Companies can't shy away from disclosure obligations due to market cap swings: SEBI

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The Securities and Exchange Board of India (SEBI) has now proposed that listed entities will have to, within 60 days from the end of the financial year, submit a 'Secretarial Compliance Report' to the stock exchanges. Also, the capital markets regulator now proposes to mandate that companies cannot wriggle out of their already accepted listing obligations and disclosure requirements just because there has been a change in their market capitalisation and have fallen out of the top market capitalisation category.

These proposals form part of the slew of changes that SEBI plans to introduce to the five-year-old Listing Obligations and Disclosure Requirements (LODR) regulations as part of efforts to strengthen corporate governance practices and disclosure requirements in listed companies.

SEBI, in a discussion paper on changes to LODR – for which public comments are invited by October 11– pointed out that certain provisions of the LODR are applicable to a defined set (top 100/500/1000/2000) of listed entities on the basis of market capitalisation. Since market capitalisation is dynamic, entities that form part of the defined set may vary due to change in market capitalisation, said SEBI.

"In the interest of good corporate governance, it is proposed that provisions that become applicable to a listed entity on the basis of market capitalisation, shall continue to apply irrespective of change in the market capitalisation," said SEBI.

The comes in the wake of stock exchanges observing instances where listed companies complying with specific regulations had stopped complying with the requirements once their market capitalisation decreased and they fell out of the top market capitalisation category.

In another significant issue, SEBI proposes to dispense with the requirement of a separate newspaper advertisement on notice of the board meeting to discuss financial results and quarterly statement of deviation or variation, stating that this was an additional burden on listed entities,

However, considering the importance of financial results, the same would have to continue to be published in newspapers as specified under the current LODR regulations on this matter, according to SEBI.

Experts' take

Srinath Sridharan, an independent markets commentator, said that the idea of requiring Secretarial Compliance Report to be filed within 60 days of end of financial year would tighten the various procedural needs and enforce processes to be put up by the companies.

Gautham Srinivas, Partner, Khaitan & Co, said the proposal to have Secretarial Compliance Report released within a timeframe would ensure timely dissemination, therefore enabling investors to understand the compliance status of the company. Therefore, there will not be sole reliance on an annual report for this, he added.