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Navigating the SEBI LODR December 2024 amendment:

Key changes

31 January 2025

Introduction

The Securities and Exchange Board of India (SEBI) amended the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR) by way of SEBI (Listing Obligations and Disclosure Requirements) (Third Amendment) Regulations, 2024 (LODR Amendment) dated 12 December 2024 (published in the Gazette on 13 December 2024). The LODR Amendment had certain items which were subject to further prescription by SEBI. SEBI issued a circular on 31 December 2024 (December Circular) in this regard.

The LODR Amendment is based on: (a) the SEBI consultation paper titled 'Recommendations of the Expert Committee for facilitating ease of doing business and harmonization of the provisions of ICDR and LODR Regulations' based on the SK Mohanty-led expert committee report; and (b) the SEBI 'Consultation paper on measures towards Ease of Doing Business and streamlining compliance requirements for non-convertible securities – review of LODR Regulations'.

The LODR Amendment comes into effect on 13 December 2024 except 2 clauses, which are effective from 31 December 2024.

The key changes brought about by the LODR Amendment are as follows:

1. Streamlined related party transactions (RPT) regime to enhance ease of doing business (EODB) quotient

The LODR Amendment introduced significant changes to the RPT regime, aiming to streamline compliance and improve EODB. A summary of key changes is as follows:

(a) *Revised definition of RPT*: Certain exclusions have been introduced to make the definition more practical, for example: retail purchases made by directors or employees, provided that these are made under terms uniformly applicable and do not establish a business relationship. Further, it is clarified that the corporate actions excluded from the RPT regime (such as dividend payments, subdivision or consolidation of securities, issuance of rights or bonus shares, and buybacks), shall not be limited to such actions undertaken only by a listed entity itself.

(b) *Introduced post facto ratification of RPT by audit committee*: A post facto ratification process has also been introduced for related party transactions, where transactions do not exceed INR 1 crore in aggregate during a financial year and are not classifiable as material transactions can be ratified by the audit committee. In absence of the ratification, the RPT shall be voidable at the option of the audit committee. Further, if the RPT was authorised by a director or with any related party to any director, such director shall be liable to indemnify to the extent of loss incurred by the listed entity. These amendments bring alignment between the provisions of the Companies Act 2013 and LODR.

(c) *Made changes in audit committee approval matrix for RPT*: No audit committee approval will now be required for remuneration or sitting fees paid to directors, key managerial personnel (KMP), or senior management, as long as they are not classified as material RPTs. However, this exemption does not

extend to promoters or the promoter group. The new framework stipulates that remuneration and sitting fees need to be disclosed annually rather than in every periodic filing.

(d) *Omnibus approval regime extended to subsidiaries of listed companies:* Omnibus approval framework had been made applicable to RPTs to be undertaken by subsidiaries of the listed entity. These transactions will be subject to quarterly review.

(e) *Simplified disclosure process*: Consolidated the erstwhile half-yearly disclosure to stock exchange with the newly introduced Integrated Filings (Governance). The disclosure remains to be done on a half-yearly basis and same format, albeit with additional disclosure item on RPT rarified by audit committee.

2. Secretarial auditor brought at par with statutory auditor

Secretarial auditors have historically been tasked with preparation of: (a) secretarial audit reports for the listed entity and its material unlisted subsidiaries incorporated in India; and (b) secretarial compliance report for the listed entity. The LODR Amendment in a bid to align office of secretarial auditor with statutory auditor, has overhauled the provisions pertaining to secretarial auditor. A summary of key changes is as follows:

(a) *Introduced eligibility criteria and disqualifications for secretarial auditors and prescribed a list of prohibited services*: Under the new regime, only peer-reviewed company secretaries, whether individually or as part of a peer-reviewed practice unit of a firm of company secretaries, are eligible for appointment. Furthermore, continuous compliance with eligibility conditions is mandated. Any disqualification incurred post-appointment will lead to automatic vacation of office and be treated as a casual vacancy. Such a casual vacancy is required to be filled within 3 months by the board of directors. The secretarial auditor appointed to fill the casual vacancy shall hold office until the conclusion of the next annual general meeting (AGM).

(b) *Overhauled the appointment / reappointment and removal process*: Appointment / reappointment of secretarial auditors now requires recommendation by the board of directors and approval of shareholders at the AGM, with full disclosure of fees and rationale. Similarly, for removal of secretarial auditor, approval of shareholders at AGM is required.

(c) *Introduced term of office*: The term for individual auditors is limited to one term of five consecutive years, and for firms, a maximum of two terms of five years each. After this period, a cooling-off period of five years is required before reappointment.

Effective 1 April 2025: (a) listed entities should comply with new provisions pertaining to appointment, reappointment or continuation of secretarial auditor; and (b) secretarial compliance report issued after 1 April 2025 should be signed only by peer reviewed company secretary who is eligible to be secretarial auditor or a Secretarial Auditor appointed by the listed entity as per the amended regulations.

3. Elevated status of compliance officer

The LODR Amendment introduces changes regarding the qualifications and responsibilities of the compliance officer for listed entities. In addition to being a qualified company secretary, the compliance officer is now required to be in whole-time employment with the listed entity and must be one level below the board of directors in the organogram. This change ensures that the compliance officer has the necessary authority and direct access to the board for the effective oversight of compliance matters. Furthermore, the compliance officer is now statutorily designated as KMP, emphasising the importance of its role in ensuring corporate governance and regulatory compliance.

4. Simplified promoter reclassification process

The LODR Amendment has simplified the reclassification of promoters to public shareholders, by significantly reducing the time taken for the process by approximately 80 days. Under the new regime, for reclassification:

(a) the promoter seeking such reclassification is required to make an application along with the rationale and establishing that it does meet the criteria of promoter / promoter group;

(b) the board of directors is required to analyse such request and provide its views within two months (rather than erstwhile three months) or the next board meeting, whichever is earlier;

(c) within five days of the receipt of views of the board of directors, the listed entity is required to make an application to stock exchange(s) for no-objection certificate (NOC). In case of the listed entity are listed on more than one stock exchange the stock exchanges will jointly decide the securities 30 days from date of application (excluding time taken by listed entity to respond to queries). Previously there was no requirement to obtain NOC from stock exchange(s);

(d) within 60 days from the receipt of NOC, the listed entity shall seek shareholder approval in general meeting. At such general meeting, the promoter seeking reclassification and persons related to such promoter shall not be entitled to vote; and

(e) the shareholder approval is not required in case: (i) promoter seeking reclassification and persons related together do not hold more than 1% of the total voting rights; or (ii) reclassification is pursuant to a divorce.

Further, it has been clarified that reclassification process is no longer applicable in cases where the reclassification is part of a resolution plan, open offer, or scheme of arrangement, as long as the intention to reclassify is disclosed in the underlying documentation for these corporate actions.

Any non-compliance with the requirements of reclassification of promoter / promoter group entity, which will result in a fine levied at a rate of INR 5,000 per day.

5. Shared compliance burden

Listed entity has certain compliance and disclosure obligations which require information which does not emanate from the listed entity itself (for example: (a) disclosure of event of arrest of or legal action taken against director, promoter or KMP; and (b) maintaining accurate and updated records of related parties such as relatives of directors and KMPs). The LODR Amendment imposes the obligation on the promoters, directors, KMPs, and 'persons dealing with the listed entity', to disclose to the listed entity all relevant information with promptitude and accuracy.

6. Relaxation of timelines for director appointments in specific cases

The LODR prescribes strict timelines for appointment of directors or getting shareholder approvals for such appointments. The LODR Amendment has excluded the time involved in getting approvals from statutory or regulatory authorities for director appointments.

7. Aligned timelines for board committee vacancies and director appointment

The LODR Amendment has clarified the timelines for filling vacancies in board committees that arise due to director vacancies. Under the new regime, vacancies in board committees must be filled within three months from the date of such vacancy, ensuring a timely reconstitution of committees. However, this timeline does not apply to vacancies arising due to the expiration of a director's term, indicating that reconstitution of committees should not be kept pending for want of appointment of new director.

8. Rationalised time gap for record date

In a move to streamline corporate actions such as dividend declarations and share issuances, the LODR Amendment reduces the minimum time gap between the intimation of the record date and the actual record date. For both equity and debt-listed entities, this gap has been reduced to a minimum of three working days, compared to the previous seven-day requirement. Additionally, the gap between two record dates has been reduced from 30 days to just five working days.

9. Introduced integrated filings for seamless reporting

To simplify the disclosure process, SEBI has introduced the concept of Integrated Filings for listed entities, consolidating various compliance reports into two broad categories: Integrated Filings (Governance) and Integrated Filings (Financial). Integrated Fillings (Governance) integrates, *inter alia,* investor grievance redressal report and compliance report on corporate governance, and Integrated Fillings (Financial) integrates, *inter alia,* disclosure of related party transactions, outstanding default on loans / debt securities, statement of deviation and variation and financial results. These new Integrated Filings formats are effective

from the quarter ending 31 December 2024. It will streamline the submission process and reduce the burden of multiple filings. Under the new regime, listed entities will be required to submit Integrated Filings (Governance) and Integrated Filings (Financial) on a quarterly basis within 30 days and 45 days (except 60 days, in case of the last quarter) from the end of the quarter, respectively. There are corresponding amendments in the LODR to give effect to this integration of fillings.

10. Disclosure of outcome of board meetings made industry friendly

The LODR Amendment now provides a more flexible framework for disclosing the outcome of board meetings. While the general rule remains to disclose of event or information emanating from outcome of board meeting within 30 minutes from closure of meeting, flexibility has been provided depending on the hour the board meeting concludes. If the meeting closes after normal trading hours, such disclosure can be made required within three hours from closure of meeting. Except that in case financial results the disclosure with respect to approval of the financial results has to be made within 30 minutes or 3 hours from closure of meeting for the day on which financial results were discussed. The amendments also clarify which fund-raising activities need to be disclosed, including the issuance of securities, rights issues, and debt issues, among others, and excluding security receipts, securitized debt instruments, and money market instruments regulated by the Reserve Bank of India.

11. Updates in disclosure of event or information to stock exchanges

a. *Acquisition related disclosure*

The acquisition-related disclosure requirements have been revised with significant changes, including an updated definition of acquisition. The new thresholds specify that the acquisition or agreement to acquire shares or voting rights aggregating to 20% of total shareholding / voting rights, up from the previous limit of 5%, must be disclosed. Similarly, a change in holding exceeding 5% of total shareholding / voting rights, or 2% of total shareholding / voting rights, now warrants disclosure. Additionally, quarterly reporting as part of Integrated Filings (Governance) has been introduced for acquisitions involving shares or voting rights aggregating to 5% or more, or a change in holding exceeding 2% of total shareholding / voting rights.

The minimum information to be disclosed to the stock exchange has been prescribed for the acquisition of 'to be incorporated' companies.

b. *Fraud or default related disclosure*

Regarding the disclosures pertaining to fraud, the regulations for equity-listed entities have been clarified, specifying that a deemed material disclosure is warranted if a fraud involving senior management, excluding promoters, directors, or key managerial personnel, is related to the listed entity. For debt-listed entities, fraud or default disclosures have been aligned with those required for listed equity entities, ensuring consistency in reporting.

c. *Litigation related disclosure*

In the case of litigation-related disclosures, new timelines and reporting obligations have been introduced. An extended timeline of 72 hours from receipt of notice is now required to disclose claims against a listed entity for non-tax litigation maintained in the Systemic Disclosure Database (SDD). For tax litigation, it is clarified that new material litigations must be disclosed within 24 hours of receiving a notice, with quarterly reporting on material ongoing tax litigations or disputes required as part of integrated filings. Guidance has been provided on determining materiality, emphasising that the amount of tax payable assessed by authorities should be the basis for determining materiality, and litigations with correlated outcomes should be aggregated. Additionally, references to 'with an opposing party' have been removed to streamline the disclosure focus on the materiality of amounts involved in ongoing disputes.

d. *Penalty or fine related disclosure*

Penalty or fine related disclosures have also been revised per industry representations. New thresholds for disclosure now require fines or penalties of INR 1 lakh imposed by a sectoral regulator or enforcement agency, and fines or penalties of INR 10 lakh imposed by other authorities or judicial bodies, to be disclosed. De minimis disclosures, involving penalties or fines below the thresholds, must now be

compiled and reported quarterly as part of integrated filings. Separately, tax litigations or disputes, including demand notices, penalties, etc., are to be disclosed under pending litigation (under entry 8, Para B, Part A of Schedule III) subject to materiality, rather than as a matter of deemed material penalty (under entry 20, Para A, Part A of Schedule III). Additionally, as a matter of clarification, the reference to 'action initiated' has been removed from the disclosure requirements for disclosure event or information arising from certain identified action taken or orders passed by identified authorities (under entry 20, Para A, Part A of Schedule III).

e. *Disclosure with respect to analysts or institutional investors meet*

In respect of disclosures for analysts or institutional investors meet, the disclosure of names in the schedule of analysts or institutional investors is now optional. Timeline for uploading video recordings, if any, of such meeting has been extended to 48 hours from the conclusion of the call, up from the previous requirement of the next trading day or 24 hours. The timelines for publication on the website, as per Regulation 46, have been aligned accordingly.

12. Revamped website disclosure

SEBI has mandated that listed entities should publish: (a) memorandum and articles of association; (b) a brief profile of directors; and (c) employee benefit scheme documents on their websites. Considering that employee benefit scheme documents may contain commercial secrets and such other information that would affect competitive position of the listed entity, the listed entities may opt to redact such sensitive data with board approval, in a manner compliant with SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021 and SEBI's guidance under the circular dated 31 December 2024.

13. Eco-friendly approach to financial data distribution

The format for publishing quarterly financial results in newspapers has been simplified by the LODR Amendment, requiring publication of advertisement containing the QR code that links to the detailed financial results on the company's website. Similarly, there is also an option for the listed entities to now send a letter to its stakeholders containing a web link to their annual reports, instead of physically mailing hard copies to shareholders who have not registered email addresses.

Conclusion

With the introduction of the LODR Amendment, India has taken a significant step toward streamlining regulatory compliance and nurturing growth. By aligning key regulatory frameworks and introducing growth-enabling reforms, it creates a more accessible and efficient environment for companies. This enhanced ease of doing business promises to drive economic growth, increase investment, and offer businesses an environment where they can flourish and scale effectively.

To ensure that the full potential of the LODR Amendment is realised, timely clarification on the transition to the new regime will be crucial. Clear guidance will facilitate a smooth implementation, allowing businesses to adapt seamlessly to the updated framework.

- *Sharad Abhyankar (Partner); Sudhir Bassi (Executive Director) and Saranya Mishra (Senior Associate)*

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