

## Now, listed firms will have to make all business deals public

By Rajesh Mascarenhas, ET Bureau | Last Updated: Jul 18, 2023, 06:44 AM IST

### Synopsis

Till now, companies enjoyed the discretion of determining whether a piece of information or event would be 'material' enough to be disclosed to the public.



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Mumbai: **Listed companies** must disclose to the public all information on **business** deals and arrangements that have a bearing on their prospects. Securities and Exchange Board of India (**Sebi**) last week tightened the listing obligations and disclosure requirements (**LODR**) regulations that mandated firms to reveal all contracts and arrangements pertaining to strategic, technical, manufacturing, and marketing tie-ups to boost

transparency. Till now, **companies** enjoyed the discretion of determining whether a piece of information or event would be 'material' enough to be disclosed to the public.

"The changes are aimed at ensuring that key criteria relevant for the **market** and **investors** are disclosed within specified timelines rather than a discretion-based approach," said Manendra Singh, partner, Economic Laws Practice. "A noteworthy change is the implication on existing events or continuing events, which become material due to the objective parameters, will mandate that companies will now need to retrospectively look back at all those events to check if a disclosure is needed." The amendments effective July 15 will require companies to disclose to shareholders all deals without exception.

### An Open Book

**New regulation came into force on July 15, 2023**

Earlier, cos had the freedom to exercise discretion

**Likely Pain Points for Cos**

- Monitoring and compliance burden
- Logistical challenges

**Positives**

Investors and analysts will have more clarity on biz plans



"The moment any contract that has been awarded to or bagged by the listed company which is not in the ordinary course of business, its key terms have to be disclosed, regardless of the commercial or confidential details present within such a contract," said Santosh Gangavati, leader M&A and PE Practice,

at Nishith Desai Associates. Some listed companies have been accused of holding back 'material' information though they might have an impact on profitability at a later stage.

Enhanced disclosures will give investors and analysts more clarity on the business plans of companies especially when it comes to limited-tenure contracts and tie-ups.

"Given that the disclosures pertain to contracts that are not in the ordinary course of business of the listed company, the disclosures may lead to the retail investors, regulators and competitors alike obtaining information on the current activities of the listed company that are not a part of the ordinary business of a listed company," said Anurag Shah of Nishith Desai Associates.

The move could lead to a flood of disclosure by companies in a short period of time that could boost their compliance costs.

"While the detailing is commendable, there will obviously be issues where it is baffling as to what is to be disclosed; for example, in the context of awarding of contracts or receiving of contracts, one of the disclosure requirements is 'significant terms and conditions of orders or contracts,' said Ketan Dalal, managing director, Katalyst Advisors. "This may have commercial and confidentiality sensitivities, making it very difficult to comply with the disclosure requirements."