SEBI Tightens Governance Norms: Key Changes to Listing Regulations

Key Takeaways

- **Increased Compliance Burden on Promoters, Directors & KMPs**. SEBI shifts disclosure responsibilities directly onto individuals, rather than just the listed entity
- **RPT Ratification Restriction**. Allowed only for transactions below INR 1 crore; unlike the Companies Act, directors are liable solely for failing to seek ratification, regardless of the outcome
- **Mandatory Public Disclosure of AoA & MoA**. Listed companies must now make these key governance documents accessible on their website
- **Relaxed Shareholding Disclosure Norms**. Higher thresholds for reporting acquisitions in other listed entities, favoring companies over retail investors

Governance Norms: What's Changing?

SEBI has kicked off the new year with a revamped compliance framework under the Listing Obligations and Disclosure Requirements Regulations, 2015 (Listing Regulations). These amendments, notified in December, aim to streamline operational compliance but leave room for interpretation—and potential regulatory challenges. We discuss the key changes and their implications below.

1. Compliance Burden Shifts to KMPs, Directors & Promoters

I didn't know; so how's it my fault?

Previously, listed companies bore sole responsibility for ensuring compliance, even if promoters, directors, key managerial personnel or any other person dealing with the company (for ease of reference *'KMPs and Others'*) failed to provide information. Even if *KMPs and Others* did not provide the information to the listed entity, the latter would still be potentially liable for non-compliance, never mind the listed entity's awareness. The revised regulations shift the onus of disclosure on *KMPs and Others*.

For example, when the U.S. enforcement agencies carried out a search and seizure operation against Sagar Adani, a director at Adani Green, under the prior framework, SEBI could only penalize Adani Green for non-disclosure. The new rules may empower SEBI to act directly against the individual involved. [*We've analysed the non-disclosure in detail here*]

Legal Loophole?

While this shift enhances individual accountability, it creates a potential grey area. A listed entity is now only liable if it receives the necessary details from *KMPs and Others*. This is because the substantive provision casting obligation is now included as a proviso. Please see below:

> *"The listed entity shall ensure that key managerial personnel, directors, promoters or any other person dealing with the listed entity, complies with responsibilities or obligations, if any, assigned to them under these regulations.*
>
> *Provided that the key managerial personnel, directors, promoter, promoter group or any other person dealing with the listed entity shall disclose to the listed entity all information that is relevant and necessary for the listed entity to ensure compliance with the applicable laws."*

Hence, if *KMPs and Others* withhold information, the company might argue that it was not at fault. Whether this defense holds in enforcement actions remains to be seen. Ideally, the requirement on *KMPs and Others* should have come as a separate standalone obligation, rather than a proviso.

The amendment is in line with the larger regulatory intent of casting a wider net when it comes to obligations under Listing Regulations.

Case in Point - In March 2023, long-buried shareholder agreements from 1993-94 surfaced in Hikal Ltd.'s legal battle, forcing the company to disclose them under Regulation 30. Just months later, in July 2023, the Listing Regulations were amended[1] to specifically require promoters to disclose agreements that could impact the listed entity. Then, in May 2024, another amendment placed the onus of compliance with the market rumour verification framework on KMPs, promoter group, directors and senior management. [*Read our analysis - Does SEBI's Market Rumour Proposal Offer the Much-Needed Price Protection?*]

2. No More Unchecked RPT Ratifications

Pre-Amendment Vacuum

So far, under the Listing Regulations, there was no explicit provision for post-facto ratification of related party transactions (RPTs). However, the Companies Act, 2013, (Companies Act) under Section 188(3), allows RPTs to be ratified by the board or shareholders within three months from the date of the transaction.

This created a regulatory gap:

- Companies leveraged the Companies Act to justify ratification of RPTs that were otherwise non-compliant under SEBI's regulations.

- Audit committees had no explicit authority under the Listing Regulations to approve RPTs retroactively, leading to inconsistent interpretations.

For instance, Tata Steel's RPT Policy states: *If the company discovers a related party transaction that wasn't approved as per this (RPT) Policy, the Audit Committee will review it, considering all relevant factors and available options like ratification, modification, or termination. If not ratified, the Committee may take actions such as ending the transaction, seeking shareholder approval, or requiring compensation from the responsible party.*

This means that Tata Steel's audit committee can potentially ratify transactions without any quantitative thresholds. In well-governed companies, this would be less of an issue. In others, a palpable one.

---

[1] Schedule III, 5A: Agreements entered into by the shareholders, promoters, promoter group entities, related parties, directors, key managerial personnel, employees of the listed entity or of its holding, subsidiary or associate company, among themselves or with the listed entity or with a third party, solely or jointly, which, either directly or indirectly or potentially or whose purpose and effect is to, impact the management or control of the listed entity or impose any restriction or create any liability upon the listed entity, shall be disclosed to the Stock Exchanges, including disclosure of any rescission, amendment or alteration of such agreements thereto, whether or not the listed entity is a party to such agreements:

Post-Amendment Fix

SEBI has now imported the post-facto ratification mechanism from the Companies Act, but with additional restrictions. These amendments introduce a tighter compliance framework while ensuring greater oversight of RPT approvals (*Please see Annexure below*).

Aspect	Companies Act, 2013	Revised Listing Regulations
Post-facto ratification	Permitted for any RPT	Allowed only for transactions under INR 1 crore and deemed non-material
Who ratifies?	Board/shareholders	Audit Committee (independent directors only)

Now, SEBI has addressed the pre amendment vacuum and made the ratification provision stricter for the listed entities, though in a way giving leeway to RPTs below the de-minimis limit of INR 1 crore and qualified as non-material.

Theoretically speaking, the INR 1 crore threshold can be potentially misused by promoters, for instance, to enter into RPTs with 'n' number of related parties and keep the value of each below INR 1 crore. The regulator, though, may see it as a spirit violation and hold the independent directors in the audit committee accountable for it.

Emphasis on Seeking Ratification

One of the notable changes under the amended Listing Regulations is the distinction between "seeking" and "obtaining" ratification:

- A director must seek ratification for a RPT but is not required to obtain it.
- This ensures procedural diligence under Listing Regulations while leaving the decision in the hands of the audit committee.

Important however to note that a listed company must comply with both the Companies Act and the Listing Regulations, and to that extent the director will continue to be liable under the Companies Act.

3. Mandatory Public Disclosure of AoA & MoA

From Paywall to Public Access

SEBI has now mandated that listed companies must publish their Articles of Association (AoA) and Memorandum of Association (MoA) on their websites. Previously, these documents were only available via the Ministry of Corporate Affairs (MCA) portal, behind a paywall. Disclosure of the AoA is particularly critical as it often embeds key terms of the Shareholders' Agreement, outlining governance structures, shareholder rights, and operational frameworks.

While these governance documents have always been considered public records, investors had to pay and navigate MCA's system to access them often encountering outdated versions or technical glitches. By requiring companies to directly publish these foundational documents, SEBI is removing barriers to transparency.

SEBI's move also aligns with global best practices, where corporate governance documents are readily available on company websites.

4. Eased Shareholding Disclosure Rules: A Double-Edged Sword?

Higher Reporting Thresholds for Acquisitions

SEBI has significantly raised the threshold for disclosing acquisitions in listed entities under Regulation 30. This reduces the frequency of acquisition-related disclosures, benefiting companies by removing redundant filings. However, it also reduces visibility for public investors, who now receive fewer updates on how a listed company is allocating its capital.

Old vs. New Thresholds for Disclosure

Event	Old Requirement	New Requirement
Acquisition of another listed company	5% or more	20% or more
Change in shareholding in another listed company	2% or more	5% or more

Quarterly, Not Immediate, Disclosure for Unlisted Acquisitions

SEBI has also clarified the timing of disclosure when the acquisition/change (5% and 2% respectively) in shareholding is in an unlisted company. So far, since the regulations were silent on it, the understanding was it needs to be made on an immediate basis. Now, the regulator has allowed it to be on a quarterly basis.

Impact on Retail Investors

While these amendments reduce compliance burdens for companies, they make it harder for retail investors to track corporate investments. For instance, Reliance Industries' smaller investments in listed companies may no longer trigger mandatory disclosures, making them less visible to public shareholders.

Conclusion: Stricter Oversight, Balanced Flexibility

SEBI's amendments represent a decisive shift toward individual accountability and corporate transparency, particularly in related-party transactions and disclosure obligations.

For companies, these changes underscore the need for robust internal controls and proactive compliance mechanisms. For directors and executives, the focus on seeking ratification rather than securing it appears to be a more procedural approach to governance.

India Inc. should also recognize SEBI's thoughtful adjustments, which prioritize genuine, material disclosures while balancing operational flexibility with transparency.

.

Annexure

Compliance Obligation: Pre-amendment	Compliance Obligation: Post-amendment
Regulation 5: The listed entity shall ensure that key managerial personnel, directors, promoters or any other person dealing with the listed entity, complies with responsibilities or obligations, if any, assigned to them under these regulations.	Regulation 5: The listed entity shall ensure that key managerial personnel, directors, promoters or any other person dealing with the listed entity, complies with responsibilities or obligations, if any, assigned to them under these regulations.: Provided that the key managerial personnel, directors, promoter, promoter group or any other person dealing with the listed entity shall disclose to the listed entity all information that is relevant and necessary for the listed entity to ensure compliance with the applicable laws.
RPT Ratification	**RPT Ratification**
Companies Act, 2013; Section 188(3): Where any contract or arrangement is entered into by a director or any other employee, without obtaining the consent of the Board or approval by a resolution in the general meeting under sub-section (1) and if it is not ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into, such contract or arrangement shall be voidable at the option of the Board or, as the case may be, of the shareholders and if the contract or arrangement is with a related party to any director, or is authorised by any other director, the Directors concerned shall indemnify the company against any loss incurred by it.	Listing Regulations; Regulation 23(f): The members of the audit committee, who are independent directors, may ratify related party transactions within three months from the date of the transaction or in the immediate next meeting of the audit committee, whichever is earlier, subject to the following conditions: (i) the value of the ratified transaction(s) with a related party, whether entered into individually or taken together, during a financial year shall not exceed rupees one crore; (ii) the transaction is not material in terms of the provisions of sub-regulation (1) of this regulation; (iii) rationale for inability to seek prior approval for the transaction shall be placed before the audit committee at the time of seeking ratification; (iv) the details of ratification shall be disclosed along with the disclosures of related party transactions in terms of the provisions of sub-regulation (9) of this regulation; (v) any other condition as specified by the audit committee: Provided that failure to seek ratification of the audit committee shall render the transaction voidable at the option of the audit committee and if the transaction is with a related party to any director, or is authorised by any other director, the director(s) concerned shall indemnify the listed entity against any loss incurred by it.

Authors



Isha Shah



Aditya Jain



Payaswini Upadhyay

About our Public M&A Practice

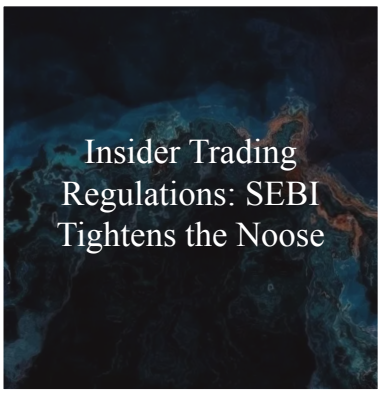
Public M&A / PE is arguably the most nuanced field of deal-making in India, considering the myriad legislations and constantly evolving corporate governance practices. Over the last decade, India's public markets have successfully attracted some of the largest financial and strategic investors, both domestic and foreign. While the legal framework and the regulators are constantly evolving, deal-making must continue to factor in several regulatory hurdles and practice specific risks...*read more*

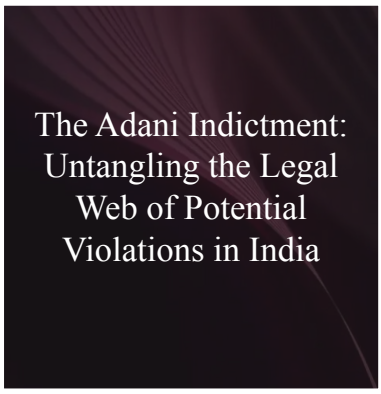
About Resolüt Partners

We are a transactional law firm built on four main foundations:

1. *Mathematically sharp commercial lawyers*
2. *Integrated Legal and Tax advice*
3. *Multi-jurisdictional understanding*
4. *Eliminating choices...read more*

Recent Analyses







Recent Bottom Line/ NewsWire







Recent Research



