.4663781>>

The recommendations of Kumar Mangalam committee report on corporate governance had led to the inclusion of clause 49 in the listing agreement.⁴⁶ Later on Narayan Murthy on Corporate Governance was formed for issuing revised clause 49 based on its recommendation.⁴⁷ Clause 49 provides for the mandatory corporate governance requirements for the listed companies.⁴⁸ Some of the crucial aspect of clause 49 includes the composition of board wherein one-third of the directors must be independent director, the appointment and tenure for an independent director etc. The role of an Audit committee and the disclosure requirement which ensures that details of all material transaction to be disclosed quarterly along with the compliance report on corporate governance are another key aspect of clause 49.

In 2015, the clause 49 of Listing Agreement has been replaced with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. Chapter IV, Regulation 17 to Regulation 27 covers the several aspects related to corporate governance including the composition of Board of directors, requirement of establishing several committees including Audit Committee, Nomination and Remuneration Committee, Risk Management Committee, etc. for the listed company. Further it includes the obligations for the independent directors and other corporate governance requirements including the compliance report on corporate governance.⁴⁹

The concept of corporate governance goes beyond the regulation or legislation. It is based on four fundamental principles of governance i.e. transparency, fairness, accountability and responsibility. If the action of the company abides these four principles, then it can be said to be in adherence to

⁴⁶ *Report of the Kumar Mangalam Birla Committee on Corporate Governance*, (1999).

⁴⁷ Report of Narayan Murthy Committee (n 41).

⁴⁸ Ekta Selarka (n 40).

⁴⁹ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Chapter IV.

the corporate governance. But the issues and challenges related to the RHP had an adverse impact on these principles.

- Firstly, the principle of Transparency implies disclosure, the accurate and timely disclosure of relevant information, to the shareholders as well as the stakeholders. The non-disclosure or inaccurate disclosure of information in the prospectus undermine the principle of transparency, because when crucial details are omitted or manipulated, investors cannot make informed decisions, this diminishes the confidence in the company's governance practices. In addition to that the legal consequences for the violation of disclosure requirement will also be attracted and all this will eventually portray the poor governance pattern of the company.
- Principles of Fairness endorses for the equal and fair treatment of shareholders and the stakeholders, but fabricating the public issue of shares as private placement to avoid stringent regulations and disclosure requirements disrupts the equitable market access to all investors, because private placement targets only selected group of investors and thereby deny the equitable opportunity to purchase securities to other in a public issue and hence deviating from the principle of fairness. This action also misleads investors about the risks and regulatory requirements associated with the offering and therefore compromises the ethical standards of corporate governance.
- Principle of accountability ensures that the company is accountable for its action and officers in default will be liable for the wrong doings⁵⁰ but misclassification of a public issue as a private placement to evade stringent regulatory scrutiny, undermines the company's accountability towards to

⁵⁰ Ruth Brooks, 'What are the core principles of corporate governance?' (16 June 2022) <<https://online.lincoln.ac.uk/what-are-the-core-principles-of-corporate-governance/>> accessed 2 February 2025.

a wider base of public investors. It also restricts the ability of authorities and stakeholders to hold the company accountable for improper disclosures, thereby circumventing the investor protection norms.

- Principle of responsibility implies responsibility of the company for its action towards shareholders as well as the interested stakeholders⁵¹ but the disclosure of fallacious or omission of material information in RHP reflects the breach of responsibility of ensuring duty of care and diligence from the directors and officers of the company towards the shareholders as well as stakeholders. This also compromises company's responsibility to disclose complete and accurate information to the public specially while issuing the prospectus as required under the Sebi's ICDR regulations, 2018.

Over the time the understanding of corporate governance has expanded its horizon, balancing the interest of shareholders and stakeholders, accountability, best management practices, adherence to ethical standards have become important aspects of governance and company cannot deviate from this, as all these encourages a trustworthy, moral, as well as ethical environment. But the highlighted challenges of misstatement, inadequate disclosure, claiming public issuance as private distribution compromises the core principles of corporate governance, that can cause serious repercussions to the company in form of the loss of confidence from both shareholders as well as stakeholders, reputational loss or legal sanctions etc, hence addressing these issues through proper regulatory and governance framework becomes important for the companies to ensure the smooth sailing of their businesses.

⁵¹ Sinead McGilloway, 'The core principles of good corporate governance' (*Hawksford*, 23 January 2024) <<https://www.hawksford.com/insights-and-guides/the-core-principles-of-good-corporate-governance>> accessed 2 February 2025.

VI. LEGISLATIVE AND REGULATORY FRAMEWORK

In India the RHP is primarily regulated under the Companies Act, 2013 and through various rules and guidelines issued by the SEBI, namely Companies (Prospectus and Allotment of Securities) Rules, 2014 and SEBI - Issue of Capital and Disclosure Requirement (“ICDR”) regulations, 2018.

A. Companies Act, 2013

Section 32 of the Companies Act, 2013 deals with the “Red Herring Prospectus” and various aspects related to it. “Section 32(1) deals with the issuance of red herring prospectus it asserts that a company proposing to make a public offer may issue a red herring prospectus before issuing the prospectus.⁵² Section 32(2) deals with the time for filing Red Herring Prospectus, it asserts that the Red Herring Prospectus has to be filed with registrar three days before the opening of offer for subscription.⁵³ Section 32(3) states that Red Herring Prospectus will have obligation as applicable to the prospectus and any variation between these two must be highlighted as variations in the prospectus.⁵⁴ Section 32(4) asserts that upon closing of offer of securities the prospectus containing details of the total capital raised through share capital or debt, closing price of securities and other details not included in the Red Herring Prospectus, shall be filed with the registrar and Securities and Exchange Board.⁵⁵ The explanation of Section 32 defines the expression ‘Red Herring Prospectus’ as a prospectus that does not include complete particulars of the quantum or price of the securities included therein.”

⁵² The Companies Act, 2013, s 32(1).

⁵³ The Companies Act, 2013, s 32(2).

⁵⁴ The Companies Act, 2013, s 32(3).

⁵⁵ The Companies Act, 2013, s 32(4).

B. SEBI Regulations

Companies (Prospectus and Allotment of Securities) Rules, 2014 and SEBI - Issue of Capital and Disclosure Requirement (“**ICDR**”) regulations, 2018 provide for the disclosure requirement of the Essential content that has to be stated in RHP.

1. COMPANIES (PROSPECTUS AND ALLOTMENT OF SECURITIES) RULES, 2014

These are the set of rules made by the central government that concerns with the essentials components that are to be set out in the prospectus.

Rule 3 of the said rules prescribes for the Information to be stated in Prospectus, it asserts that the prospectus shall contain name, address, contact details of office of the issuer company, dates of opening and closing of issue, capital structure of the company etc. Further it also provides that prospectus shall include the particulars such as the object of the issuance, purpose for which fund is required, details of any pending litigation, details of directors etc. Rule 4 of the said rules prescribe for the reports to be set out in the prospectus, that includes the reports by the auditor related to profit and loss and assets and liability. Lastly, Rule 5 provides for the several other matters and reports that are to be stated in the prospectus.

2. SEBI - ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENT (ICDR) REGULATIONS, 2018

These ICDR Regulations, 2018 does not define “Red Herring Prospectus”. It provides that an offer document issued by the company includes a “Red Herring Prospectus”. Part VI of these Regulations deals with the Disclosure in and filing of offer documents. The Regulation 24 given under this part asserts that, the draft offer document and offer document shall contain all material

disclosure that is true and adequate for the applicant to make informed decision.⁵⁶ Moreover the red herring prospectus and prospectus shall contain disclosures specified in Companies Act, 2013 and disclosures given in part A of Schedule VI of these regulations.⁵⁷

Schedule VI of ICDR Regulations, 2018 necessitates disclosure of the following essential components:

- **The Front Cover Pages:** These shall contain the details of issue and issuer such as type of offer document “Draft Red Herring Prospectus”, “Red Herring Prospectus”, “Shelf Prospectus”, name of the issuer, date of the offer document etc.
- **Risk factor:** This can include both the internal risk specific to project and external risk which is beyond the control of the issuer.
- **General Information:** This involves the disclosure of name, address and other information of general nature including the details of IPO.
- **Capital Structure:** Involves description of authorised, Issues, subscribed and paid-up capital in tabular form.
- **Business overview:** It involves the details of primary businesses of the issuer products or services of the issuer etc.
- **Managerial overview:** It involve details Board of Director, Key Managerial Personnel etc.
- **Financial statement:** Financial Information shall be disclosed in two parts restated financial information and other financial information.
- **Legal Information:** It shall contain disclosure of pending litigation against company, outstanding dues to creditors, and other key legal details.

⁵⁶ Regulation 24(1) of the SEBI (Issue of Capital and Disclosure Requirement) Regulations, 2018.

⁵⁷ Regulation 24(2) of the SEBI (Issue of Capital and Disclosure Requirement) Regulations, 2018.

VII. SUGGESTIVE MEASURE

The highlighted issues pertaining to the Red Herring prospectus frustrate its primary objective of providing the comprehensive detail of company and the IPO to the interested investors, further also had an adverse impact on the governance pattern of the company, though there exist the sufficient regulatory and legal framework related to the issuance procedure and disclosure requirements in regard to the RHP, in addition to that the author also proposes few suggestive measures for both Companies and Regulatory authorities to follow, that can help in navigating through the highlighted challenges and ensure the proper adherence to the principles of corporate governance.

Firstly, the author recommends that the SEBI can constitute a separate “Specialized Oversight Committee for Prospectus” in addition to the SEBI Committee on Disclosures and Accounting Standards (“SCODA”),⁵⁸ for dealing with the review process of Prospectus. In this committee Sebi can appoint specialized professionals including the merchant bankers, auditors, lawyers who will review all the intricacies i.e. disclosure requirements etc., within a Prospectus (including DHRP and RHP). The establishment of this committee can be a transformative step in ensuring the accurate disclosure of information to the investors. Further, the appointment of experts can expedite the process and strengthen the regulatory oversight as these experts can detect the flaws and can provide a better review of the whole offer document in timely manner. Though this process might be resource intensive and time-consuming, additionally SEBI might face challenges in appointing the qualified professionals but to mitigate these concerns SEBI can do the

⁵⁸ SEBI, SEBI Committee on Disclosures and Accounting Standards (SCODA)’ <<https://www.sebi.gov.in/sebiweb/about/AboutAction.do?doMember=yes&committeesId=18#:~:text=1.,7.>> accessed 7 February 2025.

following. Initially SEBI can appoint Ad hoc panel of experts to the committee for a specific assignment or task or on a contractual basis, as this can reduce the operational cost to some extent and ensure review by the experts. Moreover, the experts can use the Assisted-AI tools for administrative work⁵⁹ like reviewing the documents etc, this can allow them to focus on the more nuanced and complex task and thus can reduce the overall time for the review process.

Secondly, for the company it is recommended that company issuing the RHP and thereafter the Prospectus, should form the regular internal audit and legal reviews mechanism that can help in preventing regulatory lapses and can ensure the accurate disclosure requirements are adhered by the company. Conducting the regular internal audit and the legal review of the crucial details about the company before filing the RHP, in order to verify all the information, can ensure the disclosure of accurate, complete, and updated information of the company and thus can reduce the chance of misinformation or non-disclosure in the RHP. This mechanism might involve extra finance and human resource for its implementation, in addition to that there will be another administrative burden that can deviate the focus from core business activities but the cost and burden that company might incur in case of irregularity in prospectus will outweigh these concerns as these mechanisms can avoid regulatory penalties, reputational damage, and investor mistrust that will adversely affect company in long term hence justifying these short-term costs. Further, to address these concerns company can adopt a balanced approach. Firstly, the company can implement these mechanisms for the core areas

⁵⁹ Prachi Verma, 'AI adoption at work: 7 in 10 Indian employees use AI tools in 2024, says Randstad Report' (*The Economic Times*, 24 January 2025) <<https://economictimes.indiatimes.com/jobs/hr-policies-trends/ai-adoption-at-work-7-in-10-indian-employees-use-ai-tools-in-2024-says-randstad-report/articleshow/117504117.cms?from=mdr>> accessed 26 April, 2025.

where there is high probability of misstatement or omission such as financial disclosure, legal information, etc. Secondly company can also reap the benefit of technology by using the Assisted-AI software for other administrative work as this can address the concern of extra human resource required for reviewing the RHP.

Moreover, the companies before issuing RHP or even before filing the DRHP, can go for an external review of the RHP and DRHP from the independent team of experts other than the one appointed by them, this can reduce the chance of misinformation or non-disclosure as it can provide an extra layer of protection against legal consequences. However, this review process can incur additional cost, therefore the financial capacity of company will play a pivotal role, the small or mid-sized business can face financial hurdle while going for an external review of the RHP which will ultimately lead to an uneven compliance standard for them as compared to the large sized enterprises. To address this disparity some alternative could be considered. The SEBI can streamline the procedure and compliance requirement for the small or mid-sized enterprises in order to reduce the financial burden from them. The bulky disclosure can be less burdensome for the smaller enterprises if SEBI reduces the disclosure requirements only for the relevant information which are very crucial for the investors to make an informed decision. The less stringent regulatory process can further reduce the time and cost involved in issuing the RHP and would make the whole process less burdensome for companies, especially for small and mid-sized enterprises.

Thirdly, the author proposes the formation of a “Specific Portal” on the Websites of SEBI and stock exchanges, dedicated for providing all the legal information including the relevant laws, rules and regulations of SEBI and disclosure requirements specifically governing the prospectus at one place. Furthermore, all updates and amendments in the rules, regulation or law

governing the prospectus should be displayed on that portal. This can make it easier for the companies (especially small or mid-sized companies) to access all the legal and regulatory requirement at one place and reduce the chance of missing out any legal obligation in terms of Prospectus. Moreover, SEBI can issue a circular or guideline that can inform the companies about this portal and how it is intended to be used as this can enable the companies which are not tech savvy enough to navigate and utilize this portal effectively.

Lastly, in order to avoid irregularity in the financial reporting or auditing of the company and to ensure that the corporate governance principles are adhered by the company, India should also look for a codified legislation like that of Sarbanes-Oxley Act, 2000⁶⁰ of United State of America (“USA”), that can specifically govern and improve the financial reporting⁶¹ and auditing of the public companies and can ensure the transparency, accountability and integrity in the working of the company,⁶² and can uphold the interest of the all those associated with the company. The Sarbanes-Oxley Act regulates financial reporting and internal auditing in public companies and enhance corporate accountability in USA.

The key provisions of Sarbanes-Oxley Act are Section 302⁶³ which mandates CEOs and CFOs to review the accuracy of financial reports and assume responsibility for internal accounting controls. Section 404⁶⁴ which requires companies to disclose internal accounting controls in their annual financial report. Section 201⁶⁵ limits auditors from providing non-audit

⁶⁰ The Sarbanes-Oxley Act, 2000.

⁶¹ Stephen Wagner and Lee Dittmar, ‘The Unexpected Benefits of Sarbanes-Oxley’ (*Harvard Business Review*, April 2006) <<https://hbr.org/2006/04/the-unexpected-benefits-of-sarbanes-oxley>> accessed on 2 February 2025.

⁶² Kezia Farnham, ‘Sarbanes-Oxley and corporate governance: past & future’ (*Diligent*, 25 April 2024) <<https://www.diligent.com/resources/blog/sarbanes-oxley-corporate-governance>> accessed on 2 February 2025.

⁶³ The Sarbanes-Oxley Act 2000, s 302.

⁶⁴ The Sarbanes-Oxley Act 2000, s 404.

⁶⁵ The Sarbanes-Oxley Act 2000, s 201.

services to their audit clients in order to preserve their independence. Additionally, the Public Company Accounting Oversight Board (“PCAOB”) established under this act exercises independent oversight of public accounting sector and set standards for audit report.⁶⁶ The India’s legal framework also contains the provisions that are on the similar lines, Regulation 17(8) of SEBI (LODR) regulation, 2015⁶⁷ requires CFOs and CEOs to provide compliance certificate of the financial statement which was reviewed and certified as accurate by them to the board. Section 134(5)(e) of Companies Act, 2013⁶⁸ mandates the directors to affirm the adequacy of internal financial control. Section 144⁶⁹ restricts the scope of auditor’s services. Moreover, the National Financial Reporting Authority (“NFRA”) established under Section 132 of Companies Act, 2013⁷⁰ is influenced by the PCAOB, it sets standards and rules for audit reports and ensure compliance with auditing and accounting standards.

But in India the enforcement of these provisions remains comparatively weaker, which is also one of the reasons for inaccurate disclosures in the prospectus. In order to strengthen India’s financial reporting and auditing standards the Sarbanes-Oxley Act like standards has to be incorporated into the Indian laws. Moreover, empowering the regulatory bodies like the NFRA with PCAOB-like autonomy and enforcement capabilities could further enhance the accountability. The Sarban-Oxley act is a significant piece of legislation that had improved the financial reporting and enhanced the

⁶⁶ Katie Terrell Hanna, ‘What is the Sarbanes-Oxley Act? Definition and Summary’ (*Tech Target*, 9 May 2025) <<https://www.techtarget.com/searchcio/definition/Sarbanes-Oxley-Act#:~:text=The%20Sarbanes%2DOxley%20Act%20of,errors%20and%20fraudulent%20financial%20practices>> accessed 26 April 2025.

⁶⁷ SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015, s 17(8).

⁶⁸ The Companies Act, 2013, s 134(5)(e).

⁶⁹ The Companies Act, 2013, s 144.

⁷⁰ The Companies Act, 2013, s 132.

corporate responsibility for the public companies in USA.⁷¹ However concerns such as compliance cost and burden that can be incurred by the company especially for the small and medium sized public companies necessitates a balanced approach. Therefore, adopting a customised Sarbanes-Oxley model in India wherein the interest of all sized enterprises is taken care of would promote financial integrity, ensure auditor independence, and improve the overall auditing and financial reporting framework as well as the corporate governance framework in India.

VIII. CONCLUSION

The issuance of RHP plays pivotal role in the IPO process as it serves as a crucial document that discloses significant details and provides comprehensive, albeit preliminary, information about the company and the IPO to the investors, based on which the investors take their call for investment, hence the RHP is something that ultimately decides the fate of an IPO.

In this piece that author had critically analysed crucial aspects of RHP and had shed light on various prevailing challenges pertaining to the RHP including that of misstatement/misrepresentation, non-Disclosure, claiming public issuance as private distribution, etc that had adversely impacted the governance pattern of the company, by defeating the core principles of corporate governance including transparency, accountability and fairness. The issuance of RHP is a test of the company's governance framework and hence it became imperative for the company to be vigilant and ensure that it does not omit or misrepresent any crucial detail that can raise question over its governance pattern.

⁷¹ Nicole Hemmer, 'What Is The Sarbanes-Oxley Act?' (*Linford & Co.*, 13 August 2024) <<https://linfordco.com/blog/sarbanes-oxley-act/>> accessed 26 April 2025.

In terms of legal framework there exist sufficient laws and regulations including the vast disclosure requirements and an independent regulatory body i.e. SEBI that plays pivotal role in ensuring the accuracy of the information and adequate disclosure in the RHP and further imposes criminal as well as civil liability in cases of breach, but still the challenges persist. Therefore, in this paper author proposed few additional measures that can further help the regulatory authority to ensure the company's obedience towards the disclosure norms and regulatory compliances, and can assure transparency, fairness and accountability of the company while issuing the RHP.

Lastly, the author believes that greater emphasis should be put on streamlining the regulatory process to make it accessible and accommodative for the smaller or mid-sized companies, which can be done by simplifying the regulatory requirements and by providing clearer guidelines that can help them to navigate the approval process effectively. In Parallel, SEBI must adopt a strict approach by strengthening the penalties for non-compliance with disclosure requirements and other regulatory norms to deter misrepresentation and the omission of information from the companies, thereby ensuring that the process remains fair to investors and protects their interests. Ultimately it is the due diligence on the part of the regulatory authority in respect of the adherence to the regulatory measures, and the proper internal governance framework of the company, that can help in navigating through the highlighted challenges and upholding the investor's confidence and ensure integrity of the IPO.