

Initial Public Offering (IPO) Insurance also known as Prospectus Liability Insurance allows cover for companies and their directors from the risks involved with capital raising. Initial Public Offering (IPO) Insurance should be considered by any company involved in a public offering of securities or private placements by corporate organizations. Liability can arise in the following circumstances under common law, contract or under various statutes:

- Misrepresentation or incorrect or inaccurate information contained in the documents, such as performance or profit forecasts.
- Action taken by regulatory authorities in relation to a breach of Securities Legislation its rules, regulations and procedures.
- Underwriters to an issue may claim for perceived breach of warranties or undertakings contained in the underwriting/placing agreement.

The parties that may be held liable for a defective capital raising document typically include:

- the company making the offer
- the directors of the company
- any proposed director named in the disclosure document
- the underwriter
- any person who has made or consented to a statement contained in the disclosure document (including a person who is knowingly involved in a contravention)

Investors who suffer a loss as a result of relying on a defective disclosure document can sue these parties to recover their loss. These parties may then be liable for significant damages awards, the claimants' costs and their own defense costs. Defense costs are typically very high in the case of a securities claim.

Typically coverage is provided for:

- The costs of legal representation incurred by individual directors in the defense of any proceedings.
- Settlements, compensation and/or damages awarded against directors or officers.

Benefits of IPO insurance

- Quarantining of prospectus liability exposure avoids the depletion or exhaustion of any indemnity limits available under any applicable D&O policy held by the insured
- The insurance premium may be capitalized as part of the cost of the fundraising
- Entity cover in the policy provides cover to the Company and not just the directors and officers
- Advance payment of defense costs
- Upto 6 year policy period is available to cover the long tail exposure
- Worldwide coverage including coverage for American Depository Receipts if required

Claims against corporate directors and officers associated with the manner in which the shares of an initial public offering (IPO) of the corporation's stock were allocated to various parties. Such claims allege two types of wrongdoing: (1) receipt of undisclosed commissions, whereby the IPO securities underwriters received greater compensation from investors than was disclosed in the IPO prospectus, rendering the prospectus false and misleading, and (2) illegal tie-in agreements, alleging that underwriters required investors in IPOs to agree, in return for receiving a favorable allocation of shares in the IPO, that the investors would purchase additional shares immediately following the IPO. This would increase demand for the stock and cause a rise in the market price of the stock immediately following the IPO.