

# Role of a Chartered Accountant in Capital Markets and in IPO Processes

Qualified Chartered Accounts who have gone through the grill of Audit, Taxation have been playing a tremendous role in enhancement of transparency in a Corporate Structure for years. Sustaining the impor-

investment advisor, financial services marketing are some of the emerging avenues for the Chartered Accountants to deploy their skills effectively.

Chartered Accountants play the following roles in the capital markets.

tract quality investors interest etc.

## *Audit role:*

With the World Com, Dabhol, vanishing companies background, increasingly the audit role has become more demanding. Independent Directors in the Board of the Company demands a whole lot of quality inputs to discharge their responsibilities effectively. This has tremendously increased the focus on the quality of the audit, approach etc

## *Entrepreneurial Role:*

Chartered Accountant

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Keeping in view the complications and stiff pulls and pressures of burgeoning capital markets in India, the skills and expertise of trained Chartered Accountants are highly relied upon by the financial services sector, intermediaries, investors, issuers, corporate and even the Regulatory Authority concerned. And now, more opportunities await the professionals in this area.

tance over the years and attracting best young talent to the profession itself is a proof of the effective role, which a Chartered Accountant plays in a Corporate Set up

Economy has largely moved from capital intensive to knowledge driven spectrum. Chartered Accountants with the intensive training, background Institute support to knowledge development are correctly poised to take a huge advantage of the knowledge sector including financial services, KPO etc. In a typical capital market scenario of the financial services sector, Intermediaries, Investors, Issuers, Corporate and Regulatory Authority relies largely on skills of the Chartered Accountants in discharging their respective obligations to the investors. The entire field of Financial Services has opened new avenues for the Chartered Accountants to excel. Financial analyst, media expert covering the capital markets, financial advertisement,

- As an advisor to the company tapping the capital markets.
- As an auditor to the company tapping the capital markets.
- As a regulator working for SEBI or Stock Exchanges.
- As an intermediary
- As an Investment Banker
- As a Fund Manager
- As an Equity Trader
- As an Institutional Sales
- As a Dealer
- As a Research Analyst

Scope depth and range of services undertaken under all the above activities is fairly comprehensive and large.

## *Advisory role:*

The advisory role has evolved from being an advisor on tax and related matters to positioning the company amongst the knowledgeable investors, advising the company on the value chain which they need to pursue etc, and continued feedback on the key acts which the Company must do to sustain its valuation, at-



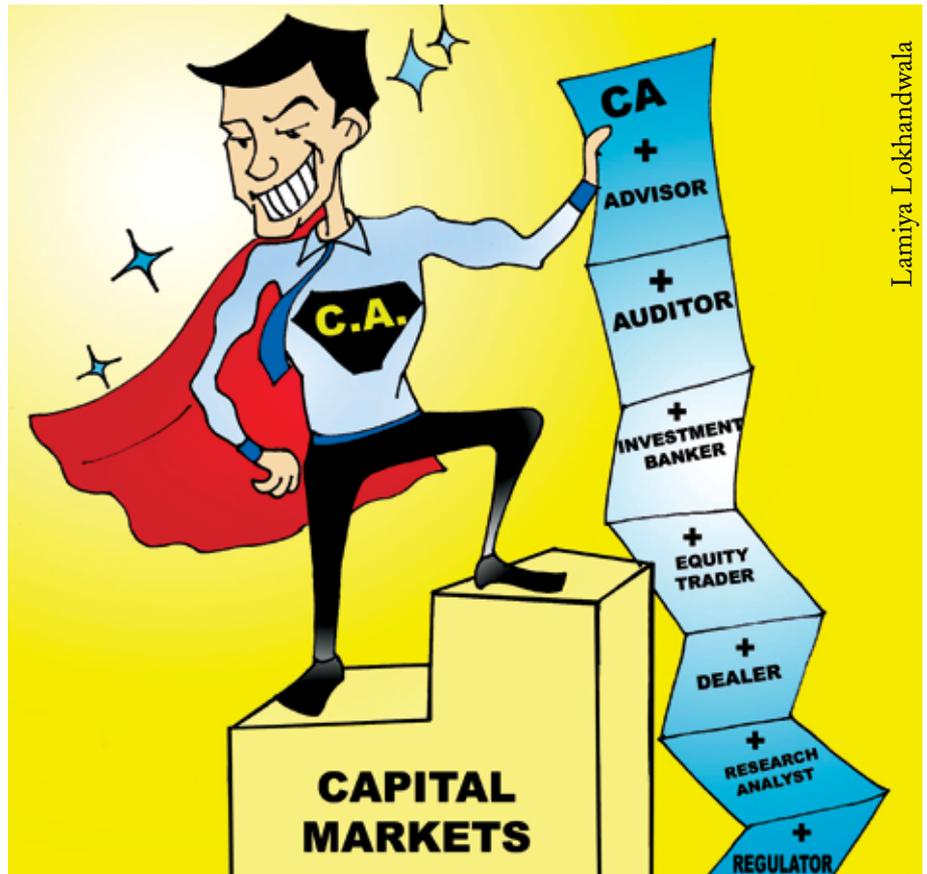
from the traditional practice has moved into being intermediaries in the capital market themselves. New Investment banking firms, broking entities and the Regulatory environment has encouraged professionals to be an entrepreneur by themselves. With the better understanding of the financial products, Chartered Accountants have become an effective entrepreneurs in distribution, wealth management etc.

*Supporting services:*

More and more service providers like investment bankers, insurance agencies rely on the skills of the Chartered Accountant in discharging their obligations.

*Emerging employment role:*

Equity sales, research, portfolio management, media tracker, career in financial advertising and televisions, global outsourcing partners are the emerging employment oppor-



tunities for a young chartered accountant along with their interest in taxation, audit, controls

#### *Emerging practice role:*

The whole approach towards risk management, controls have changed with the opening up of the economy. Managements are increasing providing a better budget for risk management and Chartered Accountants plays an important role as Chief Risk Officer, or Chief Internal Control.

Knowledge of accounts, accounting finance and financial analysis and law pertaining to issue of securities with regards to provisions of the Companies Act, Securities Contracts Act, SEBI and RBI do help in achieving excellence in execution. In addition, knowledge of the client or the Issuers business helps in profiling and positioning of the business to the outside world at large. This is the key ingredient to any fund raising plan.

As an Advisor and Investment Banker, a Chartered Accountant also helps in formulating financial strategy to successfully tap the capital markets and ensure success for the fund raising plan. Putting together an efficient capital structure, creating financial model, profiling business promoters and management and advising on valuation are the other key ingredients for successful capital market entry. Chartered Accountants do and certainly can help in all the above and can act as sounding boards to accomplish this.

Chartered Accountants can work as a regulator either for Stock Exchange or SEBI. As a regulator, chartered accountants can be skillfully employed in policymaking, monitoring review, surveillance and investigation.

#### **Role in the IPO Process**

To comply with the public issue disclosure norms, SEBI specifies with the issuer company states and restates financial statements for the last five years of the company going public and Chartered Accountant must certify all figures and give a comfort letter to the Lead Manager.

#### **Undertaking Due Diligence**

Initial public offerings (IPO) are often considered to be the ultimate goal for any entrepreneurial venture. An IPO is offering stock to the public on an open market for the first time. Once a company decides to go public, it needs to pick its IPO team, consisting of the lead investment bank, an accountant and a law firm.

The IPO process officially begins with what is typically called a “kick-off” meeting. All the members of the IPO team plan a timetable for going public and assign certain duties to each member. One of the most critical documents that need to be developed by this group is the prospectus. The prospectus is an offer document that is used to describe all aspects of the company - its financial data for the past five years, the management team, the target market, competitors and growth strategy. This document is all that the company can tell prospective investors about itself so its accuracy and in formativeness is a vital part of the IPO. The independent accountant’s role in the IPO process includes auditing the financial statements, restating them in compliance SEBI requirements, resolving accounting issues. Increasing emphasis is being placed on the scope of “comfort letters” which a company’s auditor provides to the underwriters and the company’s board as part of their due diligence.

Commentary on accounting policies and problems, improper revenue recognition, changes merely for the purpose of inflating profits are few of the areas, the accountants insight are sought.

In many instances, the financial statements must also be prepared in accordance with U.S. GAAP or reconciliation between the Indian GAAP and U.S GAAP is required. In many cases, auditors are required to review and offer comments on consolidated accounts.

Accountants can also leverage their experience during the planning phase to help ensure that the company’s house is in order before the IPO process.

Accountants play a key role in advising on/certifying the following:

1. Compliance with the corporate governance.
2. Promoter contribution in a project.
3. Amount deployed/spent on project.

#### **Requirements to capitalise**

With the expansion in the role, approach and accountability there is a tremendous responsibility cast on the Chartered Accountants to play their role effectively and stay ahead in the competition. Most of the emerging roles are not going to be a dominant field for chartered accountants alone similar to audit or taxation. It would be purely a market driven demand, which would move with the perceived value accretion with the person associated rather than the faculty, which he belongs to. While the degree and the training provides an entry into the financial service universe, how well one capitalise depends on how best he/she could capitalise the opportunity. □