Indian Economy · GS - III

Evaluate the potential benefits and regulatory challenges of establishing a dedicated exchange for trading shares of unlisted companies in India.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 28/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
10	~150 words

Answer Hint

Pre-IPO market, price discovery, investor protection, market transparency, information asymmetry, regulatory supervision

Model Answer

Trading in unlisted shares provides investors an opportunity to participate in companies before their public listing. However, informal pre-IPO transactions may involve limited transparency, valuation uncertainty and fraud risks.

A dedicated regulated exchange could offer several benefits:

1. **Transparent price discovery:** Organised trading can provide more reliable information about the valuation of unlisted companies.
2. **Investor protection:** Regulatory supervision and transaction records can reduce opportunities for fraudulent practices.
3. **Market development:** Startups and established unlisted firms may attract a broader pool of investors.
4. **Liquidity:** A formal platform could facilitate transactions in securities that are otherwise difficult to trade.

However, important challenges remain:

- Unlisted companies may disclose less information than listed entities.
- Valuations can be volatile due to limited financial and operational data.

- Retail investors may underestimate liquidity and investment risks.
- Strong safeguards are needed against insider trading, market manipulation and misleading disclosures.

Conclusion: A dedicated exchange could strengthen India's capital market ecosystem, provided SEBI establishes appropriate eligibility criteria, disclosure requirements and investor safeguards. Greater access must be accompanied by informed investment decisions and effective regulation.

BECOME IAS
AI POWERED UPSC PREP