Amendments to requirements for disclosure of material events or information by listed entities under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

1. Objective

1.1. This memorandum seeks approval of the Board to amend certain provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**LODR Regulations**" or "**LODR**") with the objective to enhance transparency around material events / information related to listed entities.

2. Background

2.1. Regulation 30 of LODR Regulations, requires listed entities to disclose material events or information to the stock exchanges.

2.2. The events specified under Para A of Part A of Schedule III of LODR Regulations ("**Para A**") are deemed to be material events. These events are necessarily required to be disclosed by the listed entities.

2.3. Events enumerated under Para B of Part A of Schedule III of LODR Regulations ("**Para B**") are required to be disclosed based on application of the guidelines for materiality, which the listed entities are required to frame ("**Materiality Policy**") based on the criteria specified under regulation 30(4) of LODR Regulations. The listed entities have discretion in terms of defining materiality, and thus in terms of disclosure of such events.

2.4. SEBI circular no. CIR/CFD/CMD/4/2015 dated September 09, 2015 on 'Continuous Disclosure Requirements for Listed Entities' ("**Continuous Disclosure Requirements Circular**") specifies the details which a listed entity needs to disclose with respect to the events specified under Para A and Para B (Annexure I to the aforesaid Circular) and also provides guidance to determine / ascertain as to when an event / information can be said to have occurred (Annexure II to the aforesaid Circular).

3. Need for review

3.1. In recent years, SEBI has been receiving, from time to time, complaints / references citing cases of inadequate, inaccurate, misleading, as well as delayed disclosures being made by the listed entities. While the regulatory actions taken by SEBI against non-disclosure of material events or information act as a deterrent, the same cannot compensate for the importance of ensuring timely disclosure of material events by listed entities at all times.

3.2. While timelines have been specified under various provisions of the LODR Regulations for dissemination of different items of material information, there have been instances of frequent non-compliances of such timelines by the listed entities which have invited penal actions. Timely dissemination of information helps in reducing information asymmetry, promotes transparency and enables investors to take informed decision. However, many a times, listed entities end up defeating this sacrosanct objective by adopting different interpretations and approach to such provisions relating to materiality, the threshold of materiality, applicable timing for disclosure, etc. Listed entities from their end have expressed that guidance in more definite terms to the listed entities is required for facilitating a uniform approach in determining materiality of events or information for the purpose of disclosure to the stock exchanges, and that this would reduce ambiguity in the expectations from listed entities.

3.3. Many a times, the listed entities are also called upon to provide specific and clear replies to rumor verification queries that are raised to them by stock exchange(s) pursuant to any event or information concerning such companies being circulated through rumours, print or social media, news channels, etc. The listed entities in the event of rumours, on their own initiative should also confirm or deny any such reported event or information, so as to ensure that accurate information from authentic sources reaches the investors. However, in this regard, the listed entities are seen to be falling short of expectation of the investors and very often this exacerbates the effect of such rumors on the price of the company's shares.

3.4. Given the aforesaid context, there arises a need to review various aspects of the disclosure requirements prescribed under the LODR Regulations. The amendments to the disclosure requirements proposed in this board memorandum also aim to keep pace with the changing market dynamics. In today's digital age where information is readily available, it is expected that the listed entities adopt technology-based solutions for ease of compliance, and faster disclosure of all material events / information to the public.

4. Deliberations in the PMAC and Public Consultation

4.1. In order to address the above-mentioned issues, proposals to amend the relevant provisions of LODR Regulations were considered and discussed by the Primary Markets Advisory Committee (PMAC) of SEBI. Based on the recommendations of PMAC and subsequent internal deliberations, a consultation paper, placed as **Annexure 1**, containing various proposed amendments, was placed on the website of SEBI on November 12, 2022 seeking public comments on these proposed changes / amendments in LODR Regulations. Comments were received from 77 persons / entities including listed entities, law firms, industry associations, institutions, and professionals. Proposal-wise comments received on the amendments proposed and in response to the questions posed in the consultation paper are placed as **Annexure 2**. The public comments on each of the proposal have been analyzed and discussed below in the relevant sections dealing with the proposed amendments to the LODR Regulations, under separate heads as under: -

<u>Proposed amendments to the LODR Regulations</u>

5. Guidelines for materiality of events specified under Para B

5.1. **Issue under consideration – Quantitative materiality threshold for disclosure of material events or information specified under Para B**:

5.1.1. The events specified under Para B are required to be disclosed upon application of criteria of materiality as specified under regulation 30(4) of the LODR Regulations. It is observed that many entities do not disclose such events specified under Para B taking a plea that these

events are not considered to be material by them as per their Materiality Policy framed in terms of the criteria prescribed in regulation 30(4) of LODR Regulations.

5.1.2. Moreover, most entities are seen to be following a very generic Materiality Policy, simply reproducing therein merely the regulatory provisions of LODR Regulations, in a manner that affords them a lot of discretion and flexibility to decide as to whether at all it should disclose an event specified under Para B, thus, in practice, defeating the purpose of having a Materiality Policy, while the company claims that it is in compliance with the regulatory requirement of framing a Materiality Policy, albeit only on paper.

5.2. **Proposal in the consultation paper**:

5.2.1. In order to make the criteria for determining 'materiality' of events more objective and non-discretionary, it was proposed to insert a minimum quantitative threshold in clause (i) of regulation 30(4) of LODR Regulations for disclosure of events specified under Para B based on a threshold value or the expected quantitative impact of the event.

5.2.2. Since there are interlinkages between the items in the statement of profit & loss and the items in balance sheet of a company, as an optimal solution, a combination of turnover, net worth and profit/loss after tax, was considered for determining the materiality threshold.

5.2.3. It was, therefore, proposed to amend clause (i) of regulation 30(4) of LODR Regulations to mandate listed entities to disclose an event or information specified under Para B whose value or the expected impact in terms of value exceeds the lower of the following:

i. two percent of turnover, as per the last audited standalone financial statements of the listed entity;
ii. two percent of net worth, as per the last audited standalone financial statements of the listed entity;

iii. five percent of three-year average of absolute value of profit/loss after tax, as per the last three audited standalone financial statements of the listed entity.

5.3. **Comments / suggestions received**:

5.3.1. While majority of the comments received on this proposal (51 out of 73) are in favour of introducing a minimum quantitative threshold, most commentators have suggested to have a higher threshold value than that proposed in the consultation paper. A view is expressed that a low threshold value would considerably increase the number of disclosures and listed entities would be burdened with extra compliances. A higher threshold limit of 5-10% of the above parameters has been suggested by most commentators in line with other materiality thresholds under LODR for material related party transactions and material subsidiaries. Some commentators have suggested against using profit/loss as a parameter.

5.3.2. Commentators have also suggested that the parameters should be determined based on consolidated financial statements instead of standalone financial statements as proposed in the consultation paper. It has been argued that valuation of companies is based on the consolidated financials and investors react to the consolidated performance of a company rather than standalone.

5.4. **Analysis**:

5.4.1. Introduction of quantitative criteria for disclosure of events specified under Para B would benefit the listed entities by eliminating divergent interpretations, reducing ambiguity and the time to be taken for decision-making for disclosure of these events. Most of the events specified under Para B pertain to or have impact on the operations of the listed entity. Hence, disclosure of such events is necessary for the investors except for those cases where the value or expected impact of the event is miniscule. An optimum threshold value as proposed in the consultation paper is, therefore, required to ensure disclosure of all such material events.

5.4.2. Material related party transactions require prior approval of shareholders through resolution. Similarly, there are additional compliance requirements for material subsidiaries regarding resignation of their auditors, disposal of shares in such subsidiaries and selling, disposing, and leasing of assets of such subsidiaries. Thus, there are additional compliance requirements in case of material related party transactions and material subsidiaries as cited above which justify a higher materiality threshold for such transaction / events. However, the proposed materiality threshold would be applicable only for 'disclosure' of material events or information covered under Para B without mandating any additional procedural requirements to be complied with and hence, a lower threshold as proposed in the consultation paper is a reasonable regulatory expectation on behalf of the investors.

5.4.3. It is important to capture the impact of the material event on the bottom line of a company which usually has a direct correlation with the market price of the scrip of the company. The price to earnings ratio is usually the primary driver of the market price. An event which can have an impact of five percent on the earnings deserve to be treated as material and price sensitive for the company. Hence, earnings being a crucial indicator of price, the suggestion by some commentators against using profit/loss as a parameter may not be accepted.

5.4.4. Based on the data on different financial parameters analyzed with respect to the top 100 listed entities by market capitalization for the last financial year, the value of two percent of turnover or net worth are found to be higher in a large percentage of cases compared to the value of five percent of profit/loss after tax. Hence, any further increase in the threshold beyond two percent of turnover or net worth as suggested by some commentators would consequentially lead to rendering such threshold redundant as invariably five percent of profit/loss after tax will always be the lowest of the three parameters for the purpose of materiality threshold which is not a desirable proposition.

5.4.5. The company's bottom line may fluctuate from year to year due to cyclical nature of business. Therefore, in order to determine the size of the profit or loss in a prudent manner, on which the material event or information is expected to have an impact, a three-year average of absolute value of the company's profit/loss after tax, is proposed. In case a listed entity does not have a track record of three years of financials, say, in case of a demerged entity, the aforesaid average may be taken for the period / number of years as may be available. A clarification to this effect may be provided in the Continuous Disclosure Requirements Circular.

5.4.6. It is also gathered from the comments that there is some confusion in the calculation of three-year average of absolute value of profit/loss after tax. An explanation / illustration may be added to clarify that the average of absolute value of profit or loss is required to be considered by disregarding the 'sign' (positive or negative) that denotes such value as the said value / figure is required only for determining the threshold for 'materiality' of the event and not for any commercial consideration. This explanation / illustration may be provided in the Continuous Disclosures Requirements Circular.

5.4.7. However, the suggestion to determine the parameters on consolidated basis instead of standalone basis may be accepted since the consolidated financials holistically capture the performance of the company and its subsidiaries and the impact on the consolidated financials would be more relevant for the investors.

5.4.8. Some commentators have suggested to address the eventuality of negative net worth in determining the materiality threshold. In such cases, the other two parameters, viz. turnover and profit/loss after tax may be considered for determining the materiality threshold. Hence, net worth may not be considered as a parameter is case its arithmetic value comes out to be negative.

5.4.9. It is also noted that some of the continuing events or information such as litigations may become 'material' by exceeding the proposed

materiality threshold pursuant to notification of the proposed amendments. Listed entities may be provided suitable time period say 30 days from the date of coming into effect of the proposed amendments to disclose such events or information. A proviso may be added in the regulation to specify the same.

5.5. **Proposal**:

5.5.1. In view of the above, it is proposed that clause (i) of sub-regulation (4) of regulation 30 of LODR may be modified to insert a quantitative materiality threshold as the lower of the following:

i. two percent of turnover, as per the last audited consolidated financial statements of the listed entity;
ii. two percent of net worth, as per the last audited consolidated financial statements of the listed entity, except in case the arithmetic value of the net worth is negative;
iii. five percent of the average of absolute value of profit/loss after tax, as per the last three audited consolidated financial statements of the listed entity.

5.5.2. As discussed in para 5.4.9 above, it is proposed to insert a proviso to clause (i) of sub-regulation (4) of regulation 30 of LODR to specify that if any continuing event or information becomes material event or information by exceeding the above mentioned materiality threshold pursuant to notification of the proposed amendments, then the same shall be disclosed by the listed entity within thirty days from the date of coming into effect of these amendments.

5.5.3. Suitable explanation / illustration may be provided in the Continuous Disclosure Requirements Circular to bring clarity in the calculation of three-year average of the absolute value of profit/loss after tax, and also to address scenarios where a listed entity may not have a track record of three years of financials available for determining the materiality threshold.

6. Materiality Policy

6.1. **Issue under consideration – Process for identification and determination of material event or information**:

6.1.1. As per the current clause (ii) of regulation 30(4) of LODR, the listed entity shall frame Materiality Policy for determination of material events or information. Listed entities may provide additional quantitative threshold or criteria for determining materiality of events in their Materiality Policies. However, such threshold or criteria shall be in addition and stricter to the criteria / threshold specified under clause (i) of regulation 30(4) of LODR Regulations. Hence, the requirements under clause (i) of regulation 30(4) of LODR should not be diluted in the Materiality Policy.

6.1.2. In today's digital age with faster connections across the globe, issues such as transmission of information from operations at remote / global locations are not pertinent. However, assessment of materiality of an event or information may take time, for example, in case of fire damage. In such scenarios, as a way of caution, companies should disclose the event or information with the best estimate at hand rather than allowing rumours / speculation. Further, the Materiality Policy of the listed entity should be framed in a manner to assist relevant employees to easily identify such potential material event or information in an objective manner and to report the same immediately to the authorized key managerial personnel (KMP) for onward disclosure by the company.

6.2. **Proposal in the consultation paper**:

6.2.1. In order to facilitate the above, it was proposed to insert the following as provisos to clause (ii) of regulation 30(4) of LODR Regulations:

i. Materiality Policy of the listed entity shall not dilute any requirements specified under this regulation.
ii. Materiality Policy of the listed entity shall be framed in a manner so as to assist employees in identifying potential material event or

information that may originate at the ground level which can be promptly escalated and reported to the relevant Key Managerial Personnel for determining materiality of the said event or information and for making necessary disclosure to stock exchange(s).

6.3. **Comments / suggestions received**:

6.3.1. Majority of the commentators (38 out of 60) have agreed to the proposed amendments. Only three commentators have dissented and raised concerns on the second proviso. It has been argued that the identification of potential material event or information and the internal reporting process should be left with the respective company's board of directors and not be made part of the materiality policy. It has also been suggested to restrict the applicability of the second proviso to senior management only.

6.3.2. Other commentators while partially agreeing with the proposals have raised some challenges in implementing the second proviso particularly with regard to training and sensitization of all employees for identification of potential material events or information. It has been suggested that the second proviso should be made applicable to a specified level of employees or the employees relevant for disclosure of material events or information.

6.4. **Analysis**:

6.4.1. The aforesaid proposals are intended to cover employees who may be dealing with potential material events or information and to set out the principle for quicker flow of information within the listed entity from lower / ground level to the level of KMPs. While such employees would usually be part of the management of the entity, the level of management or employee who are to be sensitized with the Materiality Policy depends on the manner in which a listed entity has organized and conducts its business and the manner in which material event or information flows within the entity. Thus, the proposal provides freedom to the listed entities to deal with all such aspects in detail in their

Materiality Policy, so that no material event or information occurring at lower level are missed out from being disclosed promptly to the stock exchanges. In order to incorporate the above viewpoint in the proposal, the word 'relevant' may be added before the word 'employees'.

6.4.2. Some commentators have argued that identification of potential material event or information should be left with the respective company's board of directors and not be made part of the Materiality Policy. However, the same could lead to delayed disclosures. Materiality Policy of a company is approved by its board of directors and could address the issue of identification of potential material events or information by the relevant employees of the entity in a manner that will allow them to quickly escalate to the authorized Key Managerial Personnel.

6.5. **Proposal**:

6.5.1. In view of the above, it is proposed to insert the following two provisos to clause (ii) of regulation 30(4) of LODR Regulations:

"Provided that such a policy for determination of materiality shall not dilute any requirement specified under the provisions of these regulations.

Provided further that such a policy for determination of materiality shall assist relevant employees of the listed entity in identifying potential material event or information and reporting the same to the authorized Key Managerial Personnel, in terms of sub-regulation (5), for determining materiality of the said event or information and for making the necessary disclosures to the stock exchange(s)."

7. Timeline for disclosure of material events or information

7.1. **Issue under consideration – 'Timeliness' as essence of disclosure of material events or information**:

7.1.1. As per Regulation 30(6) of LODR Regulations, the timeline for disclosure of events or information is within twenty-four hours from the

occurrence of the event or information. However, given the fact that in present age of digital communication and widespread usage of social media, information permeates very fast, there is a need and justification now to ensure quicker disclosure of material events or information by listed entities, which is quite possible as well.

7.1.2. In certain instances, it was observed that the disclosure of an event by the listed entity was made only at the last hour, by which time the information about the said event had already been circulated publicly in the media including during market hours. At times, the material information had to be disclosed by the listed entities only after queries were raised to it by stock exchanges based on media reports.

7.2. **Proposal in the consultation paper**:

7.2.1. In order to address the above regulatory concerns, it was proposed that for the material events or information which emanate from within the listed entity, the timeline for disclosure by the entity shall be reduced from twenty-four hours to twelve hours. In case of events which do not emanate from within the listed entity, the current timeline for twenty-four hours shall continue to apply.

7.2.2. Based on the above principles, the proposed timeline for disclosure of each of the event under Part A of Schedule III of LODR, were specified in Annex II to the consultation paper.

7.2.3. However, in the said proposal (Annex II to the consultation paper), wherever, specific timelines are provided under Part A of Schedule III of LODR, disclosure of those events is proposed to be retained as per the said specific timelines.

7.2.4. Additionally, in case of those events or information which emanate from a decision taken in a meeting of board of directors, it was proposed that the disclosure of such events or information shall be made within 30 minutes from the closure of such meeting.

7.3. **Comments / suggestions received**:

7.3.1. 13 out of 71 comments received on this proposal agree with the timelines proposed in the consultation paper. Other commentators have raised some concerns on reducing the timeline to 12 hours / 30 minutes (as mentioned above) from the existing timeline of 24 hours.

7.3.2. The concerns raised on reducing the timeline to 12 hours for disclosure of events or information which emanate from within the listed entity are summarized below:

i. In case of large companies having global presence, events may emanate from different divisions located in different time zones which may take time to reach the concerned person.

ii. The need to make a disclosure within a quicker deadline may compromise the quality of the disclosure. It may lead to inadequate or inaccurate disclosures.

iii. There will be practical challenges in adhering to the timeline of 12 hours especially for events occurring after working hours and for events for which the test of materiality is to be applied.

7.3.3. Some commentators have suggested that the timeline should be 12 working hours instead of 12 hours. Some commentators have sought guidance on the terms “emanate from within the listed entity” and “do not emanate from within the listed entity.”

7.3.4. Comments have also been received against applying the timeline of 30 minutes universally for all material events or information which emanate from a decision taken in a meeting of board of directors. It has been suggested that this timeline may be increased to one hour.

7.3.5. It has also been commented that certain events like acquisition, merger, etc., though approved by the board of directors, become reportable to stock exchanges only after definitive agreements are signed.

7.4. **Analysis**:

7.4.1. The above concerns mainly refer to exceptional circumstances and sluggish flow of information within the entity. In case of exceptional circumstances, explanation for delay in disclosure, if any, can be provided as per regulation 30(6) of LODR Regulations. In order to address the sluggish flow of information within the entities, it is expected that the listed entities frame their Materiality Policy to assist their employees who may be located in different geographies to promptly identify the potential material events or information and also to ensure quicker flow of information about such events or information. Such policy should sensitize the employees dealing with potential material event / information about the importance of quicker identification and communication of such events / information to their seniors / KMPs so as to facilitate timely disclosure of such events / information to the stock exchange.

7.4.2. The suggestion of specifying a timeline of 12 working hours will have unintended consequences, as 12 working hours may be even more than the existing timeline of 24 hours during holidays. Any possibility of a material event or information remaining undisclosed for a longer period defeats the very purpose of disclosure.

7.4.3. Currently, the prescribed timeline of 30 minutes from the closure of the board meeting is applicable for disclosure of specific events such as financial results, fund raising, dividend, bonus shares, buyback of securities, etc. There do not seem to be any procedural challenges in applying this timeline for all other material events or information for which decision is taken in a board meeting, since the entities are currently already adhering to this timeline for the aforesaid specific events coming out of the board meetings, since these are all known well in advance.

7.4.4. It may be noted that Annexure II of the Continuous Disclosure Requirements Circular provides guidance to determine as to exactly when an event / information shall be construed to have occurred. As

per the said guidance, for an event / information which involves different stages of discussion, negotiation, approval, signature of an agreement, etc. such event / information can be said to have occurred, for the purpose of disclosure under regulation 30 of LODR alone, only upon receipt of approval of the board of directors. Accordingly, the disclosure should be made immediately upon approval by the board of directors, without waiting for the event of signing of the agreement. Subsequently, signing of the agreement can be disclosed as an update to the earlier event (of board approval) which was disclosed earlier. It may be clarified here that approvals other than final approvals, such as in-principle approval, approval to explore, etc. shall not require disclosure under regulation 30 of LODR. However, any rumour appearing in any mainstream media about such events shall be required to be disclosed by the listed entity in terms of the proposal made in para 8.5 of this memorandum. Annexure II to the Continuous Disclosure Requirements Circular may be modified to this effect.

7.4.5. The terms “emanate from within the listed entity” and “do not emanate from within the listed entity” are proposed to be inserted in the LODR Regulations as a guiding principle. The timeline for each event specified under Para A and Para B is proposed to be specified through a circular, to provide clarity in interpreting these terms. The specific timeline for each event was proposed in Annex II to the Consultation Paper and the comments received on those specific timelines shall be taken into consideration while issuing the circular.

7.5. **Proposal**:

7.5.1. In view of the above, it is proposed to modify sub-regulation (6) of regulation 30 of LODR Regulations by reducing the timeline for disclosure of events or information which emanate from within the listed entity from twenty-four hours to twelve hours and by specifying that all material events or information which emanate from a decision taken in a meeting of board of directors, shall be disclosed within 30 minutes from the closure of such board meeting.

7.5.2. The guidance on timeline for disclosure of each of the event under Part A of Schedule III of LODR Regulations is proposed to be provided by way of a circular.

7.5.3. Annexure II to the Continuous Disclosure Requirements Circular may be modified to clarify that approvals other than final approvals, such as in-principle approval, approval to explore, etc. shall not require disclosure under regulation 30 of LODR. However, any rumour appearing in any mainstream media about such events shall be required to be disclosed by the listed entity in terms of the proposal made in para 8.5 of this memorandum.

8. Verification of market rumours

8.1. **Issue under consideration – Dealing with non-disclosure pertaining to market rumours**:

8.1.1. As per Regulation 30(11) of LODR Regulations, a listed entity may on its own initiative, confirm or deny any reported event or information to stock exchange(s).

8.1.2. Verification of reported events or information which may have material effect on the listed entity is essential to avoid establishment of a false market sentiment or impact on the securities of the entity. In recent years, a growing influence on market sentiments is being noticed of not just print media, but also television and digital media which sometimes contribute to sudden price movements of specific scrips based on unverified information about the listed entity. In order to stay contemporary, companies need to keep pace with all forms of media, both print and electronic / digital and ensure prompt verification of such rumours, so that they can respond to such rumors quickly before the market price their scrips get impacted by such rumors, one way or another.

8.2. **Proposal in the consultation paper**:

8.2.1. It was, therefore, proposed in the consultation paper to insert, in addition to the above-mentioned general provision of regulation 30(11)

of LODR, a proviso mandating the top 250 listed entities to necessarily confirm or deny any event or information reported in the mainstream media, whether in print or digital mode, which may have material effect on the listed entity under regulation 30 of LODR.

8.2.2. The top 250 listed entities shall be determined based on market capitalization, as at the end of the immediate previous financial year.

8.3. **Comments / suggestions received**:

8.3.1. Most of the comments received on this proposal (52 out of 71) are not in agreement with the insertion of the proposed requirement for mandatory verification of market rumours by top 250 listed entities.

8.3.2. Taking the example of a company that is engaged in talks for an acquisition deal and rumours being created over such acquisition in the media, the challenges involved in implementation of the proposal have been highlighted by the dissenting commentators as under:

i. Restriction from disclosing such premature news because of the Non-Disclosure Agreement between the Parties;

ii. The proposed acquisition may be at a very nascent stage with no certainty over its consummation;

iii. The foreign counterparts of Indian listed companies may become wary of engaging with Indian companies;

iv. Confirmation or denial over preliminary negotiations may be disadvantageous to the listed entity as they will lose their edge in such negotiations.

v. Competitors and media agencies may have the ability to misuse the proposed amendment by deliberately publishing inaccurate or speculative news reports with the objective of forcing the listed entity to make a statement confirming or denying the reported event.

8.3.3. It has also been commented that many articles are published in the media about views / expectations / advance estimation by research

analysts, stock brokers, media houses, etc. on financial performance, product performances, corporate actions (bonus shares, dividends, buyback, etc.) of a listed entity or recommendations to purchase / sell the securities of a listed entity, etc. It will not be feasible for a company to confirm or deny all these rumours.

8.3.4. Some of the commentators have argued that the proposal may also have a counterproductive effect of unnecessarily increasing market speculation at a premature stage. Such premature disclosures, apart from misleading investors, could lead to violation of the SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 ("**PFUTP Regulations**").

8.3.5. It has also been argued that the proposal is against SEBI's guidelines in Annexure II of Continuous Disclosure Requirements Circular which stipulate that an event should be disclosed after attaining a certain level of certainty.

8.3.6. Many commentators have suggested to define the term 'mainstream media'; it should be restricted to media which is regulated and only Indian media. It has also been commented that the existing proposal of mainstream media, whether in print or digital mode, is wide since social media handles of mainstream media organizations may also be considered as falling within the ambit of mainstream media.

8.3.7. It has also been suggested that the requirement to necessarily confirm or deny should be reworded as 'clarify event' as the listed entity would not be able to confirm or deny media leaks about events that emanate externally.

8.4. **Analysis**:

8.4.1. An analysis of the aforesaid challenges that may be confronted in implementation of the proposal is presented as under:

i. Non-Disclosure Agreement (NDA) between parties cannot override the regulatory obligation for disclosure. Besides, NDA

has already been breached by someone if specific rumours are circulating in the market.

ii. The stage of the negotiation / discussion may be provided even if it is at a very nascent stage.

iii. Such requirements for rumour verification exist in foreign jurisdictions like US as well which are discussed in the subsequent paragraphs. The foreign counterparts in such cases are also required to abide by such requirements for rumour verification.

iv. The listed entity should take effective measures to ensure that the details of the negotiations / discussions are kept confidential and enveloped until made public to avoid rumours in the market. Further, if it is leaked or selectively available in the market, the details should be disclosed to all, to avoid information asymmetry in the public domain.

v. The concerns regarding misuse of the proposal may be addressed by requiring only rumours about specific events to be verified and not those rumors which are general in nature without any specific details. Hence, the language of the proposal may be modified so that the provision is applicable when the reported event / information is not general but specific in nature and it indicates an impending material event or information pertaining to the listed entity in terms of regulation 30, which is circulating amongst the investing public, through such reporting in the media.

8.4.2. As mentioned earlier at para 8.4.1 above, verification of reported events or information which may have material effect on the listed entity is already a regulatory requirement in other leading foreign securities market jurisdictions, as it is essential to avoid creation of a false market sentiment and the adverse impact of such false market sentiment on the market price of the scrip of the entity.

8.4.3. As per Section 202.03 of NYSE Listed Company Manual on “Dealing with Rumours or Unusual Market Activity”, a listed entity must respond to rumours or to unusual price movement or trading volume as follows:

i. If rumors are in fact false or inaccurate, they should be promptly denied or clarified. A statement to the effect that the company knows of no such corporate developments to account for the unusual market activity, can have a salutary effect.

ii. If rumors are correct or there are developments, an immediate candid statement to the public as to the state of negotiations or of development of corporate plans in the rumored area must be made directly and openly. Such statements are essential despite the business inconvenience which may be caused and even though the matter may not as yet have been presented to the company's Board of Directors for consideration.

8.4.4. Rule no. IM-5250-1 of NASDAQ Listing Rules on “Disclosure of Material Information” also contain similar provisions for denying false or inaccurate rumours and for confirming as to the state of negotiations or developments in case of correct rumours, being reported in media.

8.4.5. If a rumour or reported event / information is correct, the listed entities, while confirming the rumour, may be required to provide the current stage of development in the rumoured area.

8.4.6. If a rumour or reported event / information is false from the standpoint of the listed company, the concerns expressed by some commentators, regarding outright denial by the company are valid, since the rumour may still be true and might have emanated from a third party which may not be in the knowledge of the listed entity. For example, many a times, rumours pertaining to possible filing of application by financial creditors for initiation of corporate insolvency resolution process against the listed entity may not be in the knowledge of the debtor listed entity. Therefore, in such situations, listed entities may be allowed to clarify such rumours instead of only confirm or deny them as proposed in the consultation paper.

8.4.7. Annexure II of Continuous Disclosure Requirements Circular provides guidance on determination as to when an event / information has occurred and is required to be disclosed under regulation 30 of LODR. However, the said guidance is applicable as long as the event / information is kept confidential. In case of market speculation or rumours circulating in the media, it is required that the listed entities adequately confirm, deny, or clarify the same since the market responds to such rumours and the price of the scrip gets affected. Listed entities should verify such rumours as soon as reasonably possible and not later than twenty four hours from the reporting of the event / information in the mainstream media. Annexure II of the Continuous Disclosure Requirements Circular may also be modified to include disclosure in case of reporting of event / information in mainstream media.

8.4.8. Since many large companies have global operations, investors, etc., it is desirable that for the purpose of giving public response to any such rumours / media reported events or information by listed entities, the term ‘mainstream media’ should not be limited to Indian media only. However, at the same time it may be clarified that mainstream media includes registered newspapers, permitted news channels and publishers of news and current affairs content, in both print and digital format as proposed to be defined in LODR Regulations at para 8.5.2 below so as to limit the scope of coverage of the regulations in an otherwise unlimited universe of media.

8.4.9. As against the proposal made in the consultation paper to make the aforesaid provision applicable to top 250 listed entities by market capitalization, a glide path may be considered. Initially, the provision may be made applicable only to top 100 listed entities by market capitalization who are expected to have a dedicated team to handle press / digital media. Subsequently, the applicability of the provision may be extended to top 250 listed entities by market capitalization.

8.5. **Proposal**:

8.5.1. In view of the above, the proviso proposed to be inserted in Regulation 30(11) of LODR may be modified to address the concerns received during public consultation as discussed above. The modified proviso, along with explanations, proposed to be inserted in Regulation 30(11) of LODR is given below:

"Provided that the top 100 listed entities (with effect from October 1, 2023) and thereafter the top 250 listed entities (with effect from April 1, 2024) shall confirm, deny, or clarify any reported event or information in the mainstream media which is not general in nature and which indicates that rumours of an impending specific material event or information in terms of the provisions of this regulation are circulating amongst the investing public, as soon as reasonably possible and not later than twenty four hours from the reporting of the event or information.

Provided further that if the listed entity confirms the reported event or information, it shall also provide the current stage of such event or information.

Explanation – The top 100 and 250 listed entities shall be determined on the basis of market capitalization, as at the end of the immediately preceding financial year.

8.5.2. Definition of 'mainstream media' may be inserted in Regulation 2 of LODR as follows:

"'mainstream media' shall include print or electronic mode of the following:

(i) newspapers registered with the Registrar of Newspapers for India;

(ii) news channels permitted by Ministry of Information and Broadcasting under Government of India;

(iii) content published by publishers of news and current affairs content as defined under the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021; and

(iv) newspapers, news channels, or news and current affairs content similarly registered, permitted, or regulated in jurisdictions outside India."

8.5.3. Annexure II to the Continuous Disclosure Requirements Circular may be modified to include to include disclosure in case of reporting of event / information in mainstream media.

9. Disclosure of communication from any authority

9.1. **Issue under consideration – Inadequate disclosure of details contained in the communication received from any authority**:

9.1.1. Often, disclosures under regulation 30 of LODR Regulations are made by listed entities pursuant to receipt of a communication (notice, order, direction, etc.) from any regulatory, statutory, enforcement or judicial authority. As best practice, some listed entities also disclose a copy of the said communication or its web link, if available. However, there are instances where companies use their discretion to their advantage and do not disclose such communication(s). They may selectively disclose some information from the communication and present it in a manner advantageous to the company and misleading to the investors. Hence, for those companies such crucial material information may not be available to the investors.

9.1.2. It is however noted that some of these communications may contain confidential information or may have regulatory restriction on disclosure and hence, it may pose a challenge for some companies to make upfront disclosure of such communications.

9.2. **Proposal in the consultation paper**:

9.2.1. Keeping in the view, the sensitivity of such types of events / information, it was proposed in the consultation paper to insert the following provision in Regulation 30 of LODR Regulations for enabling SEBI to come out with a guidance for disclosure of the kind of communications mentioned under para 9.1 above:

"In case a disclosure of an event or information is made by the listed entity pursuant to receipt of a communication from any regulatory, statutory, enforcement or judicial authority, the disclosure of such communication shall be made by the listed entity in the form and manner as specified by the Board."

9.3. **Comments / suggestions received**:

9.3.1. While majority of the comments received on this proposal (49 out of 65) are in favour of disclosure of the aforesaid communications, many commentators have commented that the coverage of this provision is very vast as it requires disclosure of every communication received from any authority, irrespective of the fact as to whether or not, such communication has any material impact on a company.

9.3.2. It has been argued that requiring a company to disclose the communication in the same form as received from an authority, may pose a challenge in terms of the interpretation taken by the company vis-à-vis the allegation of the authority.

9.4. **Analysis**:

9.4.1. The above proposed requirement is in the form of an additional detail to be provided by a listed entity along with all other disclosures that are required to be made under regulation 30 of LODR to ensure that all material information contained in the aforesaid communications reaches the investor and the disclosure of such communication from any authority made by the listed entity is not presented in a way which is advantageous to the entity. For example, in one of the instances observed by the Board, a listed pharmaceutical company had disclosed a very limited and restricted version of the information pertaining to a warning letter received from the United Stated – Food and Drug Administration. The entity did not disclose the details of the reasons for which it received the said warning letter nor did it explain the non-compliances / aberrations observed in its conduct for which the warning was issued. Disclosing only the fact of receipt of a warning letter

without details of its contents amounts to incomplete disclosure potentially leading to speculation.

9.4.2. In case the communication pertains to a subject matter which the listed entity does not consider material in terms of regulation 30 of LODR, the disclosure of the same would not be warranted under the proposed requirement. Hence, the scope of the proposed requirement is limited to only those communications which the listed entity considers material in terms of regulation 30 of LODR. The language of the proposed amendment may be modified so as to clarify that the disclosure of the actual communication is required only when the event or information is material as per regulation 30 of LODR, which includes all events under Para A and all events under Para B upon application of the guidelines for materiality.

9.4.3. At times, such communication from regulatory, statutory, enforcement or judicial authority are already available in public domain. The listed entity, in such cases, may provide a copy of the communication or the web link along with disclosure of material details. In case the communication is confidential or barred by the authority from public disclosure, the same shall not be required to be disclosed. The Board will consult other regulators to develop a framework to ensure that the listed entity does not make misleading disclosures in such cases.

9.5. **Proposal**:

9.5.1. In view of the above, the amendment proposed in the consultation paper may be modified for clarity. The modified sub-regulation proposed to be inserted in regulation 30 of LODR is below:

“In case an event or information is required to be disclosed by the listed entity in terms of the provisions of this regulation, pursuant to the receipt of a communication from any regulatory, statutory, enforcement or judicial authority, the listed entity shall disclose such communication, along with the event or information, unless disclosure of such communication is prohibited by such authority.”

10. Disclosure of cyber security incidents or breaches and loss of data / documents:

10.1. **Issue under consideration – Disclosure of a cyber-event or information which may have material effect on the listed entity**:

10.1.1. With the rapid advancements in technology and the increasing adoption of newer technologies by listed companies, cyber security incidents or breaches and loss of data / documents have also become a major risk area. Occurrences of such incidents may impact the operations and/or performance of the listed entity. Disclosure of such events are therefore necessary for investors to understand the associated risks and impact.

10.2. **Proposal in the consultation paper**:

10.2.1. Keeping in view the complexities and sensitives involved in such cyber events, it was also realized that immediate disclosure of such events as mentioned under above para by a listed entity may not be desirable as any such immediate disclosure may make the entity vulnerable to further such attacks. Hence, disclosure of such events, along with a brief description, root cause analysis with its impact on the operations of the entity, corrective action taken, and compliance with guidelines of CERT-In or other concerned authority, etc. were proposed to be mandated as part of the existing quarterly compliance report on corporate governance that is required to be submitted by listed entities under Regulation 27 of LODR Regulations ("**CG Report**"). The format for such quarterly CG Report has been specified in Annex I to the SEBI Circular no. SEBI/HO/CFD/CMD-2/P/CIR/2021/567 dated May 31, 2021 ("**CG Report Circular**").

10.3. **Comments / suggestions received**:

10.3.1. While majority of the comments received on this proposal (51 out of 63) are in favour of introducing a disclosure of the aforesaid events, some commentators have suggested that the scope of this disclosure should be restricted to only the reportable incidents covered under the Directions issued by CERT-In on April 28, 2022 relating to information

security practices, procedure, prevention, response and reporting of cyber incidents for Safe & Trusted Internet ("**CERT-In Directions**").

10.3.2. It has also been suggested that in case the disclosure of cyber security incident / breach may pose further risk or threat to any entity, the disclosure should be allowed to be made in the succeeding quarter and that public sector undertakings and critical sectors should be exempted from this disclosure requirement due to national security reasons.

10.3.3. With regard to disclosure of corrective action taken by the listed entity, it has been argued that disclosure of such sensitive information to public at large may further elevate the information security risk exposure of the entity. It has also been commented that the definition of 'cyber security incidents' and 'cyber security breaches' may be clearly laid down for uniformity and better understanding, else there will be numerous disclosures in each quarterly report.

10.3.4. Some of the commentators have argued that to the extent disclosure of information is necessary for prevention of cyber security incidents, such disclosures are already mandated under the Information Technology (The Indian Computer Emergency Response Team and Manner of Performing Function and Duties) Rules, 2013 ("**CERT-In Rules**"), which are restricted to the relevant authority and/or law enforcement agencies rather than to public at large. As an alternate, it has been suggested that entities may be asked to affirm as part of the CG Report, that necessary intimations have been made to relevant authorities for cyber-security related incidents/breaches.

10.3.5. Some commentators while agreeing with the proposal have also suggested that prior to the detailed disclosure in the quarterly CG Report, a preliminary disclosure within a reasonable time from the occurrence of the cyberattack should also be made.

10.4. **Analysis**:

10.4.1. The proposed disclosure shall provide necessary information to the investors to take an informed investment decision. However,

considering the public comments as noted above, the disclosure requirements for cyber security incidents / breaches may be aligned with that prescribed in CERT-In Directions. Further, definition of the cyber security incidents / breaches may be specified as defined under the CERT-In Rules.

10.4.2. Further, recognizing the security risks associated with disclosure of corrective actions taken, only an affirmation may be required from the listed entities to the effect that appropriate corrective actions have been taken by them to address / resolve the cyberattacks. Further, with respect to the outstanding cyber security incidents / breaches for which corrective actions have so far not been taken as on the date of the submission of the quarterly CG Report, the disclosure pertaining to those incidents may be provided in the CG Report of the succeeding quarter.

10.4.3. Considering the security risks associated with public disclosure of cyberattacks pertaining to Critical Information Infrastructures (CIIs) and protected systems in terms of section 70(1) of the Information Technology Act, 2000, the proposed disclosure requirements under LODR Regulations may be exempted for such CIIs and protected systems.

10.5. **Proposal**:

10.5.1. In view of the above, it is proposed that the disclosure of “cyber security incident” or “cyber security breaches” or loss of data / documents of the listed entity may be mandated in the quarterly CG Report and clarifications may be provided with respect to the following:

i. ‘cyber security incidents’ and ‘cyber security breaches’ shall have the same meaning as given under CERT-In Rules;

ii. the types of cyber security incidents required to be disclosed shall be as specified in Annexure I to the CERT-In Directions;

iii. an affirmation in the CG report to be provided by the listed entities to that effect that appropriate corrective actions have been taken for the cyber security incidents / breaches during the last quarter;

iv. cyber security incidents / breaches for which corrective actions have so far not been taken or completed during a quarter, shall be disclosed in the CG Report of the succeeding quarter;

v. the disclosure of cyber security incidents / breaches pertaining to Critical Information Infrastructures and protected systems in terms of section 70(1) of the Information Technology Act, 2000 shall be exempted under LODR Regulations.

10.5.2. The CG Report Circular may be modified by inserting disclosure requirement with respect to cyber security incidents / breaches or loss of data / documents of the listed entity as mentioned above.

10.5.3. An enabling provision may be added under regulation 27 of LODR Regulations for disclosure of cyber security incidents / breaches or loss of data / documents as part of the CG Report.

11. Addition and modification of events under Para A and Para B

11.1. **Issue under consideration – Disclosure of event or information which may have material effect on the listed entity**:

11.1.1. The events specified under Para A and Para B were reviewed based on the suggestions / feedback received from the stock exchanges and the industry.

11.1.2. In order to address the gaps identified, remove ambiguity, enhance transparency and ensure timely availability of information to the investors, it is proposed to include certain additional events and also to modify certain events specified under Para A and Para B and in the Continuous Disclosure Requirements Circular.

11.2. **Proposal in the consultation paper, comments / suggestions received and analysis**:

11.2.1. The proposals in the consultation paper, comments / suggestions received, analysis and proposals for addition and modification of events under Para A and Para B are placed as **Annexure 3**. The proposals are given below.

11.3. **Proposals**:

11.3.1. **Addition of event under Para A – Disclosure of announcements or communication by directors or promoters or key managerial personnel or senior management**

"Announcement or communication through social media intermediaries or mainstream media by directors, promoters, key managerial personnel or senior management of a listed entity, in relation to any event or information which is material for the listed entity in terms of regulation 30 of these regulations and is not already made available in the public domain by the listed entity.

Explanation – "social media intermediaries" shall have the same meaning as defined under the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021."

11.3.2. **Addition of event under Para A – Disclosure of actions taken or initiated by regulatory, statutory, enforcement or judicial authority**

"Action(s) initiated by any regulatory, statutory, enforcement or judicial authority against the listed entity or its directors or key managerial personnel or senior management or promoter or subsidiary, in relation to the listed entity, in respect of the following: search or seizure; re-opening of accounts under section 130 of the Companies Act, 2013; or investigations under the provisions of Chapter XIV of the Companies Act, 2013."

"Action(s) taken by any regulatory, statutory, enforcement or judicial authority against the listed entity or its directors or key managerial personnel or senior management or promoter or subsidiary, in relation to the listed entity, in respect of the following: suspension; imposition of fine/penalty; settlement of proceedings; debarment; disqualification;

closure of operations; sanctions imposed; warning or caution; or any other similar action(s) by whatever name called."

The following details are also proposed to be disclosed along with the disclosure of the events pertaining to action(s) initiated or action(s) taken:

a. Name of the authority.
b. Nature and details of the action(s) taken or initiated.
c. Date of receipt of direction or order, including any ad-interim or interim orders, or any other communication from the authority.
d. Details of the violation(s)/contravention(s) committed or alleged to be committed.
e. Impact on financial, operation or other activities of the listed entity, quantified to the extent possible.

11.3.3. **Addition of event under Para A – Disclosure of voluntary revision of financial statements or report of the board of directors of the listed entity:**

"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."

11.3.4. **Addition of event under Para A – Disclosure of letter of resignation of key managerial personnel or senior management or directors other than independent directors**

"In case of resignation of key managerial personnel, senior management, Compliance Officer, or director other than independent director, the letter of resignation along with detailed reasons for the resignation as given by the key managerial personnel, senior management, Compliance Officer or director shall be disclosed to the stock exchanges by the listed entities within seven days from the date such resignation comes into effect."

11.3.5. **Addition of event under Para A – Disclosure of absence of Managing Director (MD) or Chief Executive Officer (CEO) of the listed entity**

"In case Managing Director or Chief Executive Officer of the listed entity was indisposed or unavailable to fulfil the requirements of the role in a regular manner for more than forty five days in any rolling period of ninety days, the same along with the reasons for such indisposition or unavailability, shall be disclosed to the stock exchange(s)."

11.3.6. **Modification of event under Para A – Disclosure of acquisition and sale by the listed entity**

i. Disclosure of acquisition under sub-para 1 of Para A may also be required if the cost of acquisition exceeds the materiality threshold proposed to be inserted in regulation 30(4) of LODR and in case of acquisition in both existing and to be incorporated companies.

ii. Disclosure of sale of stake in an associate company or sale or disposal of the whole or substantially the whole of the undertaking of the listed entity may be added in sub-para 1 of Para A. An explanation may also be inserted as follows: "For the purpose of this sub-para, 'undertaking' and 'substantially the whole of the undertaking' shall have the same meaning as given under section 180 of the Companies Act, 2013."

iii. Explanation for "sale or disposal of subsidiary" and "sale of stake in associate company" may be inserted in sub-para 1 of Para A as below:

"For the purpose of this sub-para, 'sale or disposal of subsidiary' and 'sale of stake in associate company' shall include –

(i) agreement to sell or sale of shares or voting rights in a company such that the company ceases to be a wholly owned subsidiary, a subsidiary, or an associate company of the listed entity; or,

(ii) agreement to sell or sale of shares or voting rights in a subsidiary or associate company such that the amount of the sale

exceeds the threshold specified in sub-clause (c) of clause (i) of sub-regulation (4) of regulation 30."

11.3.7. **Modification of event under Para A – Disclosure of new ratings**

New rating(s) may also be required to be disclosed under sub-para 3 of Para A in addition to the existing disclosure of revision in rating(s).

11.3.8. **Modification of event under Para A – Disclosure of fraud / defaults by director or senior management or subsidiary or arrest of director or senior management**

Sub-para 6 of Para A may be modified to include the following:

i. fraud/defaults by director of the listed entity (moved from sub-para 9 of Para B).

ii. fraud/defaults by senior management and subsidiary of the listed entity.

iii. arrest of director or senior management of the listed entity.

An explanation of the term 'default' may be added in sub-para 6 of Para A as defined in SEBI Circular no. SEBI/HO/CFD/CMD1/CIR/P/2019/140 dated November 21, 2019. It may be clarified that default by promoter, director, key managerial personnel, senior management, or subsidiary shall mean default which has or may have impact on the listed entity.

An inclusive definition of 'fraud' may be added as defined under regulation 2(1)(c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003.

It may also be clarified that fraud/default/arrest is required to be disclosed whether it has happened in India or abroad.

11.3.9. **Modification of event under Para A – Disclosure of change in senior management**

Disclosure of change in senior management may be added in sub-para 7 of Para A.

11.3.10. **Modification of event under Para A – Deletion of disclosure pertaining to reference to Board for Industrial and Financial Reconstruction (BIFR)**

Reference to BIFR may be deleted from sub-para 11 of Para A.

11.3.11. **Modification of event under Para A – Prior intimation of schedule of analysts or institutional investors meet**

Disclosure of schedule of analysts or institutional investors' meets specified in sub-para 15 of Para A may be required to be made at least two working days in advance (excluding the date of the intimation and the date of the meet).

11.3.12. **Addition of event under Para B – Disclosure of delay or default in payment of fines, penalties and dues**

"Delay or default in payment of fines, penalties, dues, etc. to any regulatory, statutory, enforcement or judicial authority."

11.3.13. **Modification of event under Para B – Disclosure of arrangements for tie-up, adoption of new line(s) of business and closure of operation**

Disclosure of closure of operations of any subsidiary of the listed entity may be added in sub-para 2 of Para B. Further, disclosure of arrangements for tie-ups, adoption of new line of business, and closure of operations may be required to be disclosed even when it does not change the general character or nature of business of the listed entity.

11.3.14. **Modification of event under Para B – Disclosure of loan agreements as a lender**

Loan agreements by listed entities as a lender, which are binding and not in normal course of business, may be added in sub-para 5 of Para B. Further, it may be clarified in the Continuous Disclosure Requirements Circular that in case outstanding loans lent to a party or borrowed from a party become cumulatively material, then the same shall also be required to be disclosed.

11.3.15. **Modification of event under Para B – Deletion of disclosure of regulatory actions**

Regulatory actions may be deleted from sub-para 8 of Para B as it is proposed to be moved to Para A along with actions taken by statutory, enforcement and judicial authorities.

11.3.16. **Modification of event under Para B – Deletion of disclosure of fraud / defaults by directors**

Fraud/default by directors may be deleted from sub-para 9 of Para B as it is proposed to be moved to Para A. Hence, sub-para 9 of Para B shall cover fraud/defaults, etc. by employees of the listed entity. Further, it may be clarified that default by employees shall mean default which has or may have impact on the listed entity.

11.3.17. **Modification of event under Para B – Disclosure of guarantees, indemnity or surety, by whatever name called**

Giving of guarantees or indemnity or becoming a surety for any third party may be required to be disclosed including when called by any other name. Further, it may be clarified in the Continuous Disclosure Requirements Circular that in case outstanding guarantees, indemnity or surety for a third party become cumulatively material, then the same shall also be required to be disclosed.

11.3.18. **Modification of Continuous Disclosure Requirements Circular – Disclosure of revision in ratings**

Revision in ratings may be required to be disclosed even if it was not requested for by the listed entity or the request was made but later withdrawn by the listed entity.

It is clarified that revision in rating outlook without revision in rating score is also required to be disclosed.

ESG ratings by registered ESG Rating Providers and changes therein shall also be required to be disclosed.

11.3.19. **Modification of Continuous Disclosure Requirements Circular – Disclosure of litigations / disputes**

Litigations / disputes pertaining to subsidiary, director or senior management of the listed entity may also be required to be disclosed. Further, it may be clarified that in case ongoing litigations / disputes with an opposing party become cumulatively material, then the same shall also be required to be disclosed.

12. Prior intimation of schedule of analysts or institutional investors meet

12.1. Issue under consideration

12.1.1. Disclosure of schedule of analysts or institutional investors' meets to stock exchanges under sub-para 15 of Para A to be made at least two working days in advance (excluding the date of the intimation and the date of the meet) was proposed in the consultation paper. The objective is to remove ambiguity arising out of absence of any timeline specified under current provision and to provide sufficient time to investors to register and participate in the meets.

12.1.2. Disclosure of schedule of analysts or institutional investors' meets is also specified in clause (o) of sub-regulation (2) of regulation 46 of LODR for dissemination on the website of the listed entity.

12.1.3. Since timeline for prior intimation is proposed to be added in sub-para 15 of Para A, the same timeline may also be specified in clause (o) of sub-regulation (2) of regulation 46 of LODR for maintaining consistency in the LODR Regulations.

12.2. Proposal

12.2.1. Disclosure of schedule of analysts or institutional investors' meets on the website of the listed entity as specified in clause (o) of sub-regulation (2) of regulation 46 of LODR may be required to be made at least two working days in advance (excluding the date of the intimation and the date of the meet).

13. Disclosure of details of senior management in annual report of the listed entity

13.1. Issue under consideration

13.1.1. Disclosure of change in senior management in addition to the current requirement of disclosure of change in directors, key managerial personnel, auditor and Compliance Officer was proposed in the consultation paper.

13.1.2. One of the suggestions received on this proposal was to mandate disclosure of the details of existing senior management and any change therein as part of the quarterly CG Report.

13.1.3. As per Section 92 of the Companies Act, 2013, companies are required to disclose the particulars of their key managerial personnel along with changes therein during a financial year in the annual return. The web link of the annual return is required to be disclosed in the annual report.

13.1.4. Further, key managerial personnel are also disclosed as related parties in the annual reports of companies. However, there is no requirement for disclosure of the senior management and changes therein in the annual report.

13.1.5. Details of senior management are disclosed by issuers in the offer documents at the time of listing. For the benefit of the investors and to ensure continuity in the availability of information to the investors, particulars of senior management and changes therein during a financial year may be required to be disclosed in the annual report of the listed entities.

13.2. Proposal

13.2.1. Para C of Schedule V r/w Regulation 34(3) of LODR Regulations stipulates various disclosures in the section on the corporate governance of the annual report including disclosures pertaining to composition and functioning of the board of directors and its

committees, remuneration of directors, general body meetings, general shareholder information and other disclosures.

13.2.2. In view of the above, the following may be added as a disclosure requirement in the section on the corporate governance of the annual report of a listed entity:

"particulars of senior management including the changes therein since the close of the previous financial year."

14. Proposed amendments to the LODR Regulations

14.1. In view of the above, it is proposed to amend the LODR Regulations as specified in para 5.5, 6.5, 7.5, 8.5, 9.5, 10.5, 11.3, 12.2 and 13.2 above.

14.2. Draft amendments to the LODR Regulations are placed as **Annexure 4**.

15. Proposal to the Board

15.1. The Board is requested to consider and approve the amendments to the LODR Regulations, placed as **Annexure 4**. These amendments are proposed to be made applicable within 30 days from the date of notification of the regulations or at a later date as specified in the specific regulations.

15.2. The Board is also requested to authorize the Chairperson to make consequential and incidental changes and take necessary steps to give effect to the decisions of the Board.

*****

Annexure 1

(Consultation paper is available on SEBI website)

Annexure 2

(This has been excised for reasons of confidentiality)

Annexure 3

Proposed amendments to events specified under Para A and Para B of Part A of Schedule III of LODR Regulations

1. Addition of event under Para A – Disclosure of announcements or communication by directors or promoters or key managerial personnel or senior management

1.1. **Issue under consideration**

1.1.1. Keeping track of all the announcements and communication made by the listed entity or its officials from time to time and through different media forums can be difficult and impractical for investors. It may give rise to information asymmetry despite the necessary announcement having been made by the listed entity at different forums. In general, such media announcements are made since they are considered significant from the perspective of the listed entity. Accordingly, for the benefit of the investors, mandating disclosure of all such announcements and communication at one place will promote equal access to information to all the stakeholders.

1.2. **Proposal in the consultation paper**

1.2.1. In view of the above, disclosure of the following was proposed to be added in Para A:

"Announcement or communication to any form of mass communication media by directors or promoters or key managerial personnel or senior management of a listed entity, in relation to the listed entity, which is not already made available in the public domain by the listed entity."

1.3. **Comments / suggestions received**

1.3.1. Majority of the comments received on this proposal (39 out of 65) are in agreement with addition of this event, however, some concerns have been raised regarding the vast ambit of the proposed requirement as below.

1.3.2. In today's digital world, company executives make lot of communication with a business objective. All mass communication made by these executives will burden the investors with information which is of no significance for them to take an informed investment decision.

1.3.3. It would be difficult to keep track of communications made by all executives especially senior management. Information shared by senior management will not have the same weightage as others.

1.3.4. It has been suggested that the provision should be moved to Para B and should be made only if it materially impacts the Company's operations or share price.

1.3.5. Clarity has been sought on the term 'mass communication media'.

1.4. **Analysis**

1.4.1. All announcements or communication in relation to the listed entity were proposed to be disclosed. However, communication like advertising company's product, unless the product launch is material as per Regulation 30 of LODR, may not be required. Hence, the requirement may be only in relation to the events or information which are material in terms of Regulation 30 of LODR.

1.4.2. Senior Management are also integral part of a company's management and are privy to material information. Hence, announcements made by them should also be considered material.

1.4.3. Mass communication media may be specified as mainstream media and social media intermediaries since announcement or communication made through these channels may create information asymmetry amongst public.

1.5. **Proposal**

1.5.1. In view of the analysis above, the event proposed to be inserted in Para A has been modified as given below:

"Announcement or communication through social media intermediaries or mainstream media by directors, promoters, key managerial

personnel or senior management of a listed entity, in relation to any event or information which is material for the listed entity in terms of these regulations and is not already made available in the public domain by the listed entity.

Explanation – "social media intermediaries" shall have the same meaning as defined under the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021."

2. Addition of event under Para A – Disclosure of actions taken or initiated by regulatory, statutory, enforcement or judicial authority

2.1. **Issue under consideration**

2.1.1. Disclosure of "regulatory action(s) with impact" is presently specified under sub-para 8 of Para B. However, the Continuous Disclosure Requirements Circular does not explicitly specify the regulatory action(s) that need to be disclosed. Mandating such disclosures under Para A will provide necessary information to the investors.

2.2. **Proposal in the consultation paper**

2.2.1. In view of the above, disclosure of the following was proposed to be added in Para A:

"Action(s) taken or initiated by any regulatory, statutory, enforcement or judicial authority against the listed entity or its directors or key managerial personnel or senior management or promoter or subsidiary, in relation to the listed entity, towards the following: suspension; imposition of fine/penalty; settlement of proceedings; debarment; disqualification; closure of operations; sanctions imposed; warning or caution; search or seizure; inspection; investigation into affairs of the entity; and re-opening of accounts under section 130 of the Companies Act, 2013."

2.2.2. Additionally, it was also proposed to specify disclosure of the following details along with the disclosure of the above mentioned event:

i. Name of the authority.

ii. Nature and details of the action(s) taken or initiated.
iii. Date of receipt of direction or order, including any ad-interim or interim orders, or any other communication from the authority.
iv. Details of the violation(s) committed.
v. Impact on financial, operational or other activities of the listed entity.

2.3. **Comments / suggestions received**

2.3.1. While majority of the commentators (50 out of 70) agree with addition of the proposed event, most commentators have raised concerns as given below.

2.3.2. The term ‘initiation’ may result into several unnecessary, unwanted, and potentially damaging disclosures by listed entities based on just allegations.

2.3.3. Actions taken may be divided into two parts – Para A may comprise of events such as investigation, search, seizure etc. and events such as inspection by statutory authorities, imposition of fines / penalties, sanctions imposed etc. may be moved to Para B.

2.3.4. Only material subsidiaries should be considered.

2.4. **Analysis**

2.4.1. Considering the concerns raised regarding disclosure of actions initiated, the same may be restricted to the following:
i. Search or seizure
ii. Re-opening of accounts u/s 130 of Companies Act.
iii. Investigations under the provisions of Chapter XIV of Companies Act.

2.4.2. Actions taken as proposed in the consultation paper may be added in Para A as such information is material for investors and other stakeholders for considering their investment / engagement decision with the listed entity.

2.4.3. Since only actions in relation to the listed entity are required to be disclosed,

2.5. **Proposal**

2.5.1. The proposed event to be inserted in Para A may be separated into action(s) initiated and action(s) taken as given below:

"Action(s) initiated by any regulatory, statutory, enforcement or judicial authority against the listed entity or its directors or key managerial personnel or senior management or promoter or subsidiary, in relation to the listed entity, in respect of the following: search and seizure, re-opening of accounts under section 130 of the Companies Act, 2013, or investigations under the provisions of Chapter XIV of the Companies Act, 2013."

"Action(s) taken by any regulatory, statutory, enforcement or judicial authority against the listed entity or its directors or key managerial personnel or senior management or promoter or subsidiary, in relation to the listed entity, in respect of the following: suspension; imposition of fine/penalty; settlement of proceedings; debarment; disqualification; closure of operations; sanctions imposed; warning or caution; or any other similar action(s) by whatever name called."

2.5.2. The following details are also proposed to be disclosed along with the disclosure of the events pertaining to action(s) initiated or action(s) taken:

i. Name of the authority.
ii. Nature and details of the action(s) taken or initiated.
iii. Date of receipt of direction or order, including any ad-interim or interim orders, or any other communication from the authority.
iv. Details of the violation(s)/contravention(s) committed or alleged to be committed.
v. Impact on financial, operation or other activities of the listed entity, quantified to the extent possible.

3. Addition of event under Para A – Disclosure of voluntary revision of financial statements or report of the board of directors of the listed entity

3.1. Issue under consideration

3.1.1. Revision of financial statements or report of the board of directors of a listed entity is a material event which may impact investment decisions of the investors. Mandating such disclosure under Para A will provide necessary information to the investors.

3.2. Proposal in the consultation paper

3.2.1. In view of the above, the following event was proposed to be added in Para A:

"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."

3.3. Comments / suggestions received

3.3.1. Most of the commentators (53 out of 57) have agreed with the proposed amendments.

3.4. Proposal

3.4.1. The event as proposed in the consultation paper may be added in para A.

4. Addition of event under Para A – Disclosure of letter of resignation of key managerial personnel or senior management or directors other than independent directors

4.1. Issue under consideration

4.1.1. At present, disclosure of letter of resignation, along with detailed reasons for the resignation, is mandated only in case of resignation of auditors and independent directors under sub-para 7A and 7B of Para A, respectively. Additionally, reasons for resignation of key managerial personnel, senior management and directors other than independent director is also material information for investors.

4.2. **Proposal in the consultation paper**

4.2.1. In view of the above, the following event was proposed to be added in Para A:

"In case of resignation of a key managerial personnel or a senior management or a director other than independent director, the letter of resignation along with detailed reasons for the resignation as given by the key managerial personnel or the senior management or the director shall be disclosed to the stock exchanges by the listed entities within seven days from the date of resignation."

4.3. **Comments / suggestions received**

4.3.1. While majority of the commentators (46 out of 61) have agreed with addition of this event, most commentators have raised concerns regarding disclosure of resignation letter of senior management for the reasons of confidentiality, reputational risk for the Company, information may not be significant or reason for resignation may be extremely personal in nature.

4.3.2. It has also been commented that the date of resignation and last working day may vary as per the mutual understanding between the employee and the company. It is also possible that concerned employee may decide to withdraw the resignation. Hence, it has been suggested that the time period should be changed to 7 days from the last working day or the date of acceptance of resignation rather than 7 days from the date of resignation.

4.4. **Analysis**

4.4.1. Reasons for resignation of senior management is also material information for the investors. Non-disclosure of such information to investors will create information asymmetry as some company officials will have the information on the reasons for resignation. It would also create anxiety and speculation in the market if such information is not disclosed.

4.4.2. In case of independent directors, the disclosure is required within 7 days of the date of resignation. However, in case of key managerial personnel, senior management and directors other than independent directors, the date of resignation may be different from the date of cessation (last working day). Hence, it may be specified that the disclosure is required within 7 days from the date such resignation comes into effect.

4.4.3. Further, sub-para 7 of Para A also requires disclosures pertaining to change in Compliance Officer. Hence, the disclosure of resignation letter may also be mandated in case of resignation of Compliance Officer.

4.5. **Proposal**

4.5.1. In view of the analysis above, the following event is proposed to be inserted in para A:

"In case of resignation of key managerial personnel, senior management, Compliance Officer, or director other than independent director, the letter of resignation along with detailed reasons for the resignation as given by the key managerial personnel, senior management, Compliance Officer or director shall be disclosed to the stock exchanges by the listed entities within seven days from the date such resignation comes into effect."

5. Addition of event under Para A – Disclosure of absence of Managing Director (MD) or Chief Executive Officer (CEO) of the listed entity

5.1. **Issue under consideration**

5.1.1. The MD / CEO of a company has significant roles and responsibilities in the management of the company who also instils confidence among the investors and other stakeholders regarding proper functioning of the company. 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.

5.2. **Proposal in the consultation paper**

5.2.1. In view of the above, the following event was proposed to be added in Para A:

"The Managing Director or the Chief Executive Officer of the listed entity is indisposed or unavailable to fulfil requirements of his/her role in a regular and consistent manner for more than one month."

5.3. **Comments / suggestions received**

5.3.1. While most commentators (53 out of 61) have agreed to addition of this event, certain modifications have been suggested:

i. Timeline should be continuous absence of 3 months.
ii. Clarity needed on when to disclose.
iii. Exemption should be provided in case MD/CEO is not available due to medical reasons, personal exigency, maternity leave, unforeseen incidents, planned leaves, etc.

5.4. **Analysis**

5.4.1. The MD / CEO of a company has significant roles and responsibilities in the management of the company who instils confidence among the investors and other stakeholders regarding proper functioning of the company.

5.4.2. A long absence period or frequent absence, which may not necessarily be continuous, raises concern on the proper functioning of a company and hence, is a material information for the investors. Hence, the disclosure may be required in case MD/CEO is indisposed or unavailable for more than 45 days in any rolling period of 90 days.

5.4.3. Further, reasons for absence may also be disclosed for the benefit of the investors.

5.5. **Proposal**

5.5.1. In view of the analysis above, the following event is proposed to be inserted in Para A:

"In case Managing Director or Chief Executive Officer of the listed entity was indisposed or unavailable to fulfil the requirements of the role in a regular manner for more than forty five days in any rolling period of ninety days, the same along with the reasons for such indisposition or unavailability, shall be disclosed to the stock exchange(s)."

6. Modification of event under Para A – Disclosure of acquisition and sale by the listed entity

6.1. Issue under consideration

6.1.1. At present, listed entity acquiring control, or five percent or more of the shares or voting rights in a company is required to be disclosed under sub-para 1 of Para A. However, there may be a situation where a listed entity acquires shares in a company without effecting any change in its shareholding in the company. This may occur due to equal investment in the company by all the shareholders of the company. Such an acquisition may however need to be treated as material event if the cost of acquisition exceeds the materiality threshold proposed to be inserted in regulation 30(4) of LODR.

6.1.2. At present, sub-para 1 of Para A requires disclosure of sale of disposal of any unit(s), division(s) or subsidiary of a listed entity. Additionally, sale of stake in an associate company or sale or disposal of an undertaking of the listed entity are also material information for the investors.

6.1.3. No explanation is provided for 'sale' or 'disposal' under sub-para 1 of Para A, especially with respect to subsidiaries or associate companies, which creates an ambiguity. Since any additional two percent acquisition of shares or voting rights in any company requires disclosure under sub-para 1 of Para A, the same threshold is proposed for selling of shares or voting rights of the subsidiary or associate company.

6.2. Proposal in the consultation paper

6.2.1. In order to address the first issue, it was proposed to specify in the explanation to sub-para 1 of Para A that the disclosure of acquisition shall also be required if the cost of acquisition exceeds the materiality threshold proposed to be inserted in regulation 30(4) of LODR. Further, it was proposed to clarify that acquisition can be in an existing company or in a newly incorporated company as well.

6.2.2. In order to address the second issue, it was proposed to add disclosure of sale of stake in an associate company and sale or disposal of the whole or substantially the whole of an undertaking(s)[1] of the listed entity by modifying sub-para 1 of Para A.

6.2.3. In order to address the third issue, it was proposed to add the following explanation in sub-para 1 of Para A:

"sale or disposal of subsidiary" and "sale of stake in associate company" shall include –

(i) ceasing control in the subsidiary; or,

(ii) sale or agreeing to sell more than two per cent of shares or voting rights in the subsidiary or associate company."

6.2.4. Additionally, comments were also sought on whether inter-se transfer of shares or voting rights in a subsidiary or an associate company between the listed entity and any of its wholly owned subsidiary(ies) which does not result in any change in the ultimate ownership of the shares or voting rights of the listed entity may be exempted from the above mentioned disclosure requirement.

6.3. **Comments / suggestions received**

6.3.1. Only 3 out of 64 commentators have disagreed to the proposed amendments. However, many commentators (36 out of the remaining 61) while agreeing have provided some suggestions which are briefed below:

[1] As defined under Section 180 of the Companies Act, 2013.

i. The terms ‘undertaking’ and ‘substantially the whole of the undertaking’ may be defined as per section 180 of the Companies Act, 2013 in the regulations.
ii. The words ‘whether existing or newly incorporated’ mean to suggest the same thing, i.e., existing company. Hence, words ‘to be incorporate’ may be used instead of ‘newly incorporated’.
iii. The threshold for making disclosure of acquisitions should be increased to 10% of consolidated turnover.
iv. Sale of stake in associate companies should not be added.
v. The threshold for making disclosure of sale or agreeing to sell shares or voting rights should be increased to from 2% to 10% of shares or voting rights.
vi. Only cessation of subsidiary or associate company should be included.

6.3.2. Most of the commentators (46 out of 61) have agreed to providing the exemption. It has been suggested to also exempt transfers among subsidiaries and associate companies which do not lead to change in the existing ownership of shares or voting rights of the listed entity, on a consolidated basis, by more than two percent.

6.4. **Analysis**

6.4.1. The suggestion pertaining to defining the terms ‘undertaking’ and ‘substantially the whole of the undertaking’ as per section 180 of the Companies Act, 2013 may be accepted since the same was also intended in the consultation paper.

6.4.2. The drafting suggestion regarding using the words ‘to be incorporated’ instead of ‘newly incorporated’ may be accepted since the intent was to cover acquisition of both existing as well as to be incorporated companies.

6.4.3. The threshold for cost of acquisition should be kept aligned with the materiality threshold proposed to be inserted in regulation 30(4) of LODR for consistency and to ensure that material information is disclosed to the investors.

6.4.4. Considering the comments and suggestions received on sale or disposal of subsidiary and sale of stake in associate company, disclosure of such sale may be required if changes the relationship between the subsidiary or associate company and the listed entity or the amount of sale exceeds the materiality threshold.

6.5. **Proposal**

6.5.1. Disclosure of acquisition under sub-para 1 of Para A may also be required if the cost of acquisition exceeds the materiality threshold proposed to be inserted in regulation 30(4) of LODR and in case of acquisition in both existing and to be incorporated companies.

6.5.2. Disclosure of sale of stake in an associate company and sale or disposal of any of the whole or substantially the whole of the undertaking of the listed entity may be added in sub-para 1 of Para A. An explanation may also be inserted as follows: “For the purpose of this sub-para, ‘undertaking’ and ‘substantially the whole of the undertaking’ shall have the same meaning as given under section 180 of the Companies Act, 2013.”

6.5.3. Explanation for “sale or disposal of subsidiary” and “sale of stake in associate company” may be inserted in sub-para 1 of Para A as below:

“For the purpose of this sub-para, ‘sale or disposal of subsidiary’ and ‘sale of stake in associate company’ shall include –
(i) agreement to sell or sale of shares or voting rights in a company such that the company ceases to be a wholly owned subsidiary, a subsidiary, or an associate company of the listed entity; or,
(ii) agreement to sell or sale of shares or voting rights in a subsidiary or associate company such that the amount of the sale exceeds the threshold specified in sub-clause (c) of clause (i) of sub-regulation (4) of regulation 30.”

7. Modification of event under Para A – Disclosure of new ratings

7.1. **Issue under consideration**

7.1.1. The Continuous Disclosure Requirements Circular specifies disclosure of both revision in ratings as well as new ratings. However, the text of sub-para 3 of Para A does not include new ratings.

7.2. **Proposal in the consultation paper**

7.2.1. In order to remove the above mentioned ambiguity, it was proposed that sub-para 3 of Para A which currently states 'Revision in Rating(s)' may be modified as 'New rating(s) or revision in rating(s)'.

7.3. **Comments / suggestions received**

7.3.1. Most of the commentators (48 out of 59) have agreed to the proposed amendments.

7.3.2. Other commentators have argued that many rating agencies have emerged in the recent times. Disclosure of unsolicited rating / revision in rating becomes too onerous which may also be abused to create false market impressions by malafide persons.

7.4. **Analysis**

7.4.1. The Continuous Disclosure Requirements Circular clarifies that the disclosure is required for any new rating or revision in rating assigned from a credit rating agency.

7.4.2. Hence, disclosure of new rating was already part of this disclosure requirement but not explicitly mentioned in Schedule III of LODR.

7.4.3. Further, the disclosure requirement would be applicable for ratings assigned by a credit rating agency registered with the Board.

7.5. **Proposal**

7.5.1. In view of the above, new rating(s) may also be required to be disclosed under sub-para 3 of Para A in addition to the existing disclosure of revision in rating(s).

8. Modification of event under Para A – Disclosure of fraud / defaults by director or senior management or subsidiary or arrest of director or senior management

8.1. **Issue under consideration**

8.1.1. At present, disclosure of fraud/defaults by listed entity or its key managerial personnel or promoter, and arrest of key managerial personnel or promoter are mandated under sub-para 6 of Para A.

8.1.2. Additionally, fraud/defaults by director or senior management of the listed entity, fraud/defaults by subsidiary of the listed entity, and arrest of director or senior management of the listed entity are also material information for investors. Further, such disclosures should be required even if the fraud / default / arrest has occurred abroad.

8.2. **Proposal in the consultation paper**

8.2.1. In view of the above, it was proposed to modify sub-para 6 of Para A to include the following:

i. fraud/defaults by director of the listed entity (moved from sub-para 9 of Para B).
ii. fraud/defaults by senior management and subsidiary of the listed entity.
iv. arrest of director or senior management of the listed entity.

8.2.2. Additionally, in order to remove ambiguity, an explanation of the term ‘default’ may be added in sub-para 6 of Para A as defined in SEBI Circular no. SEBI/HO/CFD/CMD1/CIR/P/2019/140 dated November 21, 2019.

8.2.3. It may also be clarified that fraud / default / arrest is required to be disclosed whether it has happened in India or abroad.

8.3. **Comments / suggestions received**

8.3.1. While majority of the commentators (51 out of 67) have broadly agreed with the proposals, most commentators have suggested change which are briefed below:

i. Default may be clarified to mean non-payment of interest or principal amount in full on the date when the debt has become

due and payable, and failure to correct such default for more than 30 days.

ii. Default definition may be amended to limit it to defaults in relation to listed entity and not in personal capacity.

iii. Only material subsidiaries should be included.

iv. Disclosure of fraud by senior management or subsidiaries which does not cross materiality threshold should not be included.

v. Definition of fraud may be clarified.

8.3.2. Some commentators have indicated that it would be difficult to keep in track of defaults made by all directors and senior management and all the frauds/defaults may not be material for disclosure.

8.4. **Analysis**

8.4.1. The definition of default has been reproduced from the SEBI Circular dated November 21, 2019 on disclosures by listed entities of defaults on payment of interest / repayment of principal amount on loans from banks / financial institutions and unlisted debt securities. As per the aforesaid Circular, such disclosures are required to be made not later than 24 hours from the 30th day of the default on loans and not later than 24 hours from the occurrence of default on unlisted debt securities. Hence, the concerns regarding timelines have already been addressed in the Circular.

8.4.2. The suggestion that default in personal capacity should not be covered may be accepted. Hence, it may be clarified in the sub-para that default by promoter, director, key managerial personnel, senior management, and subsidiary shall mean default which may have impact on the listed entity.

8.4.3. As suggested, fraud may be defined in the regulations. An inclusive definition of fraud may be added so as to cover any of the disqualifications specified in clause (b) of para (3) of Schedule II of SEBI (Intermediaries) Regulations, 2008 which includes filing of criminal complaint or information by the Board, filing of charge sheet by any enforcement agency, restraint, prohibition or debarment by the

Board or any other regulatory authority or enforcement agency, initiation of recovery proceedings by the Board, etc.

8.4.4. The suggestion on defining materiality of fraud/default may not be accepted as fraud / default as per the proposed definition are material information for investors.

8.5. **Proposal**

8.5.1. In view of the analysis above, it is proposed to modify the sub-para 6 of Para A as mentioned at para 8.2 above.

8.5.2. Further, it may be clarified that default by promoter, director, key managerial personnel, senior management, or subsidiary shall mean default which has or may have impact on the listed entity.

8.5.3. An inclusive definition of 'fraud' may be added as defined under regulation 2(1)(c) of SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003.

9. Modification of event under Para A – Disclosure of change in senior management

9.1. **Issue under consideration**

9.1.1. At present, disclosure of change in directors, key managerial personnel, auditor and compliance officer are mandated under sub-para 7 of Para A. However, change in senior management is not mandated to be disclosed. Given that details of senior management are required to be disclosed at the time of filing of public offer documents, change in such senior management is a material information for investors.

9.2. **Proposal in the consultation paper**

9.2.1. In view of the above, it was proposed to modify sub-para 7 of Para A to mandate disclosure in case of change in senior management.

9.3. **Comments / suggestions received**

9.3.1. Majority of the commentators (39 out of 65) while agreeing have broadly suggested that only critical senior management who are critical to the operations of the company and whose appointment, resignation, removal or otherwise change can have a significant market reaction for the listed entity, should be included.

9.3.2. Commentators disagreeing have broadly argued that companies typically hire professionals as senior management for specific roles assigned to them. While change in senior management is material within an organization, it is not material for investors.

9.3.3. It has also been suggested that in case of PSUs, senior management should be exempted as change may occur due to inter se transfers which are very frequent.

9.4. **Analysis**

9.4.1. Given that details of senior management are required to be disclosed at the time of filing of public offer documents, change in such senior management post listing is a material information for investors.

9.4.2. One of the suggestions received is that the listed entities may be asked to disclose the details of existing senior management and any change thereto as part of quarterly CG Report. This suggestion may be implemented in the corporate governance section of the annual report. The same has been discussed in para 12 of the Memorandum.

9.5. **Proposal**

9.5.1. In view of the above, disclosure of change in senior management may be added in sub-para 7 of Para A.

10. Modification of event under Para A – Deletion of disclosure pertaining to reference to Board for Industrial and Financial Reconstruction (BIFR)

10.1. **Issue under consideration**

10.1.1. In sub-para 11 of Para A, disclosure is required for reference to Board for Industrial and Financial Reconstruction (BIFR). However, BIFR is no

longer in existence. Further, disclosure of events in relation to the corporate insolvency resolution process (CIRP) has already been specified under sub-para 16 of Para A.

10.2. **Proposal in the consultation paper**

10.2.1. In view of the above, it was proposed to remove the requirement of disclosure of reference to BIFR from sub-para 11 of Para A.

10.3. **Comments / suggestions received**

10.3.1. Most of the commentators (49 out of 55) have agreed to the proposed amendment.

10.4. **Proposal**

10.4.1. Reference to BIFR may be deleted from sub-para 11 of Para A.

11. Modification of event under Para A – Prior intimation of schedule of analysts or institutional investors meet

11.1. **Issue under consideration**

11.1.1. Sub-para 15 of Para A requires disclosure of schedule of analysts or institutional investors' meet. This disclosure is required to be made prior to the investors' meet. However, no timeline has been specified for making such disclosures which creates ambiguity and also does not provide enough time to the investors to register and participate in such meets.

11.2. **Proposal in the consultation paper**

11.2.1. In view of the above, it was proposed to specify that the schedule of such meets should be disclosed at least two working days in advance (excluding the date of the intimation and the date of the meet).

11.3. **Comments / suggestions received**

11.3.1. While majority of the commentators (55 out of 60) agree with the proposal to insert the timeline for prior intimation, following suggestions have been made:

i. Two working days may be computed without excluding the date of intimation and the date of meet.
ii. Timeline should be reduced to one working day or 24 hours in advance.

11.3.2. It has also been commented that sometimes meetings will be arranged at a short notice and to give notice in advance may not be practically feasible.

11.4. **Analysis**

11.4.1. Sufficient time should be made available to the investors prior to the scheduled meet for consuming the information, registration, etc. Hence, timeline as proposed in the consultation paper may be specified for prior intimation of schedule of analysts or institutional investors meet.

11.4.2. Clause (o) of sub-regulation (2) of regulation 46 of LODR also contains the same provision as clause (a) of sub-para 15 of Para A for disclosure on the website of the listed entity. The same may also be amended in line with the amendment proposed to clause (a) of sub-para 15 of Para A.

11.5. **Proposal**

11.5.1. Disclosure of schedule of analysts or institutional investors' meets specified in sub-para 15 of Para A may be required to be made at least two working days in advance (excluding the date of the intimation and the date of the meet).

12. Addition of event under Para B – Disclosure of delay or default in payment of fines, penalties and dues

12.1. **Issue under consideration**

12.1.1. Delay or default in payment of fines, penalties, dues, etc., if material, may impact operations and/or performance of the entity. Hence, the same should be disclosed by listed entities for the benefit of the investors.

12.2. **Proposal in the consultation paper**

12.2.1. In view of the above, it was proposed to insert disclosure of delay or default in payment of fines, penalties, dues, etc. to any regulatory, statutory, enforcement or judicial authority under Para B.

12.3. **Comments / suggestions received**

12.3.1. Majority of the commentators (39 out of 58) have agreed to the proposed insertion of this sub-para.

12.3.2. Some suggestions given by other commentators are briefed below:

i. The provision should be applicable only if the delay or default has a material impact on the listed entity and is not under dispute by the listed entity.
ii. Delay or default in payment of dues like TDS, MSME, etc. should not be required to be disclosed as it is not material.

12.3.3. Some commentators have argued that the provision is too broad as there are many legal provisions wherein there may be delay but there would be no market impact.

12.4. **Analysis**

12.4.1. The event is proposed to be inserted in Para B which requires disclosure only if the event has material impact on the listed entity as per the criteria of materiality including the proposed materiality threshold.

12.4.2. Fines, penalties or dues which are under dispute but exceed the materiality threshold should also be disclosed by the listed entity. Any material dispute with impact is also required to be disclosed under sub-para 8 of Para B.

12.4.3. Although the provision is broad as it covers fines, penalties or dues by different types of authorities, the disclosure is required only if it meets the criteria of materiality and hence, is a material information for the investors.

12.5. **Proposal**

12.5.1. The following event is proposed to be inserted under Para B:

"Delay or default in payment of fines, penalties, dues, etc. to any regulatory, statutory, enforcement or judicial authority."

13. Modification of event under Para B – Disclosure of arrangements for tie-up, adoption of new line(s) of business and closure of operation

13.1. **Issue under consideration**

13.1.1. Sub-para 2 of Para B requires disclosure of material tie-ups, adoption of new line(s) of business and closure of operations. However, the above events are required to be disclosed by a listed entity only if they bring change in its general character or nature of business of the listed entity. This limitation may be removed since the events may be material even if they don't change the general character or nature of business.

13.1.2. Additionally, closure of operation of any subsidiary of the listed entity having material impact on the operations or performance of the entity is also significant event requiring disclosure.

13.2. **Proposal in the consultation paper**

13.2.1. In view of the above, it was proposed to modify sub-para 2 of Para B as below:

"Any of the following events pertaining to the listed entity:
(i) arrangements for strategic, technical, manufacturing, or marketing tie-up; or
(ii) adoption of new line(s) of business; or
(iii) closure of operation of any unit/division/subsidiary (entirety or piecemeal)"

13.3. **Comments / suggestions received**

13.3.1. While most of the commentators (43 out of 59) have agreed to the proposed amendments, some suggestions have been made which are given below.

13.3.2. Closure of operations should be restricted to material subsidiaries only as it will have direct implication on the financials of the listed entity.

13.3.3. Disclosure should be required only when there is a change in the general character or nature of business. Else, regular arrangements or contracts would also come under this ambit.

13.4. **Analysis**

13.4.1. This event is specified under Para B and hence, is required to be disclosed if it exceeds the materiality threshold. Hence, disclosure of closure of operations all subsidiaries should be required if has material impact on the listed entity.

13.4.2. Even if arrangements for tie-ups, adoption of new line of business or closure of operations does not change the general character or nature of business of the listed entity but exceeds the materiality threshold, it should be disclosed by the listed entity.

13.5. **Proposal**

13.5.1. In view of the above, as proposed in the consultation paper, disclosure of closure of operations of any subsidiary of the listed entity may be added in sub-para 2 of Para B. Further, disclosure of arrangements for tie-ups, adoption of new line of business, and closure of operations may be required to be disclosed even when it does not change the general character or nature of business of the listed entity

14. Modification of event under Para B – Disclosure of loan agreements as a lender

14.1. **Issue under consideration**

14.1.1. Sub-para 5 of Para B requires disclosure of material loan agreements in which the listed entity is a borrower and which are binding and not in normal course of business. However, material loan agreements in which the listed entity is a lender should also be disclosed to provide such material information to the investors.

14.2. **Proposal in the consultation paper**

14.2.1. In view of the above, it was proposed to remove the term ‘as a borrower’ in reference to loan agreements in sub-para 5 of Para B in order to mandate disclosure of all material loan agreement(s), which are binding and not in normal course of business, entered into by the listed entity either as a lender or as a borrower.

14.2.2. Additionally, it was proposed to add an explanation that disclosure of loan agreement for lending shall not be applicable to a listed entity which is a bank or a non-banking financial company.

14.2.3. Further, comments were also sought on whether loan agreement(s) for lending to wholly owned subsidiaries of the listed entity should be exempted from the above mentioned disclosure requirement.

14.3. **Comments / suggestions received**

14.3.1. While most of the commentators (41 out of 59) have agreed to the proposed amendments, some suggestions have been made which are given below.

14.3.2. Loans given to all subsidiaries should be exempted from disclosure as accounts of the subsidiaries are consolidated with the holding company and hence impact is already captured in the financials of the listed entity. Also, loans to subsidiaries are covered under the approval and disclosure requirements for related party transactions (RPTs).

14.3.3. Agreements between two government companies should be exempted as these may be entered into at the directives of the government.

14.3.4. The explanation which exempts lending by banks and NBFCs should be extended to housing finance companies (HFCs) as well.

14.3.5. Most of the commentators (54 out of 62) have agreed to providing the exemptions from disclosures to loan agreements for lending to wholly owned subsidiaries.

14.4. **Analysis**

14.4.1. This event is specified under Para B and hence, is required to be disclosed if it exceeds the materiality threshold. Further, only those agreements which are binding and not in normal course of business are required to be disclosed.

14.4.2. Since this disclosure requirement is already very restrictive, providing further exceptions to loans given to subsidiaries or agreements between two government companies may lead to non-disclosure of even material agreements.

14.4.3. Disclosure of loans given to subsidiaries would be covered under half-yearly disclosures of RPTs under regulation 23(9) of LODR. However, material loan agreements to subsidiaries should be immediately disclosed by the listed entity under regulation 30 of LODR.

14.4.4. Loan agreements which are in normal course of business are not required to be disclosed by the listed entity. Since, loans given by banks, NBFCs, HFCs as part of their business activities are in their normal course of business, such loans are exempted from disclosure under this provision. Hence, there is no need to provide specific exemption from this provision to loans given by banks, NBFCs or HFCs.

14.4.5. Since this disclosure requirement is already very restrictive as illustrated above, providing further exceptions to loans given to wholly owned subsidiaries may lead to non-disclosure of even material agreements.

14.4.6. It is also noted that loans may be given / borrowed by a listed entity to a party on a piecemeal basis. However, such outstanding loans given to / borrowed from a party may become material if taken together and hence, should be disclosed by the listed entity.

14.5. **Proposal**

14.5.1. In view of the analysis above, loan agreements by listed entities as a lender, which are binding and not in normal course of business, may be added in sub-para 5 of Para B. Further, it may be clarified in the

Continuous Disclosure Requirements Circular that in case outstanding loans lent to a party or borrowed from a party become cumulatively material, then the same shall also be required to be disclosed.

15. Modification of event under Para B – Deletion of disclosure of regulatory actions

15.1. Issue under consideration

15.1.1. Disclosure of regulatory actions is presently specified under sub-para 8 of Para B. However, since actions by regulatory, statutory, enforcement or judicial authorities are material information for investors, the same are proposed to be added under Para A as deemed material events.

15.2. Proposal in the consultation paper

15.2.1. In view of the above, it was proposed to remove the requirement of disclosure of regulatory actions from sub-para 8 of Para B.

15.3. Comments / suggestions received

15.3.1. Most of the commentators (47 out of 62) have agreed to the proposed amendments.

15.3.2. Some commentators have broadly suggested that the regulatory actions should be retained in Para B.

15.4. Analysis

15.4.1. Regulatory actions, along with actions taken by statutory, enforcement or judicial authorities, are proposed to be added in para A (deemed material events) as these are material information for the investors.

15.5. Proposal

15.5.1. In view of the above, regulatory actions may be deleted from sub-para 8 of Para B.

16. Modification of event under Para B – Deletion of disclosure of fraud / defaults by directors

16.1. Issue under consideration

16.1.1. Disclosure of fraud / defaults by directors is presently specified under sub-para 9 of Para B. However, since fraud / defaults by directors and arrest of director are material information for investors, the same are proposed to be added under Para A as deemed material event.

16.2. **Proposal in the consultation paper**

16.2.1. In view of the above, it was proposed to remove the requirement of disclosure of fraud / defaults by directors from sub-para 9 of Para B.

16.3. **Comments / suggestions received**

16.3.1. Majority of the commentators (38 out of 59) have agreed to the proposed amendments.

16.3.2. Some commentators have suggested that fraud / defaults by directors should be retained in Para B.

16.3.3. It has also been suggested that frauds / defaults by employees in personal capacity which do not have impact on the listed entity should be excluded.

16.4. **Analysis**

16.4.1. Fraud / defaults by directors has been proposed to be added to para A (deemed material event) as it would have a direct implication on the listed entity and should be disclosed to the investors without applying the criteria for materiality.

16.4.2. The suggestion that defaults in personal capacity should not be covered may be accepted. Hence, it may be clarified in the sub-para that default by employee shall mean default which may have impact on the listed entity.

16.5. **Proposal**

16.5.1. In view of the above, fraud / default by directors may be deleted from sub-para 9 of Para B as it is proposed to be moved to Para A. Hence, sub-para 9 of Para B shall cover fraud/defaults, etc. by employees of the listed entity. Further, it is proposed to clarify that default by

employees shall mean default which has or may have impact on the listed entity.

17. Modification of event under Para B – Disclosure of guarantees, indemnity or surety, by whatever name called

17.1. Issue under consideration

17.1.1. Sub-para 11 of Para B requires disclosure when the listed entity gives guarantees, indemnity or becomes a surety for any third party. The rationale of this disclosure is to inform investors about the material financial obligations on the listed entity for any third party. It is felt that companies may circumvent this requirement by naming the said financial obligations differently.

17.2. Proposal in the consultation paper

17.2.1. In order to cover all such material financial obligations, it was proposed to add in sub-para 11 of Para B, the words “by whatever name called” in reference to the guarantees, indemnity, or surety, which are required to be disclosed.

17.3. Comments / suggestions received

17.3.1. Most of the commentators (44 out of 59) have agreed to the proposed amendment.

17.3.2. Some suggestions given by other commentators are briefed below:

i. Only monetary guarantees / indemnity / surety should be covered and not non-monetary ones such as performance guarantees.
ii. Only guarantees which have been invoked by the counter party should be required to be disclosed.
iii. Guarantees / indemnity / surety given to related parties, particularly subsidiaries / associates, should be exempted as they are subject to half-yearly disclosures of RPTs.

17.4. Analysis

17.4.1. Both monetary and non-monetary guarantees / indemnity / surety bind the listed entity. If material, they should be disclosed to the investors.

17.4.2. Although all guarantees / indemnity / surety given to a related party would be required to be disclosed half-yearly, material ones should be disclosed immediately under regulation 30 of LODR for the information of the investors.

17.4.3. It is also noted that guarantees / indemnity / surety may be given to a third party on a piecemeal basis. However, such outstanding guarantees / indemnity / surety for a third party may become material if taken together and hence, should be disclosed by the listed entity.

17.5. **Proposal**

17.5.1. In view of the above, giving of guarantees or indemnity or becoming a surety for any third party may be required to be disclosed even when called by any other name.

17.5.2. Further, it may be clarified in the Continuous Disclosure Requirements Circular that in case outstanding guarantees, indemnity or surety for a third party become cumulatively material, then the same shall also be required to be disclosed.

18. Modification of Continuous Disclosure Requirements Circular – Disclosure of revision in rating

18.1. **Issue under consideration**

18.1.1. Credit rating agencies disclose on their websites, ratings or revision in ratings provided by them even if the same was not requested for by the listed entity or the request was later withdrawn. Hence, the disclosure of the same by the listed entity may be mandated under the details specified for sub-para 3 of Para A in Continuous Disclosure Requirements Circular in order to avoid information asymmetry.

18.2. **Proposal in the consultation paper**

18.2.1. In view of the above, it was proposed to add the following in the details specified for sub-para 3 of Para A in Continuous Disclosure Requirements Circular:

"The disclosure of rating or revision in rating shall be made even if it was not requested for by the listed entity or the request was withdrawn by the listed entity."

18.3. **Comments / suggestions received**

18.3.1. Majority of the commentators (37 out of 59) have agreed to the proposed amendments.

18.3.2. Some commentators have commented that disclosure of unsolicited rating / revision in rating becomes too onerous. Any ratings, which are determined by any rating agency on its own, cannot be commented by the company since there would have been no communication with the management in the rating process.

18.3.3. It has been suggested that revision in rating issued suo motu by the credit rating agencies or after withdrawal of the request may be required to be disclosed only on receipt of the revised rating or new rating by the listed entity.

18.4. **Analysis**

18.4.1. Considering the comments and suggestions, only revision in ratings which were not requested for by the listed entity or the request was withdrawn by the listed entity may be mandated to be disclosed. New ratings in such scenarios may not be mandated to be disclosed.

18.4.2. With regard to the concerns regarding the timeline for disclosure, it may be noted that Annexure II of the Continuous Disclosure Requirements Circular specifies that such event / information can be said to have occurred when a listed entity or its officer becomes aware of the event / information. Hence, the concerns regarding timeline for disclosure are already addressed in the aforesaid Circular.

18.4.3. It is also noted that credit rating agencies (CRAs) also disclose rating outlook, along with the rating score, which indicates their view on the expected direction of the rating movement in the near to medium term. As part of review of rating, CRAs may revise the rating outlook without revising the rating score. Revision in rating outlook indicates change in the expected direction of rating movement in future. Such revisions in rating outlook are disclosed by CRAs on their websites and hence, should also be disclosed by the listed entities to the stock exchange(s).

18.4.4. In recent years, there has been an increase in interest of stakeholders in examining Environmental, Social and Governance (ESG) – related issues. Accordingly, ESG ratings provided by registered ESG Rating Providers should also be disclosed by the listed entity.

18.5. **Proposal**

18.5.1. In view of the analysis above, revision in ratings may be required to be disclosed even if it was not requested for by the listed entity or the request was later withdrawn by the listed entity.

18.5.2. It may be clarified that revision in rating outlook without revision in rating score is also required to be disclosed.

18.5.3. ESG ratings by registered ESG Rating Providers may be required to be disclosed.

19. Modification of Continuous Disclosure Requirements Circular – Disclosure of litigations / disputes

19.1. **Issue under consideration**

19.1.1. At present, material litigations or disputes where the listed entity, or its key managerial personnel, or promoter, or ultimate person in control becomes a party are required to be disclosed as specified in the Continuous Disclosure Requirements Circular for disclosure under sub-para 8 of Para B.

19.1.2. In addition to the above, information pertaining to material litigations or disputes where the subsidiary or director of the listed entity becomes a party is also material information for investors.

19.2. **Proposal in the consultation paper**

19.2.1. In view of the above, the Circular was proposed to be modified to include instances where any subsidiary or director of the listed entity becomes party to any litigation, assessment, adjudication, arbitration or dispute in conciliation proceedings.

19.3. **Comments / suggestions received**

19.3.1. Majority of the commentators (38 out of 61) have agreed to the proposed amendments.

19.3.2. Suggestions by the commentators are given below:

i. Litigation(s) / dispute(s) may cover such actions against material subsidiaries but not all subsidiaries.
ii. For individuals, litigation in personal capacity which do not have any impact on the listed entity should be exempt.
iii. Such disclosures should be required only if they are against or adverse for the listed entity.
iv. Senior management should also be covered under the purview of this disclosure requirement since all other proposed amendments include senior management with directors and KMPs.

19.4. **Analysis**

19.4.1. This disclosure requirement is applicable if the litigation or dispute is expected to have a material impact on the listed entity as per the criteria of materiality. Hence, all subsidiaries and not just material subsidiaries should be covered.

19.4.2. The suggestion on inclusion of senior management may be accepted in order to align with other disclosure requirements wherein senior management are proposed to be included along with directors and KMPs.

19.4.3. It is also noted that certain litigations / disputes, for example, taxation related matters, may become cumulatively material even though individual litigation / dispute may not be material. Such litigations / disputes which cumulatively become material, i.e., exceed the materiality threshold, should also be disclosed by the listed entity.

19.5. **Proposal**

19.5.1. In view of the above, litigations / disputes pertaining to subsidiary, director or senior management of the listed entity may also be required to be disclosed.

19.5.2. Further, it may be clarified that in case ongoing litigations / disputes with an opposing party become cumulatively material, then the same shall also be required to be disclosed.

*****

Annexure 4

(This shall be notified at a later date)