**Priyanka Sharma**
**Manager**

# The Legislative Dilemma: Words vs Intent?

## (Knowing when to apply the literal rule Vs. purposive approach)

In our everyday conversations, we always get mistaken between the words and the true intention behind those words. When casually interacting with someone we sometimes only hear the words and ignore the background which leads to misunderstanding, conflict, and confusion.

This same kind of friction exists in the legal world. We always get trapped between the black letter texts and forget to understand the core intent behind such enactment. Sometimes we only understand the intent of law from our own lenses and risk the spirit of the law. The art of interpretation, therefore, lies in the balance between the *letter of the law* and the *spirit of the law*.

Hence, mastering the application of literal and purposive interpretation is very crucial to understand the minds of the law maker.

Let us first understand the meaning of these rules of interpretation:

**Literal Rule of Interpretation:**

The Literal Rule of Interpretation means the words of a statute to be construed according to their plain, natural, and ordinary meaning.

In case of Duport Steels Ltd and Others v Sirs and Others, the court held that, *"Where the meaning of the statutory words is plain and unambiguous it is not for the judges to invent fancied ambiguities as an excuse for failing to give effect to its plain meaning because they themselves consider that the consequences of doing so would be inexpedient, or even unjust or immoral."*

**Purposive Rule of Interpretation:**

Purposive interpretation is a judicial principle where courts decode legislation based on the legislative intent behind its enactment, choosing the spirit of the law over a rigid adherence to its literal words.

In case of Shailesh Dhairyawan vs Mohan Balkrishna Lulla, the court held that, *"Purposive interpretation is based on three components: language, purpose, and discretion. Language shapes the range of semantic possibilities within which the interpreter acts as a linguist. Once the interpreter defines the range, he or she chooses the legal meaning of the text from among the (express or implied) semantic possibilities. The semantic component thus sets the limits of interpretation by restricting the interpreter to a legal meaning that the text can bear in its (public or private) language. Of the aforesaid three components, namely, language, purpose and discretion 'of the Court', insofar as purposive component is concerned, this is the ratio juris, the purpose at the core of the text. This purpose is the values, goals, interests, policies and aims that the text is designed to actualize. It is the function that the text is designed to fulfil.*

A common question that often arises is: When should the Literal Rule of Interpretation be applied, and when should the Purposive Rule of Interpretation be preferred?

The answer lies in the nature of the statutory provision and the understanding that follows from its interpretation.

Generally, the courts strive to apply the Literal Rule of Interpretation, giving the statutory language its plain, natural, and ordinary meaning. If the words are clear, unambiguous, and lead to a logical interpretation of law they must be applied as they are, irrespective of the consequences.

However, where a literal interpretation leads to ambiguity, absurdity, inconsistency, or defeats the object of the statute. The courts may apply the Purposive Rule of Interpretation. Under this approach, the provision is interpreted considering the legislative intent and the mischief the statute was designed to cure.

To understand which rule should be applied, we must answer few questions while interpreting a statute:

1. **Whether the language of the law is plain or ambiguous?**

   If the language is plain, then we must apply literal rules without any logic. However, if the language is ambiguous then Purposive Rule must be applied.

2. **Does the provision have only one possible meaning, or is it capable of multiple reasonable interpretations?**

   Where the provision is very clear and does not give multiple interpretations or meanings then the Literal Rule should ordinarily be applied. However, if the provision is capable of more than one reasonable interpretation, the court may apply the Purposive Rule and adopt the interpretation that best advances the object and intent of the legislation.

3. **Would a literal interpretation defeat the object and purpose of the legislation?**

   If a literal interpretation defeats the object and purpose of the legislation, the court should adopt the Purposive Rule of Interpretation to give effect to the legislative intent. Similarly, if the literal interpretation advances or is consistent with the legislative purpose, the Literal Rule should be applied.

4. **What was the mischief that the legislature sought to remedy by enacting the provision?**

   If the mischief that the legislature sought to remedy can be identified, the provision should be interpreted in a manner that suppresses the mischief. This generally warrants the application of the Purposive Rule of Interpretation.

We should understand that both Literal and Purposive Rule of Interpretation are not replacement of each other but are complementary to each other.

Let us see examples where such rules are applied by the regulator/courts to derive the true meaning of statute.

A. Sub Section (2) of Section 164 of the Companies Act, 2013 ("the Act"): Disqualification of Director:

***No person*** *who is or has been a director of a company which—*

*(a) has not filed financial statements or annual returns for any continuous period of three financial years ; or………*

The Section deals with the instances in which the director will be disqualified to become director in any Company. One of the disqualification trigger points is non-filing of financial statements and annual returns for a continuous period of three years.

Let us refer to a case law where such provision's interpretation was in question:

In Mukut Pathak & Ors. v. Union of India, the petitioners challenged their disqualification as directors under clause (a) of sub section (2) of Section 164 of the Act, following the Ministry of Corporate Affairs action against companies that had failed to file financial statements and annual returns for three consecutive financial years. The petitioners contended that the MCA had unlawfully deactivated their Director Identification Numbers and Digital Signature Certificates without giving an opportunity of being heard to the director. The Delhi High Court held that Section 164 does not contemplate a prior opportunity of being heard before disqualification, as the consequence is automatic upon the non-fulfilment of the statutory conditions. The Court adhered strictly to the plain and unambiguous language of the statute, refusing to attract opportunity of being heard where the statute provides clear disqualification on non-fulfilment of the necessary condition.

**The above judgment is a classic example of the Literal Rule of Interpretation where the language of law is clear, unambiguous, does not provide multiple meanings and is also providing remedy to the mischief.**

B. Regulation 23 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("Listing Regulations") with respect to Related Party Transactions.

As per proviso to sub regulation (1) of Regulation 23 of Listing Regulations- *Provided that a 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 financial year, exceeds the thresholds specified….*

In Linde India Limited v. SEBI, Securities Appellate Tribunal (SAT), the principal issue before the Tribunal was that whether the materiality threshold under subsection (1) of Regulation 23 should be calculated by considering each individual contract separately, or by aggregating all transactions with the same related party during a financial year. The appellant relied upon the definition of "related party transaction" clause (zc) of sub regulation (1) of Regulation 2 of Listing Regulation, which states that "a single transaction or a group of transactions in a contract" and argued that only transactions forming part of a particular contract should be aggregated.

SEBI, on the other hand, contended that Regulation 23 is a substantive governance provision intended to protect minority shareholders. If every contract were examined independently, a listed entity could split a large commercial arrangement into multiple contracts, each remaining below the materiality threshold, thereby avoiding shareholder approval.

The Tribunal accepted SEBI's contention. It held that clause (zc) of sub regulation (1) of Regulation 2 of Listing Regulation merely defines what is a related party transaction, whereas Regulation 23 is the primary provision prescribing the manner in which materiality is to be determined. Accordingly, the Tribunal held that all transactions with the same related party during a financial year must be aggregated for determining materiality under Regulation 23(1). The Tribunal observed that any contrary interpretation would defeat the purpose of the regulation by allowing listed entities to circumvent the shareholder approval mechanism.

**In this case, the tribunal has applied the purposive rule of interpretation to supress the mischief caused by applying the plain meaning of the regulation as the application of plain meaning was defeating the purpose of the Regulation which was enacted to protect the minority interest.**

## Conclusion:

Considering the above important rules of statutory interpretation and analysis of the judgement passed on the basis of such rule of interpretation, it can be construed that the letter of the law is the starting point, while the purpose of the law is its guiding compass. Neither the Literal Rule nor the Purposive Rule is superior to the other; rather, they operate in complementary and in harmony to ensure that legislation is interpreted in its true manner and with an intent for which the same is enacted in the statute.

Reference:


1. Duport Steels Ltd and Others v Sirs and Others
2. Shailesh Dhairyawan vs Mohan Balkrishna Lulla
3. Mukut Pathak & Ors. v. Union of India
4. Linde India Limited v. SEBI, Securities Appellate Tribunal (SAT)
5. The Companies Act, 2013
6. Listing Regulations