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Prasanna S,

Chairman of Institute of Legal Education

No. 08, Arul Nagar, Seera Thoppu,

Maudhanda Kurichi, Srirangam,

Tiruchirappalli – 620102

Phone : +91 94896 71437 – info@iledu.in / Chairman@iledu.in



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SEBI (LODR) REGULATION, 2019: A COMPREHENSIVE LEGAL ANALYSIS OF COMPLIANCE AND DISCLOSURE REQUIREMENTS

AUTHOR – MUSKAAN BELLANI, STUDENT AT UNITED WORLD SCHOOL OF LAW (KARNAVATI UNIVERSITY)

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ABSTRACT

This paper answers the major research question: How do the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2019, improve corporate compliance and transparency standards for listed businesses in India? The Securities and Exchange Board of India (SEBI) issued the SEBI (LODR) Regulations, 2019, which demand a comprehensive set of compliance, governance, and disclosure obligations. These policies are intended to connect company practices with global norms, protect investor interests, and reduce corporate governance risks in India's dynamic market. Using a doctrinal and comparative methodology, this study investigates SEBI (LODR)'s key rules, including disclosure requirements, related-party transaction norms, and corporate governance guidelines. The study examines statutory texts, current changes, case laws, and empirical data to analyse SEBI's (LODR) effectiveness in providing stakeholders with accurate, timely, and standardised information. Comparative findings from worldwide securities rules highlight how SEBI (LODR) coincides or diverges from global standards for corporate transparency. This study demonstrates that SEBI (LODR) has made substantial contributions to enhancing accountability and reducing information asymmetry among stakeholders. Nonetheless, issues remain, particularly in enforcement consistency and the effectiveness of criminal sanctions to penalise noncompliance. The report indicates that, while SEBI (LODR) has boosted India's securities market, continued reforms and strong enforcement are required to maintain a balance between severe compliance and flexible corporate governance, eventually promoting a more robust market ecosystem.

The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2019, also known as SEBI (LODR), represent a significant step forward in India's legislative framework for corporate compliance and disclosure.

INTRODUCTION

The Securities and Exchange Board of India (SEBI) created the SEBI (LODR) rules mainly to improve transparency, accountability, and corporate governance for companies listed in India. As India's capital markets grow and become more connected to the global economy, there is a need for strong rules to manage corporate activities. SEBI (LODR) requires companies to follow strict rules, like providing regular financial reports, meeting board member standards, and controlling

transactions with related parties, all to protect investors and reduce market risks.

This paper answers the main research question: How well do the SEBI (LODR) rules, 2019, help in making companies more transparent and ensuring they follow the rules in India? To find out, the paper looks at laws, SEBI guidelines, and past court cases to see how SEBI (LODR) has affected corporate governance in India.

The SEBI (LODR) rules show that SEBI wants to bring India's laws in line with international standards. However, there are still problems, such as challenges with enforcement, the



burden of compliance, and loopholes that companies might take advantage of. This paper will look at how the SEBI (LODR) rules have changed company practices and suggest

areas where things could improve, comparing them with global standards to find both strengths and areas for improvement.

LITERATURE REVIEW

Sr. No.	Nature of Literature	Name of Literature	Covered/ Review	Research Gap in literature	Intended Research
1	Academic Article	"Impact of SEBI (LODR) on Corporate Governance in India" - <i>Journal of Corporate Law</i>	Analyzes the influence of SEBI (LODR) on corporate governance standards, focusing on board structures, audit committees, and investor transparency.	Lacks a detailed examination of compliance challenges faced by companies in implementing LODR requirements.	Investigate the specific compliance hurdles and practical issues in the implementation of SEBI (LODR) Regulation, 2019.
2	Government Report	"SEBI Annual Report 2021-22" - <i>Securities and Exchange Board of India</i>	Outlines SEBI's regulatory measures, including LODR, to enhance transparency and accountability among listed entities in India.	Primarily provides an overview without delving into enforcement effectiveness or specific compliance outcomes under LODR.	Analyze the effectiveness of SEBI's enforcement mechanisms and their impact on ensuring compliance with LODR norms.
3	Research Paper	"The Role of SEBI in Enhancing Disclosure Norms" - <i>Indian Journal of Securities</i>	Discusses SEBI's approach to strengthening disclosure and compliance norms among	Limited focus on specific sectors, particularly infrastructure, where compliance and	Assess the unique compliance and disclosure challenges faced by the infrastructure sector under



		<i>Law</i>	listed entities, including a historical perspective on SEBI reforms	disclosures have distinct challenges	SEBI
4	Website / Online Resource	"Overview of SEBI (LODR) Regulations, 2019" - <i>Economic Times</i>	Provides a summary of the key compliance and disclosure requirements introduced under the 2019 amendments	General overview lacking detailed legal analysis of specific compliance requirements for listed companies.	Offering a detailed legal analysis of compliance obligations for listed entities under LODR Regulation, 2019.
5	<i>Book</i>	<i>Corporate Governance and SEBI</i> - Dr. R. Mehta	Covers the historical evolution of SEBI's role in corporate governance, including disclosure and compliance requirements	Primarily historical perspective; lacks coverage of recent changes introduced in the LODR, 2019 amendments.	Focusing on how LODR 2019 reshapes corporate governance practices in India, including compliance challenges
6	Research Article	"Challenges in Regulatory Compliance under SEBI (LODR) Regulations" - <i>Asian Journal of Corporate Law</i>	Explores regulatory compliance challenges faced by corporations, with a brief look at disclosure norms under SEBI's LODR	Limited to general compliance issues; lacks emphasis on compliance intricacies specific to the LODR 2019 updates	Providing an in-depth analysis of compliance challenges, focusing on new disclosure requirements in the 2019 amendments



RESEARCH METHODOLOGY

This paper uses a doctrinal research method to look at the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2019, focusing on the rules for compliance and disclosure in India. The study looks at laws, SEBI's circulars, standards for compliance, and court cases to understand SEBI's role in improving how companies are managed and how transparent they are. It also compares SEBI's rules with international standards to see where they are strong and where they can improve. Real-world examples of compliance cases show how these rules affect companies' responsibility, protect investors, and improve transparency, helping us assess how well the SEBI (LODR) Regulations have dealt with issues in the market.

ANALYSIS AND CONTENT

The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2019, are important rules meant to improve transparency, responsibility, and compliance for listed companies in India. These rules, called LODR, set clear guidelines for how companies should disclose information and make boards, management, and auditors responsible for following good corporate governance practices. In this section, we will carefully look at the key parts of SEBI LODR, related court cases, and how SEBI enforces these rules to figure out if they truly create a transparent and accountable system for stakeholders while protecting investors.

According to Chapter IV of the SEBI (LODR) Regulations, listed companies must create specific committees like audit committees, nomination and pay committees, and risk management committees. These committees help ensure checks and balances in the company, increase accountability, and protect the interests of investors. For example, Regulation 17 requires that independent directors be on the board to ensure fair decisions and to prevent management from having too much control.

Case Law: Tata Motors vs. Cyrus Mistry⁵¹⁷ The Tata-Mistry case highlights how important it is for company boards to be independent and have strong directors. Cyrus Mistry, the former chairman of Tata Sons, claimed that his removal was unfair and pointed out problems with the way the board was run. The SEBI rules on board independence, part of the LODR, stress the need for clear and fair processes when removing or appointing directors. The case showed how important it is to follow SEBI's rules to avoid issues with company management.

In the Tata Motors and Cyrus Mistry case, the interpretation of SEBI's LODR regulations was key, especially when it came to corporate governance, transparency, and the role of directors in protecting shareholders' interests. The dispute over Mistry's removal from the Tata Sons board raised important questions about the role of directors in Indian corporate law.⁵¹⁸

In its 2021 decision, the Supreme Court looked at the responsibilities of company directors under the SEBI rules and the Companies Act of 2013. Specifically, Section 166 of the Companies Act says that directors must prioritize the company's well-being over their own interests or those of their supporters. This matches with the main rule of LODR, which focuses on clear disclosures and good management to protect all shareholders, including smaller ones. The case also shows that SEBI requires directors to be accountable and transparent, with LODR demanding quick and clear updates about important events. This ensures that directors are responsible to both the board and the shareholders. The ruling has also raised questions about whether SEBI should make its governance rules stricter, especially for big and complex companies, to better protect shareholders.⁵¹⁹

⁵¹⁷ "Tata Motors Ltd. v. Cyrus Mistry, (2016) 1 SCC 688."

⁵¹⁸ "SEBI, SEBI Circular No. SEBI/HO/MIRSD/DoP/P/CIR/2023/22 (July 11, 2023), https://nsdl.co.in/downloadables/pdf/22_Circular_-_SEBI_Circular_dated_July_11_2023.pdf."

⁵¹⁹ "Articles – Manupatra. <https://articles.manupatra.com/article-details/A-CRITICAL-ANALYSIS-OF-THE-AMENDED-SEBI-LODR-REGULATIONS>. Accessed 1 Nov. 2024."



Mandatory Disclosure Requirements

SEBI LODR is mainly based on rules that focus on sharing the right information with the public at the right time. To keep things clear, Regulations 30 and 31 say that important events and details about who owns shares should be made public. Regulation 30 covers big events, like mergers, acquisitions, and changes in the board, that could seriously affect how a company does.⁵²⁰

'Infosys and the Vishal Sikka Resignation'

"Infosys and the Resignation of Vishal Sikka" SEBI requires timely disclosures in order for investors to make informed decisions and preserve the integrity of the market. This rule requires the disclosure of information such as significant court decisions, significant contracts, and changes to the makeup of the administrative council. Furthermore, stringent disclosure regulations ensure that market prices accurately reflect all publicly available information while also preventing initiated crimes.

A pivotal moment in Infosys' history, Vishal Sikka's resignation as PDG in August 2017 sparked important discussions on leadership accountability and corporate governance.⁵²¹

Background of the Case

When Vishal Sikka was named CEO in 2014, he made news as the company's first non-founder. During his tenure, there was a strong push for innovation and digital transformation. However, the company's financial performance also declined during this time, and the founders' scrutiny increased. When Murthy and other founders voiced worries about the business's financial performance, claims of corporate governance violations, and the acquisition of the software company Panaya, the tension reached a breaking point. Their objections of the board's decision-making were heightened

⁵²⁰ "Aakulu, Anand Jayachandran, Supriya. "SEBI Amendments to the LODR – An Overview of Key Changes." *India Corporate Law*, 4 July 2023, <https://corporate.cyrilamarchandblogs.com/2023/07/sebi-amendments-to-the-lodr-an-overview-of-key-changes/>."

⁵²¹ "S. N. Rao, SEBI Tightens Governance Norms for Listed Entities, S. N. R. Law (Nov. 1, 2024), <https://www.snrlaw.in/sebi-tightens-governance-norms-for-listed-entities/>."

when they questioned the substantial severance package given to former CFO Rajiv Bansal.⁵²²

SEBI and Corporate Governance

Given these issues, SEBI's LODR Regulations became very important. These rules require listed companies to uphold strong corporate governance, focusing on the need for transparency and accountability.⁵²³ These rules require the board of directors to act in the best interests of the shareholders and report any major events that could affect the company's stock price. The Infosys board faced criticism for how it handled disclosures, particularly regarding claims about severance pay and the company's financial performance. Many people believed that Sikka's resignation was not voluntary, even though it was officially described as a mutual decision. This situation highlighted the risks of poor governance, as a disagreement between the board and management can lead to instability within the company.⁵²⁴

Aftermath and Regulatory Implications

When Salil Parekh took over as CEO of Infosys after Sikka's resignation, it marked a significant shift in the company's leadership and strategy. This change prompted a review of Infosys's governance practices, as well as those in the broader IT industry. To improve communication and transparency between the board, management, and shareholders, SEBI's rules on disclosure and governance were reassessed.

Moreover, the Infosys case serves as an important lesson for other Indian companies, highlighting the need to maintain clear

⁵²² "Master Circular for Listing Obligations and Disclosure Requirements for Non-Convertible Securities, Securitised Debt Instruments and/or Commercial Paper* (Indian Infrastructure Finance Company Ltd., 1 Nov, 2024), <https://ifcl.in/images/FileUploaded/MasterCircularforlistingobligationsanddisclosurerequirementsforNonconvertibleSecuritiesSecuritisedDebtInstrumenttsandorCommercialPaperdated21052024pdf25072024143745.pdf>."

⁵²³ "Institute of Cost Accountants of India, Paper 13: Corporate Laws & Compliance, 4 (Apr. 2021), https://icmai.in/upload/Students/Syllabus2016/Final/Paper13_April_2021.pdf."

⁵²⁴ "Articles – Manupatra. <https://articles.manupatra.com/article-details/A-CRITICAL-ANALYSIS-OF-THE-AMENDED-SEBI-LODR-REGULATIONS>. Accessed 1 Nov. 2024."



communication with stakeholders and follow SEBI's regulations. It reminds businesses that building trust with investors requires a strong focus on good governance.⁵²⁵

CONCLUSION

Vishal Sikka's exit highlighted key lessons about corporate governance and the important role that rules like SEBI's LODR Regulations play. This case shows how essential it is for companies to follow governance standards closely to maintain market trust and stability. The Infosys story warns about the risks of poor governance as companies handle relationships with stakeholders and leaders. The board's actions to improve transparency and accountability show how companies like Infosys can strengthen their governance.

Regulation 18 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, focuses on how the Board of Directors and Committees should be set up and run. It specifically talks about the Audit Committee, Nomination and Remuneration Committee, and other committees that companies need to form to ensure good governance. While it stresses the need for these committees, it doesn't clearly explain what exactly the Audit Committee should do. However, Regulation 18(3) explains the duties of the Audit Committee, saying that it is responsible for overseeing the financial reporting process, auditing financial statements, choosing auditors, and checking internal financial controls.

The rule emphasises how crucial the Audit Committee is to upholding accountability and transparency in the business's financial operations.⁵²⁶

⁵²⁵ "Master Circular for Listing Obligations and Disclosure Requirements for Non-Convertible Securities, Securitised Debt Instruments and/or Commercial Paper* (Indian Infrastructure Finance Company Ltd., 1 Nov, 2024), <https://ifcl.in/images/FileUploaded/MasterCircularforlistingobligationsanddisclosurerequirementsforNonconvertibleSecuritiesSecuritisedDebtInstrumenttsandorCommercialPaperdated21052024pdf25072024143745.pdf>"

⁵²⁶ "Singh, Fox Mandal-Rohan. "SEBI's Order Underlines the Importance of Disclosures." *Lexology*, 25 Sept. 2023, <https://www.lexology.com/library/detail.aspx?g=9d5ea613-dca3-41ee-8b9a-a812142723d7>"

Insider Trading and Related Party Transactions

Insider trading is the buying or selling of stock in a publicly traded firm by those who have important, secret knowledge about the company that hasn't been disclosed to the public. Because it undermines investor confidence in the equity and openness of the securities markets, this behaviour is immoral and illegal. The Securities and Exchange Board of India (SEBI) is primarily responsible for regulating insider trading in India under the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015.⁵²⁷

The LODR rules offer comprehensive instructions for controlling related party transactions (RPTs) and combating insider trading. RPTs are governed by Regulation 23, which calls for board approval and disclosure to guarantee that deals are carried out at arm's length and do not jeopardise the interests of minority shareholders.

Transactions involving two parties who have a relationship that could affect the terms and conditions of the deal are referred to as related party transactions. Related parties in the context of businesses are usually executives, board members, or organisations over which the business has substantial control. In order to avoid conflicts of interest, related party transactions are strictly watched. Any transaction involving linked parties, such as directors or major shareholders, that exceeds a specific threshold is required by SEBI to obtain shareholder approval and be reported to the public. The objective is to maintain transparency and prevent conflicts that could harm minority investors.⁵²⁸

⁵²⁷ "Taxmann. "What Are the Compliances under SEBI (LODR) Regulations? | Taxmann." *Taxmann Blog*, 4 Mar. 2022, <https://www.taxmann.com/post/blog/what-are-the-compliances-under-sebi-lodr-regulations/>"

⁵²⁸ "Singh, Fox Mandal-Rohan. "SEBI's Order Underlines the Importance of Disclosures." *Lexology*, 25 Sept. 2023, <https://www.lexology.com/library/detail.aspx?g=9d5ea613-dca3-41ee-8b9a-a812142723d7>"



The integrity of financial markets is seriously threatened by related party transactions and insider trading. Through the enforcement of stringent compliance and transparency criteria, SEBI's regulations aim to level the playing field for all investors. Strong internal controls must be put in place by businesses in order to control these risks and preserve investor confidence. USL, or United Spirits Limited Diageo subsidiary United Spirits Limited came under fire in 2016 after an audit found several RPTs with companies connected to former chairman Vijay Mallya. The significance of fair processes in RPTs was highlighted by SEBI's regulations, which mandated that USL handle these transactions in a transparent manner. The case made clear how important it is to follow SEBI's RPT principles in order to safeguard investor interests and stop corporate funds from being misused.⁵²⁹

Proactive Surveillance and Inspection

SEBI keeps a close watch on companies to spot any violations and regularly checks companies to make sure they follow LODR rules. If a company doesn't follow the rules, SEBI may send a warning asking them to explain why. If SEBI finds problems, they may do further investigations.

The **NSE Co-Location Scandal**⁵³⁰ is a pivotal moment in the history of the Indian securities markets, revealing substantial regulatory shortcomings and casting doubt on the honesty of trading methods. The claims that the National Stock Exchange (NSE) gave some high-frequency trading (HFT) companies privileged access, so violating the concepts of equity and equal opportunity in market operations, are at the centre of this controversy. Context

The NSE launched the co-location service in 2010, which enables trading companies to set up their servers on the exchange's property.

Faster transaction execution is made possible by this arrangement's reduction of latency. However, when worries were expressed regarding possible misuse of this system, the advantages of co-location quickly became the focus of debate.

Key Events and Allegations

1. Whistleblower Disclosures: According to a 2015 whistleblower, some brokers were receiving preferential treatment, which enabled them to execute trades before others because of their exclusive access to the co-location facility. Widespread worries about the trade environment's fairness were raised by this.
2. SEBI's Investigation: In response to the situation, the Securities and Exchange Board of India (SEBI) began looking into how the National Stock Exchange (NSE) worked. The investigation aimed to find out if some brokers were given special treatment and whether any rules were broken.
3. Investigation Findings: SEBI found that the NSE's systems had problems that allowed certain brokers to get market data a few milliseconds earlier than others, giving them an unfair advantage. It was also found that the way NSE managed its co-location service lacked proper controls and checks.⁵³¹
4. Regulatory Actions NSE Fine: In 2019, SEBI fined the NSE ₹1,000 crore because of problems with its co-location facility. SEBI found that the NSE's actions had unfairly helped some market players, which went against the idea of fair trading and the rules for securities.
5. Investigation of Broking Firms: SEBI also fined and investigated several broking firms involved in the issue. Some firms were punished for taking advantage of

⁵²⁹ "Institute of Cost Accountants of India, Paper 13: Corporate Laws & Compliance, 4 (Apr. 2021), https://icmai.in/upload/Students/Syllabus2016/Final/Paper13_April_2021.pdf."

⁵³⁰ "NSE Co-Location Scandal, *Economic Times*, Apr. 1, 2015, <https://economictimes.indiatimes.com/industry/cons-products/retail/nse-co-location-scandal-a-timeline/articleshow/46840631.cms>."

⁵³¹ "Singh, Fox Mandal-Rohan. "SEBI's Order Underlines the Importance of Disclosures." *Lexology*, 25 Sept. 2023, <https://www.lexology.com/library/detail.aspx?g=9d5ea613-dca3-41ee-8b9a-a812142723d7>"



the system, while others had their trading licenses taken away.

6. Implications for the Securities Market
7. Need for Reform: This controversy showed that there were weaknesses in the market structure and that unfair trading could happen because of mistakes in regulation. To make the market fairer and more transparent, SEBI has introduced reforms.
8. Restoring Investor Trust: The scandal damaged investor trust, raising questions about whether trading in Indian markets is fair. It's important to rebuild this trust, and the authorities must take steps to stop this from happening again.
9. Improving Regulations: The co-location issue led to talks about needing stronger rules to not only make sure companies follow the law but also to make the market more transparent. SEBI is expected to keep improving its rules and supervision, especially for high-speed trading, to protect the market's fairness.

10. Improving Compliance with Technology

As India's financial markets grow quickly, relying only on manual checks by SEBI isn't enough to spot problems in real time. Using AI and data analytics can help SEBI monitor transactions and disclosures better, allowing them to catch suspicious activities early and make sure the LODR regulations continue to work well.

CONCLUSION

In conclusion, the SEBI (LODR) Regulations of 2019 represent a big step forward in improving the rules around disclosure and compliance in India's securities market. These rules are meant to raise corporate governance standards for listed companies and increase trust from investors by promoting transparency and responsibility. Strong compliance, along with accurate and timely disclosures, is necessary to prevent fraud and create a fair trading

environment. The case laws discussed show why it's important to follow corporate governance rules and how these laws affect real-life situations. To keep the markets fair and effective, regulatory bodies need to update these rules as new challenges come up in the securities market.

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