SEBI’s relaxation over compliance norms has allowed the listed firms to catch their financial breath
written by Akshay Ramesh | April 15, 2020

COVID-19 Outbreak: SEBI Provides Relief To Listed Firms Over Compliance Norms
We all are aware that due to the COVID-19, the whole world is not only suffering large-scale deaths but also suffering the economical downfall. In this pursuance, the Securities and Exchange Board of India (“SEBI”), being the principal regulator of the Indian Stock Exchanges, recently decided to relax the compliance norms which listed companies and firms are ought to follow. The whole global economy is facing a sudden fall in business activities. The majority of the business processes are kept on hold since the free movement of the people is presently restricted. Taking all these into consideration, the SEBI came up with this decision of relaxing the compliance norms during the COVID-19 outbreak[1].
The listed entities are ought to follow the compliance norms specified in the ‘SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015’. The compliance norms which the SEBI has relaxed are concerning the non-convertible debentures (NCDs) and commercial papers (CPs) of listed companies. Along with this, the SEBI has also extended the deadline to file the quarterly and annual earnings reports. The extension period is till June 30, 2020. The stock market regulator has taken this major decision in order to ease the business processes which are undergoing a tough time due to COVID-19 lockdown.
On the other hand, SEBI has also extended the deadline for listing debt securities of companies by 60 days till May 31. However, as per the revised norms, the listed entities are ought to submit its latest audited financials, which should not be older than six months.
Also, SEBI has made all Stock Exchanges responsible to bring all these relaxations into the notice of all the entities which have issued the NCDs, Non-Convertible Redeemable Preference Shares (NCRPS) and CPs[2].
Principal Regulator of the Stock Market
SEBI is the Principal regulator of Stock Exchanges in India. It is functioning since its establishment in 1992 to protect the interests of the investors in the capital markets. The measures of the SEBI are aimed at protecting the sanctity of the capital markets and also the interests of the investors therein. In this pursuance, the SEBI’s role has made the listed companies much more accountable through the enhanced disclosures.

Regulation of Listed Agreements

SEBI also regulates the ‘Listed Agreements’ in accordance with the governing provisions of ‘SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015’. Listed agreements are the agreements entered by and between the listed company (issuer company) and the concerned stock exchanges. By the virtue of the above said governing law, it is mandatory to the parties therein to comply with the ‘listing conditions’.

However, in order to maintain a single document and the flexibilities with respect to corporate governance, the SEBI in 2015 converted the listing agreement into ‘SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015’. These regulations, however, impose certain governing principles regarding the disclosures and obligations of the listed entities.

Disclosures to be made by the Listed Companies

The ‘SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015’ make it mandatory for the listed companies to disclose the below-mentioned information(s):

- Details of the business including the terms and conditions of the Independent Directors;
- Compositions of various committees;
- Code of conduct of Board of Directors;
- Details of the establishment of Vigil Mechanism / Whistle Blower Policy;
- Details of agreements entered into with the media companies and/or their associates, etc;
- New name and the old name of the listed entity for a continuous period of one year, from the date of the last name change;
- Mainly, the disclosures regarding the share transfer facility, Investor complaints, shareholding pattern including the filing of quarterly and annual earnings reports along with the details of CPs and NCDs/NCRPS.

Commercial Papers

Commercial papers are the unsecured promissory notes which are issued by the companies to obtain funds to meet short-term debt obligations. They are backed only by an issuing bank (or) a company that promises to pay the face amount on the maturity date specified on the note.

However, the commercial paper was introduced in India in 1990. It was introduced with the view to enable highly rated corporate borrowers to diversify their source of short-term borrowings and to provide an additional instrument to investors. The commercial paper is now listed for trading on Stock Exchange(s) with the view of broadening the investor participation.

Only the corporate entities, primary dealers (PDs) and all-India Financial Institutions (FIs) are eligible to issue the commercial papers. However, any corporate entity can issue the commercial papers upon the fulfillment of the below requirements:

- who’s tangible net worth as per the latest audit balance is not less than 4 crores;
- If any banks/all Indian financial institutions have sanctioned the company with the working capital; or if the borrowing account of the company is classified as Standard Assets by the financing bank/institution.

Non-convertible Debentures

We know that debentures are the long-term financial instruments which acknowledge a debt obligation towards the issuer. However, some of the debentures can be converted into shares after a certain point of time at the discretion of the owner. On the other hand, debentures which cannot be converted into share or equities are called Non-convertible debentures ("NCDs").

NCD is a financial tool that is used to raise long-term funds by companies through a public issue. Interestingly, lenders are usually given a higher rate of return compared to convertible debentures.

Conclusion

Hence, the decision of SEBI in relaxing the compliance norms has enabled all the listed entities to catch their financial breath. Hoping for the sooner recovery in the economic losses suffered due to COVID-19, the entrepreneurs and the investors in India have thanked the SEBI for its recent move. However, SEBI through this decision has once again proved that it duly holds the responsibility in ensuring the smooth functioning of the capital market in the Indian economy. Thus, SEBI is empowered under Section 11 of the SEBI Act, 1992 to regulate the securities market and protect the interests of the investors, by such measures as it thinks fit.

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