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THE SCOPE AND EXTENT OF DUE DILIGENCE OBLIGATIONS OF MERCHANT BANKERS IN INITIAL PUBLIC OFFERINGS UNDER THE SEBI (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2018: A CRITICAL ANALYSIS

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CHAPTER 1: INTRODUCTION

1.1 Background of IPO Regulation in India from 1990 till present

The development of the Indian capital market exemplifies India's shift from a highly controlled financial environment to a modern system that is based on transparency, market efficiency, and protectionism for investors. Before the economic liberalisation of 1991, the main securities market was regulated by the Capital Issues (Control) Act, 1947[1], that empowered the Controller of Capital Issues with wide discretion in terms of its whether or not a company can raise capital, and at what price securities can be issued. This merit based regulatory framework aimed at regulating capital formation, but often led to inefficient price discovery and delays in administration, as well as a limit on access to public capital.

The economic reforms that were started in 1991 were a major event in the securities regulation of India. The Securities and Exchange Board of India (SEBI) was established as a statutory body according to the Securities and Exchange Board of India (SEBI) Act 1992[2], replacing the governmental policy with a market-oriented approach with disclosure. Rather than judging the

[1] Capital Issues (Control) Act, 1947, No. 29, Acts of Parliament, 1947 (India).

[2] Securities and Exchange Board of India Act, 1992, No. 15, Acts of Parliament, 1992 (India).

commercial value of a public issue, the focus would be how to provide complete, accurate and timely information to investors that allowed them to make informed investment decisions. This shift helped build investor confidence, improve market transparency and enabled the speedy growth of India's capital markets.

Initial public offering (IPO) is the first time that an unlisted company offers securities to the public for the purposes of having them listed on recognised stock exchanges and, in turn, raise capital from the investing public. Despite the many perks that come along with an IPO, investing in them can be risky and the process is complex. While the IPO process offers certain benefits to companies, it can also be a risky investment for the buyer, and these processes are complicated. This has led to significant expansion in the Indian IPO market in the last 20 years, fueled by a growing number of companies going public, evolving regulatory environment, and more involvement by retail investors.[3]

The current legal regime under public issues is regulated by the SEBI ICDR Regulations, 2018[4] which contain all the detailed provisions relating to eligibility criteria of the issuer, disclosure requirements, pricing, issue management, post-issues compliance etc. Under this approach, disclosure-based regulation is the core of the regulatory framework because the approval of the regulations is based on the quality and completeness of the disclosures made rather than on the quality of the investment itself. In this regulatory framework, the role of the merchant bankers is that of a key intermediary, registered with the Securities and Exchange Board of India (SEBI), who is responsible for performing due diligence and confirming the veracity, completeness and fairness of the disclosures in the offer documents. They have due diligence duties that are an essential instrument for investor protection and market integrity and the cornerstone of an effective and credible IPO regime.

1.2 Statement of the Research Problem

While the SEBI ICDR Regulations, 2018[5] prescribe a lot of due diligence requirements for merchant bankers, the practical application and standard of those requirements are still a worry for

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[3] Srikanth Potharla, *Unlocking Value Through IPOs: A Two-Decade Review of India's Corporate Listings and Capital Market Dynamics* (Working Paper, 2025).
[4] Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018.
[5] *Id.*

legal and regulatory aspects. Merchant bankers are responsible for vouching for the correctness and completeness of disclosures in an offer document, serving as IPO gatekeepers. But there have been cases where disclosures are inaccurate, verification is inadequate, and post-listing regulatory action has been taken, all of which have raised questions about the existing due diligence process as well as the degree of responsibility of the intermediaries. The aim of this research is to understand the breadth of due diligence obligations imposed by SEBI ICDR Regulations, 2018[6], to explore the regulatory landscape governing merchant bankers and critically assess the existing framework's effectiveness in safeguarding investors and maintaining market integrity.

1.3 Research Questions

a. What are the legal requirements for the due diligence duties of merchant bankers in relation to IPOs in terms of SEBI ICDR Regulations 2018[7]?
b. How many due diligence obligations do the merchant bankers have during the IPO process?
c. How effective is the current regulation in terms of transparency, accountability, and investors protection of public issues?
d. What are the practical and regulatory issues that hinder the efficient implementation of due diligence by merchant bankers and what may be done to enhance the current framework?

1.4 Objectives of the study are to:

i. To study the framework related to the due diligence provision of merchant bankers as per the SEBI ICDR Regulations, 2018.[8]
ii. To analyse the scope and extent of due diligence responsibilities throughout the IPO process.
iii. To assess the role of the Merchant bankers in accurate disclosure, regulatory compliance and investor protection.
iv. To understand the practical and regulatory hurdles in the current due diligence regime.

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[6] *Id.*
[7] *Id.*
[8] *Id.*

v. To recommend steps to enhance the accountability and effectiveness of the merchant bankers in the IPO regime in India.

1.5 Hypothesis

In the Indian disclosure-centric IPO regime, merchant bankers play a crucial role. While the SEBI ICDR Regulations, 2018 provide for a detailed regulatory framework, there still exist practical issues in the verification and disclosure process which lead to hampering of the effective performance of merchant bankers' due diligence obligations. Hence, thereby requiring increased regulatory scrutiny and accountability regimes.

1.6 Research Methodology

This study uses doctrinal legal research approach and primary legal sources are analyzed as a form of doctrinal research. The study also looks at SEBI circulars, judicial rulings, regulatory orders, secondary sources like books, journal articles, research papers and commentaries to critically analyse the scope and extent of the due diligence obligations thrust upon the merchant bankers in Initial Public Offerings (IPOs).

1.7 Scope and Limitations

The study is limited to the SEBI ICDR Regulations, 2018and its due diligence obligations for the merchant bankers in IPOs. It does not involve in an empirical analysis of the market practices or a comparative study on foreign jurisdictions but concentrates on the regulatory framework of India for disclosure obligations and safeguards to Investors. The research has been confined to a doctrinal analysis based on statutory provisions, judicial precedents, and SEBI regulations.

CHAPTER 2: REGULATORY FRAMEWORK GOVERNING DUE DILIGENCE OBLIGATIONS OF MERCHANT BANKERS

2.1 The evolution of IPO regulation in India

The development of the IPO regime in India is an example of the change in the regulatory regime of the Indian securities market after the economic liberalisation and the formation of SEBI as a statutory body. This transition from the old system of governmental approval to a new system of disclosure-based regulatory rules had an impact of a different nature on the regulation of public issues. It emphasised transparency, sufficient disclosure and the informed making of investment decisions. This regulatory change was designed to enhance the integrity of the markets and establish the role of the markets' intermediaries in the issuance processes. In this developing landscape, merchant bankers became the key gatekeepers, charged with the responsibility of performing due diligence, checking disclosures, and monitoring compliance of the regulatory requirements. Their duties are now part of India's modern-day IPO system, ensuring the safety of investors and the reliability of the primary market.

2.2 Merchant Bankers in the IPO Process

Merchant bankers are the intermediaries of finance who specialise in public issue and corporate advisory functions in connection with the issue of securities.[9] As per definition under Regulation 2(1)(cb) of SEBI (Merchant Bankers) Regulations, 1992[10], a merchant banker means a person engaged in the business of issue management and includes persons making arrangements for the issue of securities including their sale, purchase or subscription and persons acting as a manager, consultant, adviser or corporate adviser in relation to the issue management. This statutory recognition highlights the importance of merchant bankers as professional intermediaries which help in the smooth operation of the primary securities market in India. Within the context of an Initial Public Offering (IPO), merchant bankers are the main intermediaries involved in the planning, management and coordination of the whole public issue process. They advise the issuer about the structure and timing of the issue, coordinate with legal advisers, auditors, registrars, underwriters, stock exchanges and with other market participants, prepare and review the draft offer documents, supervise the issue, oversee regulatory compliance, and supervise the allotment and listing of securities on a recognised stock exchange. They are involved in the entire IPO process and as a result help to ensure a smooth, transparent and legally sound public offering. In addition to being involved in issue management, merchant bankers act as an important gatekeeper in the disclosure-based framework of regulatory regime in India. They must conduct legal,

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[9] Siva Sreekumar & Hridyaa Singh, *Merchant Banking Compliance: SEBI's Regulatory Landscape*, 6 Int'l J. Legal Sci. & Innovation 130 (2024).

[10] Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992, reg. 2(1)(cb).

financial, commercial and business due diligence to ensure that the disclosures in the offer documents are accurate, complete and material. They aim to reduce information asymmetry between issuers and investors, to enable investors to make informed decisions, and to ensure transparency, fairness and market integrity, through independent verification and professional scrutiny. As such, the due diligence certification provided by the merchant bankers is a significant regulatory safeguard and strengthens the confidence of investors in the IPO process, thereby providing greater trustworthiness to the IPO. Securities and Exchange Board of India (SEBI) has laid down a detailed regulatory regime in respect of the registration, conduct and responsibilities of merchant bankers in the SEBI (Merchant Bankers) Regulations, 1992[11], which plays a significant role in ensuring the integrity of public issues. The main legal framework that regulates merchant bankers in India are these merchant bankers regulations. They lay the statutory basis of due diligence requirements.[12]

2.3 Regulatory Framework under the SEBI (Merchant Bankers) Regulations, 1992

Under Section 30 of the SEBI Act, 1992[13], the SEBI (Merchant Bankers) Regulations, 1992[14], are the main legal provisions that regulate the registration, regulation and supervision of merchant bankers in India. These regulations were introduced to promote the professionalism, transparency and accountability of issue management and recognise merchant bankers as important intermediaries that play a significant role in ensuring the integrity of the primary securities market. The regulatory regime was rationalized after the amendments to allow only Category I merchant bankers to provide issue management and corporate advisory services in relation to public issues. They provide a detailed framework in which a merchant banker can be registered and become eligible for obtaining the certificate of registration from SEBI. Prior to obtaining certificate of registration from SEBI, which the applicant must satisfy the conditions relating to organisational capability, infrastructure, experienced personnel, financial soundness among the other. One of the key elements of the merchant bankers regulations is the Code of Conduct[15] which sets out a duty

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[11] Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992.
[12] Anjali Tyagi, *Merchant Banking in India* (Alliance School of Law, SSRN Working Paper, 2020).
[13] Securities and Exchange Board of India Act, 1992, § 30, No. 15, Acts of Parliament, 1992 (India).
[14] *Supra* note 11.
[15] Securities and Exchange Board of India (Merchant Bankers) Regulations, 1992, sched. III (Code of Conduct).

for merchant bankers to exercise integrity, fairness, due skill, care and diligence in carrying out their functions. They should refrain from causing a conflict of interest, be confidential, deal fairly with their clients and investors, and follow all relevant securities legislation. In order to ensure compliance with the regulations, SEBI has the power to inspect, call for information, investigate contravention and impose measures of regulation against merchant bankers who do not comply with its statutory duties to ensure compliance with regulations, such as suspension or cancellation of their registration. The SEBI (Merchant Bankers) Regulations, 1992[16] provide the institutional and professional framework for the merchant bankers, while the SEBI ICDR Regulations, 2018 prescribe the due diligence requirements for the preparation of offer documents, the disclosure requirements and the responsibilities of the lead merchant bankers in connection with the IPO's.

2.4 Due Diligence obligations under SEBI ICDR Regulations, 2018[17]

The SEBI ICDR Regulations, 2018[18] are the primary legislation related to the public offering of securities in India. The ICDR Regulations lay down the professional due diligence obligations of the merchant bankers who lead the IPO process whereas the SEBI (Merchant Bankers) Regulations, 1992 regulates the registration and professional conduct of merchant bankers. These Regulations strengthen the disclosure regime in India as it is based on a disclosure principle and it is expected that the offer document will provide complete, accurate and material information for making an informed investment. The ICDR Regulations mandates that all public issue be conducted by a lead merchant banker, registered by the Securities and Exchange Board of India (SEBI), which are responsible for doing the due diligence prior to the preparation of offer documents. They are not just issue managers, but are required to independently investigate the issuer's legal, financial and commercial activities and confirm material disclosures and compliance with relevant securities legislation and to identify material risks which may impact upon investors. Through these responsibilities, merchant bankers function as gatekeepers who promote transparency, reduce information asymmetry and enhance investor confidence in the primary securities market.

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[16] *Supra* note 11.
[17] *Supra* note 4.
[18] *Id.*

One of the most important statutory duties is given in Regulation 25[19] which stipulates that the lead merchant banker must exercise appropriate skill, care and diligence during the public issue process. The Regulation requires merchant bankers to independently verify the information it receives from the issuer, and to be satisfied that the offer document has made adequate and truthful disclosures. The obligations remain until allotment and listing are complete, and as such, due diligence is not a once-off regulatory task, but an ongoing one.

Thus, the SEBI ICDR Regulations provide the statutory basis for the framework of due diligence associated with an IPO. The operational aspects of these obligations are detailed in SEBI's Master Circulars.[20]

2.5 SEBI Master Circulars on Due Diligence Certificates and Compliance Obligations[21]

The SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018 provide for due diligence requirements for merchant bankers and SEBI Master Circulars provide consolidated operational guidelines for merchant bankers. The circulars set out a framework of obligations for the public issue, including reporting obligations, disclosure, due diligence certifications and other procedural obligations, to ensure that the regulatory framework is duly implemented in practice.

One of the most important aspects of the Master Circular is the need to provide the due diligence certificates from the lead merchant bankers at various stages of an IPO.[22] The certifications confirm that merchant bankers have independently confirmed that the information contained in the offer documents is compliant with the relevant provisions of securities laws. There is a standard of professional skill, care and diligence been exercised. These certificates increase the regulatory accountability by holding merchant bankers responsible for the correctness and sufficiency of the disclosures filed to SEBI. The Master Circulars also provide for ongoing compliance requirements which continue after the filing of the Draft Red Herring Prospectus. Merchant bankers need to keep proper records, submit periodic reports, provide information about the experience of public

[19] Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, reg. 25.
[20] Securities and Exchange Board of India, *Master Circular for SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018*, HO/49/14/14(2)2026-CFD-POD2/I/4518/2026 (last updated Feb. 9, 2026).
[21] Securities and Exchange Board of India, *Master Circular for Merchant Bankers Registered with SEBI*, SEBI/HO/CFD/PoD-1/P/CIR/2023/157 (Sept. 26, 2023).
[22] *Id.*

issues handled by them, put in place grievance redressal systems for investors, ensure absence of conflict of interest and follow rules of communication with regulators. Such obligations will ensure ongoing regulatory oversight and promote transparency throughout the issue process.

Therefore, the SEBI Master Circulars supplement the ICDR Regulations and lay down the procedural aspects to ensure implementation of the due diligence provisions. They increase the regulatory framework of merchant bankers and enhance investor confidence in the disclosure-based IPO regime in India by setting certification norms and reporting and operational compliance standards.

CHAPTER 3: REGULATORY FRAMEWORK GOVERNING DUE DILIGENCE OBLIGATIONS OF MERCHANT BANKERS

3.1 Due Diligence Before Filing the Draft Red Herring Prospectus (DRHP)[23]

Before filing the Draft Red Herring Prospectus (DRHP), due diligence process is conducted by the merchant bankers which form the basis of their work in an IPO. The disclosure based regulatory mechanism in India is where the credibility of the offer document lies on the accuracy, completeness and reliability of information that is being disclosed to the investors. As per this, the lead merchant banker must undertake a thorough due diligence to ascertain that the issuer company has made complete and fair disclosures prior to filing of DRHP with Securities and Exchange Board of India (SEBI). This duty is in keeping with the merchant banker's position as a gatekeeper where they protect the interests of the investors and ensure the integrity of the market.

The due diligence exercise starts by preparing a due diligence checklist listing up all the information and documents that should be provided by the issuer company. Merchant bankers collaborate closely with legal counsel, statutory auditors, company secretaries, and other experts to acquire and analyse corporate records, statutory reports, financial statements, licences, regulatory approvals, and significant contracts. As the review continues, further information or explanatory documents are requested as needed to review all aspects of the issuer's business before the DRHP is filed.

[23] Ajay Saraf, *Due Diligence – Brief Overview and Challenges* (ICICI Securities Ltd.).

One of the significant pre-filing due diligence activities is the review of legal, financial and commercial situations of the issuer. Merchant bankers examine constitutional documents, board and shareholders' resolutions, pending litigation, intellectual property rights, taxation issues and major commercial arrangements for problems that need to be disclosed. They also review audited and restated financial statements, operations and business plans to see if the disclosures are accurate in their portrayal of the issuer's financial condition and outlook.

The consultations with the senior management and business facilities visits provide added understanding of the company's business and material risks. The due diligence process can go beyond the information provided by the issuer. Merchant bankers are expected to make their own professional judgments when assessing the information received and, if necessary, should obtain the assistance of legal, accounting, taxation and other experts. This verification allows for the DRHP to share accurate and material disclosures, which would help minimise information asymmetry, transparency and boost investor confidence in the public issue.

3.2 Verification of Disclosures and Independent Investigation[24]

During an Initial Public Offering (IPO), a merchant banker's due diligence responsibilities are primarily based on verifying disclosures and conducting independent investigations. The merchant bankers' duty is to assure that all statements made in the Draft Red Herring Prospectus (DRHP) are accurate, complete and supported by reliable evidence. This is not just about relying on information provided by the issuing company, but involves an independent evaluation of the legal, financial and operational aspects of the company before the offer document is submitted to the Securities and Exchange Board of India (SEBI).

The verification process entails a thorough review of corporate records, statutory filings, financial statements, material contracts, licences, regulatory approvals, litigation records and other documents. This is to ensure that the disclosures in the board certification are accurate. Inconsistencies or missing information are addressed by merchant bankers in order to ensure that

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[24] *Supra* note 11.

no material information is missing that could influence an investor's decision to invest in the DRHP. Documentary verification is supported by independent investigation. Merchant bankers hold meetings with the senior management and key personnel to find out the issuer business model and operations, financial condition and future policy. Site visits to manufacturing facilities, offices and other business facilities are conducted to confirm the information in the operations and to confirm the accuracy of the disclosures of the company's business activities.

Furthermore, regulatory databases, public records and other reliable and credible sources are checked independently, for the company behind the issue, the promoters, directors and group companies, to uncover any negative information for disclosure. Close working with statutory auditors, legal counsel, company secretaries, tax advisers and other experts are also part of effective due diligence. They confirm specific issues concerning financial reporting, legal compliance, accounting principles and regulatory frameworks and perform certificates, legal opinions and confirmations, which assist the merchant banker in its due diligence process. The multi-disciplinary verification adds extra strength to the offer document and helps merchant bankers meet their regulatory duties adequately with the exercise of skill, care and diligence. These measures together reduce the effects of information asymmetry, increase disclosure quality and increase investor confidence in the IPO process.

3.3 Due Diligence Certificates and Continuing Compliance[25]

The due diligence duties of the merchant bankers do not end after the Draft Red Herring Prospectus (DRHP) is prepared. The SEBI regulatory regime mandates the merchant bankers to submit due diligence certificates at various stages of the public issue and verify the disclosures, till the time the securities are listed on the exchange. These perpetual duties reaffirm the role of the merchant banker to safeguard investors and ensure the primary securities market's integrity.

In accordance with the requirements of SEBI, merchant bankers are required to supply due diligence certificates in prescribed form stating their adherence to the exercise of due skill, care and professional judgement and verification of the information contained in the offer document. The issuer company will be responsible for the accuracy of any disclosures, but the merchant

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[25] *Supra* note 22.

bankers will be expected to carry out their own assessment of information prior to their certifications of compliance with the appropriate regulatory requirements. The certification process is undertaken throughout the IPO. Merchant bankers give due diligence certificates before submission of DRHP to SEBI, filing of Red Herring Prospectus (RHP), before pricing and final prospectus submission to SEBI and on allotment of securities. They review the disclosures, check for any material change and ensure the offer document remains compliant with the regulation at each step.

The merchant bankers also need to track the company they are helping to issue during the offering period to ensure it continues to comply. They maintain regular contact with management, statutory auditors and legal advisors, and conduct "bring-down" due diligence meetings to ensure that no material change has occurred since the last certification that affects the company's business, operations or financial position. If there is any significant event, the offer document has to be properly amended before it is made available for listing so that the investors get the proper and up-to-date information.

Hence, the due diligence certificate and continuous compliance make due diligence a recurrent regulatory duty, instead of a one-time exercise. The SEBI framework aims to improve transparency, minimise information asymmetry and boost investor confidence in the IPO process, by insisting that information be repeated and updated at regular intervals until the listing.

CHAPTER 4: EXTENT OF DUE DILIGENCE OBLIGATIONS AND REGULATORY ACCOUNTABILITY

4.1 Standard of Care Expected from Merchant Bankers[26]

The success of disclosure-based IPO regime in India is greatly reliant on the level of care taken by the merchant bankers during the due diligence process. Merchant bankers are intermediaries which are registered with Securities and Exchange Board of India (SEBI). They are expected to perform their duties with skill, care and diligence to ensure that the offer document contains complete, accurate and reliable information. They are not only responsible for compiling data provided by

[26] *Id.*

the issuing company, but they must evaluate, verify and assess all material facts before certifying their compliance with the applicable regulatory framework. Dedication of due skill, care and diligence is evident throughout the due diligence process. Merchant bankers will review all corporate records, financial statements, statutory documents, important contracts and regulatory approvals, and litigation in great detail furthermore holding discussions with management, conduct site visits and seek legal, accounting and other professional input where it is necessary to utilise the expertise of those professionals. This standard of care allows the disclosure to be independent of the issuer's representations. The merchant bankers perform these functions in a way that they serve as the regulatory gatekeepers in the IPO process. Their job is to reduce the information asymmetry between the issuers and the investors to ensure that all material information that could affect an investor's investment decision is fairly presented. By ongoing verification, multiple due diligence certifications and disclosures, merchant bankers protect market integrity and increase investor confidence in the securities market. Under the regulatory framework of the Securities and Exchange Board of India (SEBI), the standard of care also represents the professional responsibility that is imposed on the merchant bankers. While the ultimate responsibility for the truthfulness of the disclosures is by the issuing company, a merchant banker is still answerable for the quality and adequacy of the due diligence exercise that it performs. It is therefore expected that they will possess high levels of competence, independence and ethical practice in the performance of their statutory duties. The merchant bankers are expected to follow these professional standards which not only ensures regulatory compliance but also helps in maintaining the credibility and transparency and efficiency of the primary securities market in India.

4.2 Liability for Misstatements and Regulatory Accountability[27]

The disclosure-based approach to Initial Public Offerings (IPOs) in India demands much for the accuracy and completeness of information in the offer document. As a result, merchant bankers are held to regulatory standards, and a regulatory duty to account for any material misstatements, omissions or misleading disclosures that compromise investor protection. While it is the responsibility of the issuer company to ensure that the offer document is accurate, merchant

[27] *Supra* note 8.

bankers are expected to carry out proper due diligence and verify all material information independently before certifying compliance with the regulatory requirements of SEBI. They could be facing regulatory action and professional liability if they don't meet these obligations.

According to SEBI guidelines, merchant bankers are registered intermediaries who are responsible for the quality and reliability of the disclosures in the IPO process. The SEBI (Merchant Bankers) Regulations, 1992, ICDR Regulations, along with the Master Circulars, mandate that merchant bankers exercise due skill, care and diligence while providing due diligence certificates at appropriate stages. They should continue to adhere to the regulations until listing.

In instances where false or misleading disclosures are made due to lack of adequate verification or failure to take reasonable professional care, SEBI may undertake regulatory proceedings and impose monetary penalties, suspend or cancel registration or take any other disciplinary action permitted by the securities laws. These enforcement measures help to hold merchant bankers accountable as important gatekeepers in the primary securities market. This accountability is further enhanced by the provisions of the Companies Act, 2013 which provide for civil and criminal penalties for untrue or misleading statements in a prospectus. The liability may also include the company which issued the prospectus, its directors, promoters, experts and other persons authorised by or involved in the issuance of the prospectus.

While merchant bankers are not the ones creating the disclosures, improper due diligence or inability to identify significant inaccuracies could subject them to investigation if the omitted information results in investor loss. The aim of these provisions is to promote and uphold high standards of accuracy, transparency and professional integrity of all participants in relation to a public issue. The regulatory responsibility is not limited to the submission of due diligence certificates. Merchant bankers are required to keep monitoring disclosures and look into any material development and demand correction as and when needed. The SEBI framework, by holding merchant bankers responsible for inadequacies in verification and disclosure procedures, will increase transparency, reduce careless practices, and boost investor confidence in the IPO process. Regulatory action is a strong reason for merchant bankers to act professionally and implement stringent due diligence measures in India's securities market, serving as an incentive to ensure they meet high standards.

4.3 Practical problems associated with discharging due diligence obligations[28]

The SEBI regulatory framework lays down extensive due diligence requirements for merchant bankers, yet there are a number of practical issues hindering its smooth functioning. Due diligence is challenging and costly in today's complex business environment and there are strict regulatory deadlines that are difficult to meet without restrictions. Though, merchant bankers are keen to ensure that disclosures are accurate, they often face practical limitations that impact the quality and thoroughness of their review.

The primary challenges are the heavy dependence on information and documents from the issuing company. The merchant banker is expected to take their own decisions after scrutinizing the information received, but it is not able to investigate all the facets of the issuer's operations and will rely on the completeness of the information and its accuracy presented by the company. This relationship has to be maintained on an ongoing basis and it involves ongoing questions, requests and documents to be provided, making it a time consuming and laborious process.

Another major difficulty is time constraints. Public offerings are carried out under the strict timelines of the regulations, where merchant bankers must conduct elaborate legal, financial and commercial diligence within short time frames. At the same time, they are expected to keep track of the ongoing developments, detect any material changes and make sure that they are not misrepresented during the IPO process.

However, when it comes to balance between thorough verification and business deadlines, it can exert significant pressure on due diligence. The process is further complicated by information asymmetry, which is that the issuer has a lot more information about their business, financials and operational risks than the external intermediaries. Thus, the merchant bankers have to spend time and effort on independent verification of the information in the corporate records and in the public databases, and in interacting with management and conducting site visits, to minimize the risk of incomplete or misleading disclosures.

Good due diligence involves close cooperation with legal advice, statutory auditors, company secretaries, tax advisors and other specialists who are responsible for examining various aspects of the transaction. The due diligence process becomes even harder to manage when there are

[28] *Supra* note 22.

several professionals involved in the management of inputs and they need to be consistent and compliant with regulations. In summary, the practical challenges underscore that due diligence is not just about fulfilling regulatory obligations but also demands ongoing coordination, professional judgment, and thorough verification to protect the interests of investors and ensure the integrity of the IPO process.

4.4 Recommendations

The effectiveness of the due diligence framework is dependent on the presence of regulatory duties, but also their adherence to the framework. Hence, there is a need to increase the level of scrutiny of verifications, and to ensure that greater weight is given to the merchant bankers' independent verifications of material disclosures rather than relying primarily on the information provided by the issuer. The quality and reliability of offer documents would be enhanced through enhanced independent checks and documented verification procedures. It is also advisable to keep detailed records of the due diligence procedure. Clear evidence of document reviews, management communications, expert views, site inspections and verification processes would enhance transparency, aid regulatory inspection, and provide evidence of adherence to professional responsibilities in the event of disputes.

In addition, SEBI could provide further clarification of the scope and quality of the independent verification, especially in the context of intricate business arrangements and developing disclosure challenges. More consistent guidance would lead to more uniformity in the implementation of due diligence and less uncertainty in the discharge of responsibility of merchant bankers.

Lastly, then ongoing professional development and increased accountability systems are critical to upholding high standards of due diligence. Capacity building programmes for merchant bankers, on an ongoing basis, regarding the changing regulatory landscape, industry practice and new risks, together with effective regulatory supervision, would strengthen the competence and professionalism of merchant bankers. Together these measures would improve investor protection, boost the credibility of disclosures and further increase the integrity and efficiency of IPO regulatory framework in India.

5. CONCLUSION

In the disclosure-based IPO regime of India, the merchant bankers are at the heart of the public issue process where they are entrusted with due diligence and ensure that the documents of the offer contain full, accurate and reliable disclosures. The merchant bankers are not mere intermediaries but are independent verifiers who verify the material information, coordinate with various professionals and certify the compliance with the requirements laid down under the SEBI ICDR Regulations, 2018 and SEBI (Merchant Bankers) Regulations, 1992. Therefore, they are critical in ensuring transparency and credibility in the primary securities market.

The study shows that investor protection in the context of an IPO is based on the principle of good faith which emphasizes the concept of due diligence. Extensive verification of legal, financial and commercial data can help to decrease information asymmetry, to make informed investment decisions, and to increase trust in the securities market. The ongoing duty to report disclosures and provide due diligence certifications during public offering helps to strengthen integrity in the stock market and ensure that the process of capital formation is fair and transparent.

Meanwhile, the practical application of the regulatory framework is a key factor in determining its effectiveness. Requirements for high standards of professional competence and independent judgment are required because of the challenges of relying on an issuer's information, tight deadlines and coordination with multiple experts. Hence, strong regulatory supervision, effective regulatory enforcement and increased accountability are crucial to make sure that merchant bankers perform their statutory duties with proper care, skill and diligence. Improving these would further positively impact quality of disclosures, investor confidence and help to make the IPO market in India more transparent, efficient and resilient.