Address by Shri Tuhin Kanta Pandey, Chairman, SEBI

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Shri Anand Mohan Bajaj, Deputy Comptroller & Auditor General, CAG, CA Charanjot Singh Nanda, President, ICAI, market participants, members of electronic and print media, ladies and gentlemen!

It is a privilege to address this gathering of professionals drawn from diverse yet interconnected domains, including members of ICAI, whose expertise supports regulatory oversight, financial governance, and investigative processes.

Each of you is playing a vital role in shaping the integrity, accountability, and resilience of our financial ecosystem - through regulation, supervision, enforcement, and professional oversight. This event offers a valuable opportunity to deepen our collective efforts through actionable dialogue and collaboration in areas of forensic accounting and fraud risk mitigation.

Today, I will share some of my thoughts on financial frauds, forensic accounting, and SEBI’s role in maintaining market integrity and investor protection. I believe that these themes can spark constructive discussions on your evolving role, not just in forensics but as important stakeholders in the securities markets.

Ingenuity and Financial Frauds

An unprecedented growth in the securities markets has been witnessed over the last five years. We are looking good on several key parameters - number of unique investors, funds raised through equity primary markets, a strong fund raising pipeline going ahead, and equity assets held by FPIs.

We must constantly remind ourselves why domestic and foreign investors continue to demonstrate a strong appetite for our markets. I firmly believe that this is a reflection of the confidence that investors place in the transparency, regulatory robustness, and governance standards of our markets. As custodians of this trust, we must safeguard market integrity - the foundation that fuels investor participation and sustains capital formation.

You are already aware of cases where SEBI has used forensic audits to uncover financial frauds. The ingenious modus operandi used to perpetrate these frauds have ranged from simple diversion of shareholder funds to the use of complex structures and transactions to circumvent regulatory safeguards.

SEBI has unearthed transactions where the listed entity transferred assets to its subsidiary. The loan obtained by the subsidiary against these assets was then used to repay the outstanding loan of a Promoter linked entity.

In another instance, our investigation revealed that the company inflated its financials by entering into transactions with a number of name lending entities in a circular manner. The promoters then siphoned off shareholder funds/ assets to their companies under the pretext of purchases/ sales from/ to them.

The proceeds from preferential allotment, which should result in cash inflow to the company, may also be siphoned off. In one instance, we observed that the funds were round-tripped to the allottees itself via complex, multi-layered transactions. Forged bank statements were submitted to SEBI to show receipt of funds by the company. The statutory auditor also failed to report this structured circulation of funds.

The use of preferential allotment together with misleading disclosures has also been observed. Misleading disclosures are made just before the expiry of the lock-in on the shares issued under preferential allotment. This enables the preferential allottees to exit at a profit but at the expense of innocent retail investors who believed in the disclosures.

Such cases highlight that, perhaps, only a tick-box approach is being followed by some KMPs, Statutory Auditors, members of the Audit Committee, and Directors on the board of listed entities towards compliance. The negative impact of such financial frauds on the securities markets is tremendous. Beyond loss to shareholder wealth, they erode investor confidence, discourage genuine investment, and directly undermine market integrity.

As professionals connected with the securities markets, I want you to think about the future of our markets. *What change in mindset is needed to address such egregious behavior? Which stakeholder must introspect on their role as a gatekeeper against frauds?*

The answers to these questions are extremely relevant as our markets grow in scale and size and number of investors increase multifold in coming years.

SEBI Measures

At SEBI, we have adopted a zero-tolerance approach towards financial frauds. We have employed a mix of measures, ranging from regulatory interventions to enforcement actions to reign in such unethical behavior and practices. We have focused on capacity building, both internally and externally. Going forward, our sustained focus will be to increase the level of investor awareness towards such frauds.

I will highlight a few regulatory interventions:

1. Related Party Transactions (RPTs) have to be approved by the Audit Committee, with material RPTs needing Shareholder approval as well. The minimum information required for these stakeholders to take informed decisions on RPTs has been standardized[1].

2. Supervisory technology has been deployed by SEBI and the stock exchanges to generate alerts and red flags from financial and non-financial information reported by companies. Stock exchanges are also verifying the authenticity of disclosures of high value business orders, contracts with renowned companies, etc. Queries are being raised with the counterparty to such transactions apart from verifying their actual existence.

3. It has been made easier for retail investors to vote on shareholder resolutions. The Unified Investor App offered by the Depositories provides investors a single-login access to e-voting with integration of recommendations of all proxy advisors.

Though unrelated to listed entities, SEBI is putting in place functionalities to enable investors to conduct financial transactions with SEBI registered intermediaries through secure and verifiable channels[2]. These functionalities, namely SEBI "UPI@valid" and "SEBI Check", will be available from October 01, 2025, onwards.

Where egregious behavior involving siphoning of shareholder funds/ assets, mis-representation in financials, and breakdown of internal control systems is observed, SEBI does not hesitate to take necessary enforcement action.

If any Statutory Auditor is found to be involved in such frauds, SEBI refers cases to the National Financial Reporting Authority to fix accountability on part of the auditors.

[1] SEBI Circular SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/93 dated June 26, 2025
[2] SEBI Press Release dated June 11, 2025

Human upskilling and upgradation in technology has to keep pace with frauds that are increasing in sophistication by the day. With respect to co-operation and capacity building:

1. SEBI has signed Memorandum of Understandings with the MCA and CBDT to facilitate the exchange of data for the purpose of investigations and enforcement actions.

2. SEBI is also collaborating with the National Forensic Sciences University (NFSU), Gandhinagar, to conduct joint training programs in the area of digital forensics, forensic accounting, etc. The analysis of digital devices carried out at the Digital Forensics Lab of NFSU is admissible as evidence in legal proceedings.

3. The National Institute of Securities Markets (NISM) has developed a two-level course on forensic accounting, fraud risk management, investigative techniques, and evidence handling. The course is open to professionals in the fields of law enforcement, accountancy, and data analytics. NISM and ICAI must work together to keep this course contemporary.

4. SEBI and ICAI have been actively collaborating on matters of mutual importance. SEBI is represented on five Boards of ICAI that shape accounting and financial reporting standards, while ICAI members contribute to SEBI's primary market advisory committees. ICAI has also been conducting specialized trainings for SEBI officials on forensic techniques, digital assurance, and fraud risk mitigation to enhance regulatory capabilities.

ICAI is also working on developing an actionable framework towards preventing financial fraud in the securities markets. We welcome this initiative and look forward to the outcome.

Investor Awareness and Education

The securities markets are changing rapidly and investors have to keep pace with this change. Towards this end, our role in empowering investors through awareness and education is very crucial.

To enhance awareness about the securities market, SEBI has been conducting training programs for law enforcement agencies on its role, functions, and jurisdiction. Interactive sessions have been held with officials from the CBI, FIU, SFIO, and NCRB focusing on SEBI's initiatives to keep a check on market frauds and digital scams.

SEBI has recently launched a joint media campaign with all the MIIs. This unified campaign aims to strengthen investor protection and combat financial frauds and scams within the securities markets. The campaign will focus on raising awareness on red flags, verification protocols, trusted redressal mechanisms, and good digital practices. The first tranche of this campaign on the theme of “SEBI vs SCAM” is ongoing. I welcome ICAI to also join hands with SEBI on investor awareness and education.

Concluding Thoughts

I recently came across a fascinating case where a forensic tool used by the Income Tax Department detected tax evasion based on the font used in a document. The tool and human insight together made the connection that the font did not even exist on the date mentioned in the document. This example illustrates that while technology can reveal fraudulent patterns, it is the human mind that interprets context, applies practical understanding, and ultimately exposes fraud.

As professionals responsible for upholding the integrity of India’s financial systems, you are that human element. It is your vigilance, your courage to ask difficult questions, and your refusal to look away that will ensure our markets continue to command global trust.

The future of financial governance will be determined by our collective ability to anticipate risks and detect anomalies early on. Forensic accounting should not be treated as a post-fraud tool - rather it needs to evolve into a proactive discipline, embedded within the structure of corporate controls.

SEBI has consistently demonstrated its commitment to strengthening market integrity, enhancing disclosure standards, and using technology to uncover complex financial frauds. But regulations alone are not enough - they must be supported by competence, vigilance, and professional integrity.

As we move toward Viksit Bharat@2047, the collective wisdom and coordination of all stakeholders will be critical in aligning India with global benchmarks. Let us continue to strengthen our dialogue and ensure that our systems are not only driven by rules and standards, but by a shared purpose of integrity, trust, and long-term value creation.

Thank you all. Jai Hind!