

SEBI – Review of LODR regulations for material events of listed entities

Introduction: Listed entities are required to disclose certain material information referred to under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('LODR'). To enable the investors to make well-informed investment decisions, regulation 30 of the LODR requires a listed entity to make adequate, timely and accurate disclosure of information on an ongoing basis. It also aims to bring uniformity in various disclosures required to be made by such entities.

Schedule III of the SEBI LODR gives a list of events which need to be disclosed as follows:

1. Deemed material events, i.e., those which need to be disclosed without any application of the materiality guidelines as specified under regulation 30(4) – Para A, Part A of Schedule III.
2. Which need to be disclosed upon application of the materiality policy/guidelines framed by the listed entity under regulation 30(4) – Para B, Part A of Schedule III.

Background: Recently SEBI received various complaints regarding inadequate / inaccurate / misleading / delayed disclosures by listed entities. On the other hand, the listed entities also need guidance on determining the materiality of events for disclosure purposes. Hence, SEBI has proposed to review various aspects of the extant LODR to keep pace with the changing market dynamics by relying on the availability of faster communication channels and the adoption of technology for compliance. SEBI has sought consultation from the stakeholders on its proposals by 27 November 2022.

SEBI proposals in para A and para B, part A of Schedule III

1. **Introduction of a threshold:** A threshold limit based on the expected quantitative impact of the event will be introduced. This will ensure that regulation 30(4) is objective and non-discretionary to the listed entities.
2. **The materiality policy** shall be framed which enables the employees to identify a potential material event which can be escalated and reported to the relevant Key Managerial Personnel ('KMP') for determining materiality and for making a disclosure to the stock exchange.
3. **Timelines for disclosures:** Due to the wide use of technology it is proposed to reduce the disclosure time to
 - i. 12 hours – where the information emanates from the entity itself.
 - ii. 30 minutes – in case the event/information emanates from a board meeting decision.
4. **Verification of market rumours:** Top 250 listed entities (by market capitalisation, as at the end of the immediate previous financial year) shall necessarily confirm or deny any event or information reported in the mainstream media, whether in print or digital mode, which may have a material effect on the listed entity under this regulation.
5. **Announcements from directors, promoters, etc:** Announcement or communication to any form of mass

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communication media by directors/promoters/KMP/senior management which is not already made available in the public domain by the listed entity.

6. Other important proposals

- a. Actions taken/initiated by any regulatory, statutory, enforcement or judicial authority against the listed entity/its directors/KMP/senior management/promoter/subsidiary.
- b. Voluntary revision of financial statements or the report of the board of directors of the listed entity under section 131 of the Companies Act, 2013.
- c. Resignation of a KMP/senior management/director other than an independent director and the letter of resignation along with detailed reasons for the resignation shall be disclosed to the stock exchanges within 7 days from the date of resignation.
- d. In case the MD / CEO is not available to perform his roles and responsibilities for a long period of more than a month, the same should be disclosed to the investors.
- e. Frauds/defaults by the directors/senior management of the listed entity along with those of its subsidiaries will also need to be disclosed.
- f. Delay/default in payment of fines, penalties, dues, etc. to any regulatory, statutory, enforcement or judicial authority.
- g. Arrangements by a listed entity for strategic/technical/manufacturing/marketing tie-ups, adoption of new lines of business, closure of any unit/division/subsidiary, etc.
- h. Information about any subsidiary or director of the listed entity who becomes a party to any litigation, assessment, adjudication, arbitration or dispute in conciliation proceedings.
- i. Disclosures concerning cyber-security incidents or cyber-security breaches/loss of data/documents.

Weblink

https://www.sebi.gov.in/reports-and-statistics/reports/nov-2022/review-of-disclosure-requirements-for-material-events-or-information-under-sebi-listing-obligations-and-disclosure-requirements-regulations-2015_64962.html

Therefore

The present disclosure proposals of SEBI-LODR bring standardisation and objectivity, making the listed entities accountable for probable non-compliances. Further, introducing materiality threshold values and objectively specifying the event-based applicability criteria will eliminate judgement-based disclosures. This will bring uniformity in the disclosure rules and will heighten the bar of investor awareness.