

Regulatory Insights

8 April 2025

SEBI amends LODR Regulations to provide corporate governance norms for listed entities having listed non-convertible debt securities

In brief

The Securities and Exchange Board of India (SEBI) has published¹ the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2025 (Amended Regulations) on 27 March 2025. The Amended Regulations have incorporated additional provisions in the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI LODR or LODR Regulations), thereby *inter alia* providing corporate governance norms for listed entities having listed non-convertible debt securities.

In detail

The Amended Regulations essentially provide corporate governance norms for the entities which have their non-convertible debt securities listed on the stock exchanges. The introduction of a carve-out chapter specifically aims to provide tailored compliance requirements to these entities. The highlights of the changes introduced are enumerated below.

1. Applicability of SEBI LODR provisions to High Value Debt Listed Entity (HVDLEs)

- a) **Amendment in the threshold criteria for categorisation of HVDLEs:** As per the Amended Regulations, a listed entity which has listed its non-convertible debt securities and has an outstanding value of listed non-convertible debt securities of INR10,000m and above shall be considered as a HVDLE. Prior to the Amended Regulations, the threshold was INR5,000m. Accordingly, pursuant to regulation 15(1A) of the SEBI LODR, the provisions ascribed under regulations 16 to 27 of the SEBI LODR shall apply to a listed entity which has listed its non-convertible debt securities and has an outstanding value of listed non-convertible debt securities of INR10,000m and above (i.e. HVDLE).
- b) **Additional reporting in corporate governance report:** Prior to the Amended Regulations, an HVDLE was required to comply with the provisions of the SEBI LODR within six months from the date of trigger of the threshold identifying them as HVDLE. However, the Amended Regulations have introduced a new compliance requirement, pursuant to which the HDVLE may be required to disclose the status of applicable compliances of the SEBI LODR in the corporate governance report on and from the third quarter following the date of the trigger.
- c) The Amended Regulations further provide that once regulations 15 to 27 of SEBI LODR apply to an HVDLE, they will remain in effect until the value of the outstanding listed debt securities, as on 31 March in any given year, decreases and stays below the specified threshold (i.e. INR10,000m and above) for a period of three consecutive financial years (FYs).
- d) **HVDLE to be taken into consideration for ascertaining directorships:** The Amended Regulations

¹ Notification No. F. No. SEBI/LAD-NRO/GN/2025/239 dated 27 March 2025

introduce a key change in the calculation of directorship limits. Previously, the SEBI LODR stated that the restriction on the number of directorships applies only to individuals serving as directors or independent directors in entities whose equity shares are listed on a stock exchange. However, with the amendment, the scope has been expanded. Now, the directorship limits will be determined cumulatively, i.e. the directorships of an individual shall be counted for both equity listed entities and HDVLEs.

2. Applicability of regulation 23 of SEBI LODR to SME-listed entities

Prior to the Amended Regulations, the provisions of regulation 23 of SEBI LODR dealing with related party transactions were not applicable to a listed entity which has listed its specified securities on the Small and Medium Enterprises (SME) Exchange.

However, pursuant to the Amended Regulations, effective from 1 April 2025, a listed entity which has listed its specified securities on the SME Exchange and which has either paid-up equity share capital exceeding INR100m or has a net worth exceeding INR250m as on the last day of the previous FY will now be required to comply with regulation 23 of the SEBI LODR.

Additionally, if the regulation becomes applicable to an entity at a later date, it must ensure compliance within six months. Moreover, once regulation 23 of the SEBI LODR becomes applicable to an SME-listed entity, it will continue to apply until both its equity share capital and net worth fall below the specified threshold for three consecutive years.

3. Extension of materiality thresholds for related party transactions to SME-listed entities

Pursuant to the Amended Regulations and effective from 1 April 2025, the materiality threshold for related party transactions has been extended to SME-listed entities as well.

Accordingly, any transaction with a related party shall be considered material, if the transaction(s) to be entered into individually or taken together with previous transactions during a FY exceeds INR500m or 10% of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity, whichever is lower.

4. Introduction of Chapter VA with corporate governance norms for a listed entity which has listed its non-convertible debt securities

The Amended Regulations provide for a separate carve-out chapter outlining detailed corporate governance requirements applicable to a listed entity which only has non-convertible debt securities listed, with an outstanding value of INR10,000m and above and does not have any listed specified securities. Some of the major corporate governance norms introduced are mentioned below.

a) Board of directors

- An HVDLE should have an optimum combination of executive and non-executive directors with at least one woman director and not less than 50% of the board of directors (Board) being non-executive directors; where the chairperson of the Board is a non-executive director, at least one-third of the Board shall comprise of independent directors, and where the listed entity does not have a regular non-executive chairperson, at least half of the Board shall comprise of independent directors;
- A special resolution shall be required to appoint or to continue the term of a non-executive director who has attained the age of 75-years;
- The continuation of a director serving on the Board of a listed entity shall be subject to the approval of the shareholders in a general meeting at least once in every five years from the date of their appointment or reappointment;
- Any vacancy in the office of a director shall be filled by the listed entity at the earliest, and in any case, not later than three months from the date of such vacancy;
- The Board must meet at least four times a year, with a maximum time gap of 120-days between any two meetings.

b) Maximum number of directorships

- A person may act as a director or serve as an independent director in not more than seven listed entities.
- Any person who is serving as a whole-time director or managing director in any listed entity may serve as an independent director in not more than three listed entities.

c) Audit Committee

- Every HDVLE shall have an audit committee with a minimum of three directors as members, out of which at least two-thirds of the members shall be independent directors, and the chairperson of the audit committee shall be an independent director;
- All members of the audit committee shall be financially literate, and at least one member shall have accounting or related financial management expertise;
- The audit committee shall meet at least four times in a year and not more than 120-days shall lapse between two consecutive meetings. The quorum for the audit committee meeting shall either be two members or one-third of the members of the audit committee, whichever is greater, with at least two independent directors.

d) Nomination and Remuneration Committee

- The Nomination and Remuneration Committee formulated by the HDVLE (if any formulated by the Board) shall comprise at least three directors, and all the directors shall be non-executive directors. Moreover, at least two-thirds of the directors shall be independent directors;
- The chairperson of this committee shall be an independent director;
- The quorum for a meeting of the Nomination and Remuneration Committee shall either be two members or one-third of the members of the committee, whichever is greater, including at least one independent director.

e) Stakeholder Relationship Committee

- The Stakeholder Relationship Committee formulated by the HDVLE (if any formulated by the Board) shall comprise at least three directors, with at least one being an independent director and the chairperson of the committee being a non-executive director;
- The committee shall meet at least once in a year.

f) Risk Management Committee

- The Risk Management Committee formulated by the HDVLE (if any formulated by the Board) shall of comprise at least three members, with the majority being members of the Board, including at least one independent director;
- The chairperson of the Risk Management Committee shall be a member of the Board, and the senior executives of the HVDLE may be members of the committee;
- The committee shall meet at least twice in a year, and not more than 210-days shall lapse between any two consecutive meetings. The quorum for a meeting of the committee shall be either two members or one-third of the members of the committee, whichever is higher, including at least one member of the Board in attendance; and
- The functions of the Risk Management Committee can also be discharged by the audit committee or by the Board.

g) Related party transactions

- The HVDLE shall formulate a policy on the materiality of related party transactions and on dealing with related party transactions, including clear threshold limits duly approved by the Board;
- All related party transactions and subsequent material modifications shall require prior approval of the audit committee of the HVDLE;

- The audit committee may grant omnibus approval for related party transactions proposed to be entered into by the HVDLE subject to certain conditions;
- All material-related party transactions and subsequent material modifications as defined by the audit committee shall require obtaining a prior No-Objection Certificate (NOC) from the Debenture Trustee. The Debenture Trustee shall in turn obtain an NOC from the debenture holders who are not related to the issuer and hold at least more than 50% of the debentures in value, on the basis of voting, including e-voting. Post this, approval from shareholders shall be obtained *via* a special resolution.

h) **Other major inclusions**

- The Amended Regulations further provide for corporate governance norms for unlisted material subsidiaries of the HVDLE;
- The Amended Regulations also provide for appointment criteria and other obligations with respect to the appointment of independent directors;
- As per the Amended Regulations, every HVDLE and its material unlisted subsidiaries incorporated in India are required to undertake a secretarial audit and submit a secretarial compliance report to the stock exchanges, within 60-days from the end of each FY;
- The Amended Regulations also provide for the compliance requirements in relation to vacancies in the office of any key managerial personnel. Accordingly, any vacancy in the office of the Chief Executive Officer, Managing Director, Chief Financial Officer, Whole Time Director or Manager shall be filled by the HVDLE at the earliest, and in any case, not later than three months from the date of such vacancy;
- The HVLDE shall be required to submit a periodic compliance report on corporate governance to the recognised stock exchange(s) within 21-days from the end of the period.

The takeaways

These amendments primarily aim to strengthen the regulatory framework for debt securities by providing corporate governance norms for entities which have their non-convertible debt securities listed on the stock exchange.



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