

CHAPTER 3

Regulatory updates

Updates related to verification of market rumour provisions

Regulation 30(11) of the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations) require listed entities to confirm, deny or clarify market rumours which are reported in the mainstream media. The rumour verification requirement is applicable to the top 100 listed entities with effect from 1 June 2024 and to top 250 listed entities with effect from 1 December 2024.

In order to facilitate a uniform approach for verification of market rumours by equity listed entities, on 17 May 2024, SEBI issued the SEBI Listing Obligations and Disclosure Requirements (Amendment) Regulations, 2024 (LODR Amendments) amending provisions related to market rumours.

Following are the key takeaways from the amendments:

- **Criteria for verification of market rumors:** As per the existing regulation, only rumours pertaining to 'material' events or information require verification by the listed entity. However, the amended provisions provide that the market rumour should be verified if there is a material price movement in the securities of the listed entity.
- **Consideration of unaffected price:** The amended regulation provides that unaffected price should be considered for transactions on which pricing norms are specified by SEBI regulations or the stock exchanges are applicable, provided that the rumour pertaining to such transaction has

been confirmed within 24 hours from the trigger of material price movement.

Regulation 30(11) lists down the following SEBI Regulations and provisions, where pricing norms have been prescribed:

- Chapter V or Chapter VI of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018
- Regulation 8 or Regulation 9 of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
- Regulation 19 or Regulation 22B of the Securities and Exchange Board of India (Buy-back of Securities) Regulations, 2018

- Any other pricing norms specified by the Board or the stock exchanges.

Further, the regulation specified that the unaffected price shall be considered by excluding the effect on the price of the equity shares of the listed entity due to the material price movement and confirmation of the rumour.

- **Obligation on promoters, directors, Key Managerial Personnel (KMP) and senior management:** The amendment requires promoters, directors, KMP and senior management to provide timely response to the listed entity for verifying a market rumour.



Consequent to amendment to LODR Regulation, SEBI on 21 May 2024, issued following notifications to provide further guidance in this regard:

I. Industry Standards on verification of market rumour: With an aim to facilitate uniform approach and assist listed entities in complying with their obligations in respect of requirements relating to market rumour, certain industry associations¹ have formed the Industry Standards Forum (ISF). The ISF has formulated industry standards, in consultation with SEBI, for effective implementation of the requirements. The Industry Standards Note (ISN) issued by ISF lays down standard operating procedures for compliance with the rumour verification requirement to be followed by listed entities. The ISN is divided into three parts:

- Part A – General aspects
- Part B – Aspects related to Mergers & Acquisitions transactions
- Part C - Aspects related to Non-Mergers & Acquisitions transactions.

II. Framework for material price movement:

In order to ensure compliance with the criteria of material price movement for verification of market rumours, the NSE and the BSE along with SEBI, have formulated the framework to be complied by listed entities for rumour verification upon material price movement.

The framework lays down the parameters for material price movement, illustrations of variations that should be treated as material price movement in case of positive/negative rumour and the monitoring measures to be implemented by the stock exchanges.

III. Framework for considering unaffected price: Considering the above-mentioned requirements relating to unaffected price, SEBI through its circular dated 21 May 2024, issued the detailed framework for determining unaffected price by listed entities.

(Source: SEBI notification nos. SEBI/LAD-NRO/GN/2024/177 dated 17 May 2024, SEBI/HO/CFD/CFD-PoD-2/P/CIR/2024/51 and SEBI/HO/CFD/CFD-PoD-2/P/CIR/2024/52 dated 21 May 2024 and NSE circular no NSE/SURV/62122 dated 21 May 2024.)



1. The Industry Standards Forum (ISF) comprises of representatives from three industry associations, viz. ASSOCHAM, CII and FICCI, under the aegis of the stock exchanges.

Amendments to SEBI LODR Regulations

On 17 May 2024, SEBI issued certain other amendments to SEBI LODR Regulations.

The key amendments pertain to the following:

I. Average market capitalisation criteria (Regulation 3):

- Currently, the applicability of certain provisions of the LODR regulations is determined as on 31 March i.e. based on a single day's market capitalisation. The amendment introduced following related to average market capitalisation criteria:
- Market capitalisation-based requirement should be determined on the basis of average market capitalisation from 1 July to 31 December, instead of single day's (i.e 31 March) market capitalisation. Every stock exchange on 31 December of every year would prepare the ranking of listed entities basis the average market capitalisation.
 - Consequently, the relevant provisions would be applicable to listed entities from 1 April or from the beginning of the immediate next financial year, whichever is later.

- With respect to reporting of Business Responsibility and Sustainability Reporting (BRSR) (or assurance under BRSR Core), a listed entity should put in place systems and processes to capture the data to be reported within a period of three months from 31 December and thereafter a glide path of one year is provided for BRSR reporting (or assurance under BRSR Core) in the annual report.

- Sunset clause of three years for cessation of applicability of market capitalisation-based provisions has been introduced.

This amendment is effective from 31 December 2024.

- ### II. Gap between meetings of the Risk Management Committee (RMC) (Regulation 21):
- The maximum permitted time gap between two consecutive meetings of the RMC has increased from 180 days to 210 days. This amendment is effective from 17 May 2024.

- ### III. Timeline for applicability of LODR Regulations to High Value Debt Listed Entities (HVDLEs) (Regulation 15):
- The timeline for mandatory applicability of certain provisions of the LODR Regulations² and compliance thereof, by HVDLEs has been extended till 31 March 2025 (*earlier 31 March 2024*). This amendment is effective from 17 May 2024.

- ### IV. Vacancies of Key Managerial Personnel (KMP) (Regulation 26A):
- The timeline for filling up vacancy in the office of an KMP wherein approval of statutory authorities is required, has been extended from three months to six months.

The KMP for this regulation includes Chief Executive Officer, Managing Director, Whole Time Director or Manager and Chief Financial Officer. This amendment is effective from 17 May 2024.

- ### V. Timeline for prior intimation of board meetings (Regulation 29):
- The timeline for prior intimation of board meetings has been reduced to two working days (*as per*

previous requirement, timeline for giving prior intimation varies from two working days to a maximum of 11 working days). The amendment further states that prior intimation is not required for determination of issue price for fund raising done through qualified institutions placement as per ICDR Regulations. Additionally, it has been notified that prior intimation would be required only for fund-raising proposals that involve issue of securities. This amendment is effective from 17 May 2024.

(Source: SEBI notification no SEBI/LAD-NRO/GN/2024/177 dated 17 May 2024)



2. Regulation 16 to 27 of SEBI LODR Regulations

Amendments to SEBI ICDR Regulations

On 17 May 2024, SEBI issued the SEBI Issue of Capital and Disclosure Requirements (Amendment) Regulations, 2024 (ICDR Amendments) to amend the SEBI ICDR Regulations, 2018.

The key ICDR amendments pertain to the following:

I. Non-individual shareholders permitted to contribute towards Minimum Promoters' Contribution (MPC)

(Regulation 14): Currently for determination of MPC, promoters of a company should hold at least 20 per cent of the post-offer paid-up equity share capital on a fully-diluted basis. In case of any shortfall, certain class of investors³ are permitted to contribute equity shares to meet the shortfall subject to a maximum of 10 per cent, without being identified as a promoter.

The amendment permits any non-individual shareholders holding at least five per cent of the post-offer equity share capital or any entity (individual or non-individual) forming part of promoter group other than the promoter(s) to contribute towards MPC without being identified as a promoter.

II. Compulsorily convertible securities included for computation of MPC

(Regulation 15(1)(b)): The amendment provides that equity shares arising from the conversion of fully paid-up compulsorily convertible securities held for at least one year before filing the Draft Red Herring Prospectus (DRHP) are included for determination of MPC. It also provides that the compulsorily convertible securities should be converted into equity shares prior to the filing of the Red Herring Prospectus (RHP).

III. Extension of the bid/offer closing date (Regulation 46(3)): As per existing provisions, in case of force majeure events, issuer companies could extend the bidding period disclosed in the offer document by a minimum period of three working days. The amendment has reduced the minimum period for extension to one working day in case of any force majeure events.

IV. Fresh filing for Offer For Sale (OFS):

With respect to increase or decrease in OFS, the requirement of fresh filing should be based on one of the criteria i.e. either issue size in INR or the number of shares, as disclosed in the draft offer document and not on both the criteria.

The above-mentioned ICDR amendments are effective from 17 May 2024.

(Source: SEBI notification no SEBI/LAD-NRO/GN/2024/178 dated 17 May 2024)



3. Alternative investment funds, foreign venture capital investors, scheduled commercial banks, public financial institutions or insurance companies registered with Insurance Regulatory and Development Authority of India (IRDAI) are permitted

Consultation paper on BRSR core provisions

As per Regulation 34(f) of the LODR Regulations, the top 1,000 listed entities in India are mandatorily required to file the Business Responsibility and Sustainability Reporting (BRSR) as a part of their annual report from Financial Year (FY) 2022-23 onwards. Further, in June 2023 SEBI introduced the assurance and disclosure requirement of BRSR Core for listed entities including its value chain in a phased manner beginning with top 150 listed entities from financial year 2023-24.

Considering the feedback from the stakeholders, SEBI in 2023 formed an expert committee to review the provisions of LODR Regulations and ICDR Regulations, to facilitate ease of doing business. The expert committee, *inter alia*, deliberated on the regulatory framework of BRSR as a part of reviewing the LODR Regulations.

Basis the recommendations of the committee, on 22 May 2024, SEBI issued a consultation paper to propose changes to provisions relating to requirements of BRSR and BRSR Core under LODR Regulations.

The key proposals issued are as follows:

I. Redefining value chain partners

The existing BRSR framework requires a listed entity to report the parameters as per BRSR Core for its value chain to the extent it is attributable to their business with that value chain partner. The ESG disclosures for the value chain is applicable to the top 250 listed entities (by market capitalisation), on a comply-or-explain basis from FY 2024-25. Further limited assurance requirements are applicable on a comply or-explain basis from FY 2025-26.

SEBI has proposed the following changes to the framework with respect to value chain reporting:

- Value chain should include upstream and downstream partners of a listed entity that individually account for 2 per cent or more of the listed entity's purchases or sales by value.
- As an additional alternative, SEBI has also proposed a cumulative threshold of 75 per cent of the listed entity's

purchases or sales by value, in addition to the individual 2 per cent threshold for defining value chain partners.

- Listed entities would be required to disclose the percentage of total sales and purchases covered by the value chain partners for which ESG disclosures are provided.
- A 'voluntary disclosure' approach has been proposed rather than a 'comply or explain' approach for ESG disclosures for the value chain and its assurance.

II. Substitution of the term 'Assurance' with 'Assessment'

With an aim to provide flexibility to listed entities, SEBI has proposed to substitute the term 'assurance' with 'assessment' in LODR Regulations and SEBI circulars on BRSR. The applicability of this proposal is as follows:

- **Financial year 2023-24:** Listed entities can choose to either undertake an 'assessment' or 'reasonable assurance' of BRSR Core disclosures.

- **Financial year 2024-25:** Assurance requirement will be replaced with assessment of BRSR Core.

III. Inclusion of green credit in BRSR

In October 2023, the Ministry of Environment, Forest and Climate Change (MoEFCC) introduced a green credit program through Green Credit Rules, 2023, which includes eight activities for environmental preservation and protection. Subsequently, on 22 February 2024, the MoEFCC notified the methodology for calculation of green credit in respect of tree plantation under the green credit program.

Considering the requirements, SEBI has proposed to include disclosure of green credits under leadership indicator of BRSR. The disclosure should provide details of the green credits generated by the company and by its value chain partners.

(Source: SEBI issued consultation paper on the recommendations of the expert committee for facilitating ease of doing business with respect to Business Responsibility and Sustainability Report (BRSR) dated 22 May 2024)

Instances of non-compliances highlighted by QRB

The Quality Review Board (QRB) conducts quality reviews of audit services provided by audit firms to assess the quality of audit and reporting by the statutory auditors and the quality control framework adopted by the audit firms in conducting audit.

In this regard, on 9 May 2024, the Institute of Chartered Accountants of India (ICAI) has issued a guidance on non-compliances observed by QRB during such quality reviews. The publication is divided into two parts:

- Part 1: Contains the observations related to Engagement and Quality Control Standards (*classified standard wise*)
- Part 2: Contains the observations related to CARO and internal financial controls (*classified topic wise*).

(Source: ICAI announcement dated 9 May 2024)

Ind AS disclosure checklist

The ICAI has issued the Ind AS - Disclosures Checklist to provide guidance related to relevant disclosures required under Ind AS to prepare and present financial statements. The checklist acts as a ready reference of disclosure requirements under Ind AS and includes the amendments in Ind AS which are effective from 1 April 2023. The checklist contains only disclosure requirements, therefore, it should be read together with the standards, regulatory requirements and related guidance material.

(Source: ICAI announcement issued in April 2024)



Draft rules to regulate payment aggregators

Payment Aggregators (PAs) are entities that play a key role in facilitating the digital ecosystem through transactions online and over point-of-sale terminals. The existing regulations⁴ covering the payment landscape provide a framework for PAs executing online/e-commerce transactions. These regulations do not cover offline PAs who handle proximity/face-to-face transactions and play a significant role in the spread of digital payments.

On 16 April 2024, the Reserve Bank of India (RBI) issued draft directions for regulation of PAs that facilitate offline payments. The proposed regulation promotes transparency and integrity in the payment eco-system. Further, it is in addition to the existing regulatory framework applicable to PAs that facilitate e-commerce transactions.

The draft directions have been issued in the following two parts:

- New draft directions on regulation of PAs – Physical point of sale (PAPs)

- Amendments to the existing regulatory framework on PAs

Some of the key proposals in the draft guidelines are as follows:

- **Updated definition of PA:** The definition of payment aggregator has been revised to include both online and offline transactions, with focus on aggregation of payments through a merchant's interface.
- **Entry requirements:** The draft guidelines have proposed non-bank Physical point of Sale (PAPs) to get RBI authorisation for operating the offline payment aggregation business by 31 March 2025. Non-bank online PAs also need RBI authorisation for their offline payment aggregation activity in case they continue with the same.

Additionally, all non-bank PAs are required to register with the Financial Intelligence Unit – India (FIU-IND) and provide the relevant information.

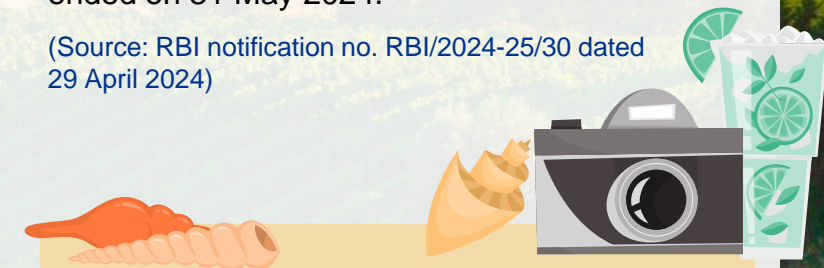
- **Minimum net-worth requirement:** All PAPs are required to maintain a minimum net-worth of INR15 crore at the time of submission of the application for authorisation to the RBI and INR25 crore by 31 March 2028 and always maintain such net-worth thereafter.
- **Usage of escrow account:** An escrow account is a third-party account that holds funds till both buyer and seller fulfil the contractual terms. The draft guidelines propose non-bank PAs to route their online and offline activities through escrow accounts in order to streamline the collection and settlement process.
- **KYC for merchants:** The draft directions bifurcate the payment aggregator merchants under the category of small⁵ and medium⁶ merchants.
 - In case of small merchants, the PAs need to conduct due diligence by verifying the physical premises operated by them. Additionally, verification of the

bank account used for settlement of funds is required.

- In case of medium merchants, the PAs need to obtain a valid document of the beneficial owner/proprietor and business in addition to the physical verification of the premise operated by the merchant.
- **Storage of card details:** The draft directions have proposed to extend the restrictions of storage of card details to offline transactions as well. Additionally, the PAPs are required to remove the previously stored card details. These conditions are proposed to be effective from 1 August 2025.

The comment period on the draft regulations ended on 31 May 2024.

(Source: RBI notification no. RBI/2024-25/30 dated 29 April 2024)



4. RBI circular RBI/2022-23/94 dated 28 July 2022

5. Small merchants have a business turnover of less than INR 5,00,000 per annum and are not registered under the GST regime

6. Medium merchants have a business turnover of more than INR 5,00,000 but less than INR 40,00,000 per annum and are not registered under the GST regime.

Draft regulatory framework for consumer centric practices in digital lending

In order to help borrowers make an informed decision based on complete information during the credit process, RBI issued a draft regulatory framework for aggregation of loan products by Lending Service Providers (LSPs) on 26 April 2024. It has been observed that the identity of the potential lender is not known to the borrower in cases where a LSP has arrangements with multiple lenders.

In this regard, the draft guidelines propose the following:

- LSPs to provide a digital view of all the loan offers available to the borrower from all the willing lenders available with the LSPs.
- The LSP may adopt any mechanism to ascertain the willingness of the lenders to offer a loan, however, a consistent approach to be followed which should be disclosed on its website.
- The details hosted digitally should include the name of the bank or the NBFC extending the loan, the amount and tenor of loan, the annual percentage rate and other key terms and conditions in a way that enables the borrower to make a fair comparison between various offers.
- The content displayed by the LSPs should be unbiased and not be designed in a way that misleads borrowers into choosing a particular loan product.

The comment period on the draft guidelines ended on 31 May 2024.

(Source: RBI notification no. RBI/2024-25/DOR.STR.REC./21.07.001/2024-25 issued on 26 April 2024)

7. Regulated entities include the following:

- All Commercial Banks (including Small Finance Banks, Local Area Banks and Regional Rural Banks) excluding Payments Banks
- All Primary (Urban) Co-operative Banks/ State Co-operative Banks/ District Central Co-operative Banks
- All Non-Banking Financial Companies (including Microfinance Institutions and Housing Finance Companies).

New guidelines related to fair lending practices

During recent reviews of Regulated Entities⁷ (REs), RBI identified cases of unfair lending practices. In this regard, on 29 April 2024, RBI issued a directive which requires REs to review and update their internal systems and practices around loan disbursement, application of interest and other charges in order to have a fair and transparent dealings with customers.

The key observations and respective directions are listed below:

Observations	Regulatory directions
REs were charging interest from the date of sanction of loan or date of execution of loan agreement.	Interest should be charged only from the date of disbursement.
Customers were charged interest for the entire month, in cases where cheques were handed over to a customer during the course of the month.	Interest should be charged from the date when the cheque is handed over to the borrower.
It was noted that one or more instalments were collected in advance, but interest was charged on full loan amount.	Interest should be charged on the balance loan amount after deducting the advance received.

The RBI advised banks to refund such excess interest and other charges to customers. REs are also being encouraged to use online account transfers in lieu of cheques being issued in a few cases for loan disbursement.

(Source: RBI notification no. RBI/2024-25/30 dated 29 April 2024)

Flexibility related to operational standards of AIF schemes

On 25 April 2024, SEBI notified the SEBI (Alternative Investment Funds) (Second Amendment) Regulations, 2024 to amend the SEBI (Alternative Investment Funds) Regulations, 2012. The amendments aims to enhance the regulatory framework and revise the operational standards for AIFs.

Some of the key features of the amendments are as follows:

- **New definitions added:** The terms ‘Dissolution Period’ and ‘Encumbrance’ have been defined in Regulation 2(1) of the AIF Regulations.
- **Encumbrance on equity:** Category I and II AIFs are now permitted to create encumbrances on the equity of investee companies only for the purpose of borrowing by such investee company under specified conditions, providing them with greater leverage options. SEBI has issued a detailed circular⁸ in this regard dated 26 April 2024.
- **Unliquidated investments:** AIFs are provided with more flexibility in dealing with unliquidated investments during the liquidation period, including the distribution of these investments to investors or entering into a dissolution period with significant investor approval. SEBI has issued detailed requirements through a circular⁹ dated 26 April 2024.

(Source: SEBI notification no. SEBI/HO/AFD/SEC-1/P/CIR/2024/22 dated 18 April 2024)

8. SEBI circular no. SEBI/HO/AFD/PoD1/CIR/2024/027 dated 26 April 2024.

9. SEBI circular no. SEBI/HO/AFD/PoD1/CIR/2024/026 dated 26 April 2024.

