SEBI

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Proposed changes to SEBI LODR Regulations relating to reporting of material events

SEBI has released a Consultation Paper on 12th November 2022 proposing several changes to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 relating to reporting of material events.

Listed entities are required to report on specified material events/developments within the prescribed time and manner. Broadly stated, the Regulations have divided these requirements into two categories. In the first category falls certain events/developments that are deemed to be material and the entity does not have any discretion with regard to reporting. In the second category falls certain events/developments which the entity has to examine with reference to its policy on materiality and, if found to be material, should be reported.

SEBI has perceived several inadequacies and concerns on the present set of requirements and hence has proposed several changes. Some of the important ones are highlighted below:

1. To avoid uncertainty and also possible non-reporting of events that may be material, SEBI has proposed certain quantitative criteria which, if exceeded by any of the specified developments, would be deemed to be material. Accordingly, SEBI has proposed that if the figures arrived as per formulae laid down are exceeded by the specified developments, the development would be deemed to be material and hence require reporting. The three figures are two percent of turnover, two percent of net worth or five percent of average net profits of last three years.
2. It is now required that the materiality policy should be framed in such a manner that employees are guided on determining whether a key material development has taken place and hence they may escalate the same to the Key Managerial Personnel of the company who may decide whether such development is material as defined in the Regulations and hence require reporting.
3. SEBI has proposed reduction of timelines within which certain events should be reported. For example, for certain events, the existing time limit of reporting has been reduced from 24 hours to 12 hours.
4. It is often found that there are rumours or speculations in the market/media that certain material developments have taken place with regard to a company. Such rumours may result in uncertainty and at times even panic, unless clarified on by the company. At the same time, it is not only difficult for companies to keep track of all such rumours/gossip/speculation but also may not find it advisable to give premature clarifications. SEBI has proposed that if any matter has been reported in mainstream media, the company should clarify on the same. This requirement, however, initially would be placed only on the top 250 listed companies determined on the basis of market capitalization.
5. SEBI proposes to give specific actions taken against the listed entity or its directors, promoters, etc. by regulatory, statutory, enforcement or judicial authority which would be required to be reported. These include suspension, imposition of fine/penalty, debarment, etc.
6. Voluntary revision of the financial statements or the report of the Board of Directors would be required to be reported.
7. More specific minimum threshold is sought to be provided with regard to acquisition of shares in a company, sale/disposal of a unit/division/subsidiary of the listed entity.
8. The requirement relating to reporting of rating by credit rating agencies is sought to be expanded and ratings or their revision would be required to be reported even if not requested by the company or, where requested, even if the request was withdrawn.
9. The categories of persons with regard to whom frauds/defaults are required to be reported is now sought to be expanded.
10. Presently, disclosure of change in directors, key managerial personnel, auditor and compliance officer is required to be reported. It is now proposed that change in senior management should also be reported.
11. It is proposed that to increase the advance time for informing when meetings of investors or analysts is scheduled. This may give opportunity for more persons to participate/attend.
12. Cyber security incidents, breaches, etc. would now be required to be reported. However, more time would be given to the entity for such reporting to help ensure that such incidents are brought under control as reporting them too soon may invite more breaches.

There are other changes also proposed. SEBI has invited comments on the recommendations made. After due consideration of such feedback, SEBI may make necessary amendments to the Regulations and also provide the date from which the changes will come into effect.