INDIALAW



CIVIL

Protecting Your Investments: Avoiding Risks from Unregistered Online Platforms

AUTHOR Rahul Sundaram

PUBLISHED 9 December 2024

The Securities and Exchange Board of India (SEBI) has recently issued a caution notice to alert investors about the risks of engaging with unregistered online platforms offering unlisted debt securities. These platforms operate outside regulatory oversight, exposing investors to significant risks and depriving them of essential protections. Here's how you can protect yourself and your investments from these unregulated entities.

Table of contents

- Understanding the Risks
- How to Protect Yourself
- Why Registered Platforms Matter
- Conclusion

Understanding the Risks

Unregistered online platforms offering unlisted debt securities may seem like an attractive investment opportunity. However, they operate in violation of the law and lack essential safeguards, including:

1. **No Regulatory Oversight**:
   - These platforms are not regulated or supervised by SEBI, leaving investors vulnerable to fraudulent activities.
2. **Lack of Investor Protection**:
   - Transactions through these platforms do not qualify for protections under SEBI or stock exchange jurisdictions.
3. **Absence of Grievance Redress Mechanisms**:
   - Investors using these platforms cannot access SEBI's grievance redress systems, such as SCORES, or dispute resolution mechanisms administered by exchanges.

How to Protect Yourself

To safeguard your investments and avoid legal or financial troubles, follow these essential steps:

1. Verify the Platform's Registration

Investors should ensure they are dealing with SEBI-registered platforms. SEBI authorises Online Bond Platforms operated by stock brokers of BSE and NSE to act as providers for listed debt securities.

- Check the list of authorised platforms on SEBI's official website: SEBI Online Bond Platform Providers.

2. Avoid Unregistered Platforms

Unregistered platforms offering unlisted debt securities violate:

- Companies Act, 2013
- SEBI Act, 1992
- SEBI (Prohibition of Fraudulent and Unfair Trade Practices) Regulations, 2003
- SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021

Engaging with such platforms can lead to legal and regulatory consequences for investors.

3. Understand the Law

Offering unlisted securities to more than 200 investors qualify as a "deemed public issue" under the Companies Act, 2013. Such offerings require compliance with specific regulations that unregistered platforms fail to meet.

4. Monitor SEBI Notices

Stay updated with SEBI's enforcement actions. SEBI's recent interim order against certain unregistered platforms is available at: SEBI Enforcement Order.

5. Report Suspicious Platforms

SEBI encourages the public to report unregistered platforms offering unlisted debt securities. You can share details via the SEBI Market Intelligence Portal: SEBI Market Intelligence.

Why Registered Platforms Matter

By using SEBI-authorised platforms, investors gain access to:

- Regulatory protections and compliance.
- Transparent operations adhering to SEBI guidelines.
- Grievance redress systems, including SCORES and online dispute resolution mechanisms.

Conclusion

Investing in unlisted securities through unregistered platforms exposes you to significant risks, including legal violations, financial losses, and lack of investor protection. To secure your financial future, always verify the registration of platforms, use authorised services, and stay informed about regulatory updates. By making informed decisions, you can safeguard your investments while contributing to a more transparent and secure financial ecosystem.

For further details write to contact@indialaw.in