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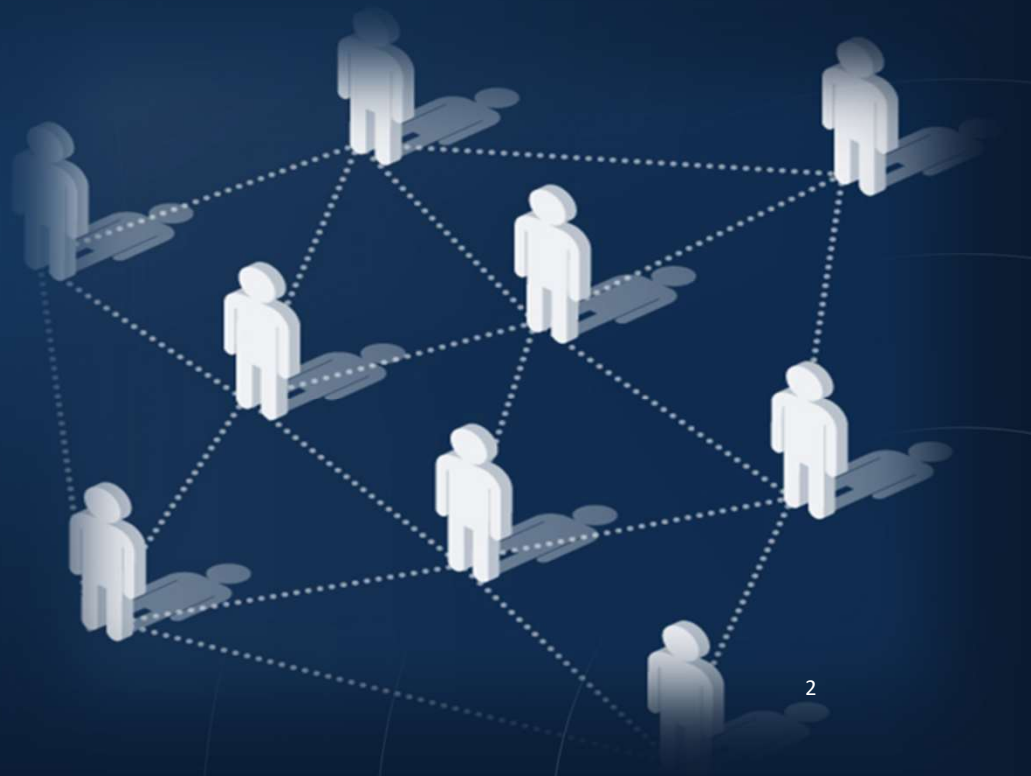
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Related Party Transactions

360 degrees insights on Regulatory Compliance,
Best Practices and Meeting Stakeholders' Expectations



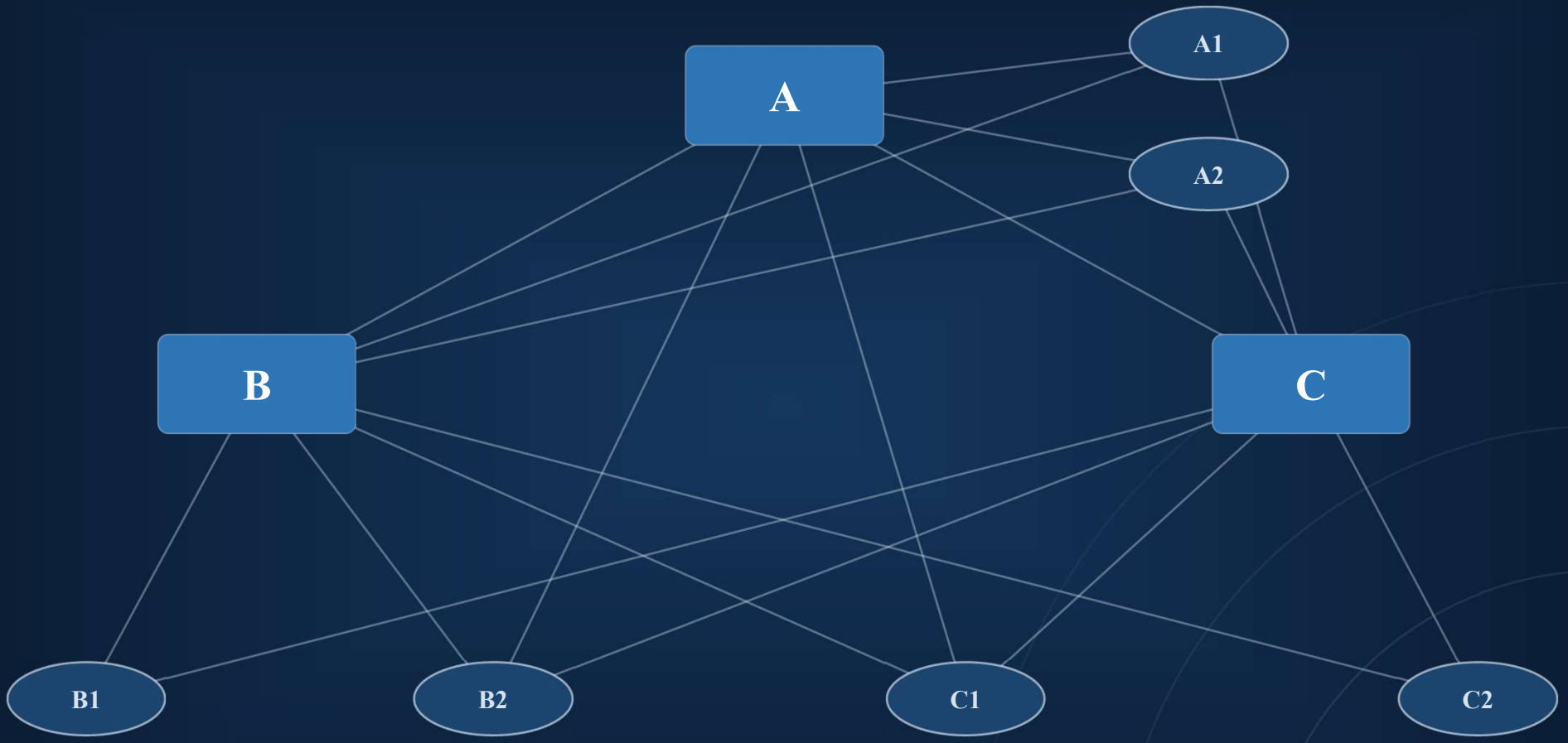
SPEAKER

CA Priyanka Gaba

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Agenda

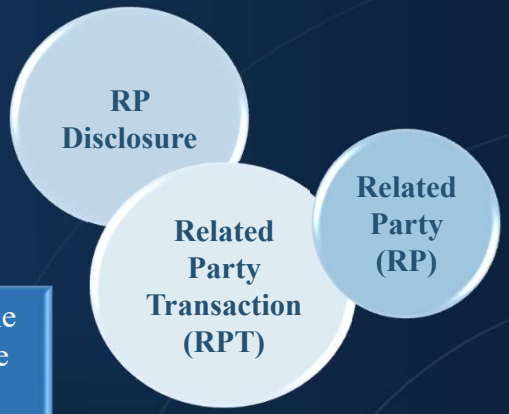
- Background and Introduction
- Key Definitions (RP, RPT, ALP)
- RPT Approvals and Ratifications
- RPT Life Cycle
- Key Factors in the RPT Life Cycle
- Corporate Governance Iceberg
- Why RPTs Are Treated Differently
- Multi facet Corporate Governance
- What Regulators Are Looking For
- Regulatory Architecture
- Evolution of the SEBI Framework
- Key Amendments in SEBI LODR
  - Revised Materiality Framework
  - Subsidiary RPT Thresholds
  - Industry Standards for Disclosure practices
  - SME Listed Entities
  - Shareholder Omnibus Approvals
- Common Mistakes and Impact (incl. Case Studies)
- Shift in the Governance Mindset
- Key insights for Thematic Areas
- Best Practices to adopt
- Stakeholders' Perspective
- Meeting Stakeholders' Expectations
- Key take-aways

Introduction to the Concept of RPT

A **Related Party Transaction (RPT)** is a transaction between a company and a person or entity having a **specified relationship** with that company.

Common ownership or control
Common management or KMP
Significant influence
Family relationships
Control or influence over another entity
Certain relationships recognized by law / AS

A related party transaction is not identified merely by the nature of the transaction. It is identified by examining the relationship between the parties and the applicable legal definition of a related party.



Related Party (RP)

Related Party

Sec. 2(76), Companies Act 2013

- Directors, KMP & their relatives
- Firms & private cos. where a director, manager or relative is partner, member or director
- Public co. where a director / manager is director & holds > 2% with relatives
- Body corporate or person acting on a director's / manager's advice
- Holding, subsidiary, associate & fellow subsidiary; investing co. / venturer
- Non-independent director / KMP of the holding co., or their relative

Accounting Standard 18

- Entities that control, are controlled by, or are under common control
- Associates & joint ventures
- Individuals with significant influence through voting power, and their relatives
- KMP and their relatives
- Entities over which such individuals or KMP exercise significant influence

Promoter / Promoter Group

DEEMED RP

Promoter group includes:

- Holding company / subsidiary
- Body corporate ≥ 20% held by the promoter
- Body corporate holding ≥ 20% in the promoter

Equity Shareholder ≥ 10%

DEEMED RP

≥ 10%

of equity shares held

directly or through beneficial interest

Related Party (RP) – Purpose & Effect Test

Purpose

- Not defined or recorded
- Evident only on examining the transaction
- Subjective & investigative to establish

+

Effect

- Likely to be defined
- Evident once the purpose is examined
- Depends on the purpose being established

Both **PURPOSE** and **EFFECT** must be present to treat a person / entity as a Related Party.

Essential conditions

1. Not in the ordinary course — inspired solely to benefit the RP
2. Unrelated layers may sit in between, yet the chain to the RP is clear
3. The benefit to the RP is evident
4. Of the two tests, purpose carries more weight

Related Party Transactions (RPT)

REG. 2(1)(zc), SEBI LODR A transfer of resources, services or obligations between:

Listed entity / its subsidiary ⇄ **Related party of the listed entity / subsidiary**

Listed entity / its subsidiary ⇄ **Any other person / entity**

...where the purpose & effect is to benefit an RP of the listed entity / subsidiary

Covered whether or not a price is charged

A "transaction" includes a single transaction or a group of transactions in a contract

Excluded from the RPT definition

- Preferential issue of specified securities, compliant with SEBI ICDR
- Uniform corporate actions — dividend, split / consolidation, rights / bonus, buy-back
- Fixed deposits accepted by banks / NBFCs on uniform terms
- CASA deposits accepted by banks as per RBI directions
- Retail purchases by directors / KMP & relatives on uniform employee terms

ALP = PRICE + TERMS + RISK + COMMERCIAL RATIONALE

Arm's Length Pricing Framework

Ordinary Course of Business

Normal and incidental to operations — routine or repetitive in nature.

Still in the ordinary course if done on similar terms with unrelated parties.

Arm's Length Principle

Conducted as if the parties were unrelated — no conflict of interest. Prices, discounts & premiums match those offered to unrelated parties.

PRICING METHODS

CUP

Comparable Uncontrolled Price

Price in a comparable uncontrolled transaction, adjusted for differences

CPM

Cost Plus

Direct & indirect costs plus a normal gross mark-up from comparables

RPM

Resale Price

Resale price to an unrelated party, less a normal gross margin

PSM

Profit Split

Combined profit split by relative contribution, using market data

TNMM

Transactional Net Margin

Net margin on costs or sales, benchmarked to comparables

A numerical example showing why price alone is not enough

Terms of Arrangement	Related party	Unrelated supplier
Unit price	₹100	₹105
Credit	Advance	120 days
Security	None	Performance guarantee
Volume flexibility	Low	High
Service SLA	Basic	Contractual penalty
Economic question	Is ₹100 really cheaper?	What is total commercial value?

Learnings: Never conclude arm's length from a SINGLE PRICING DATAPOINT.

RPT Approval – Hierarchy & Chronology

PRIOR APPROVAL SEBI LODR requires prior approval for all RPTs

APPROVAL HIERARCHY

ACB	All RPTs & subsequent material modifications
Board	Material RPTs, or RPTs referred by the ACB
Shareholders	Material RPTs — related parties cannot vote to approve

OMNIBUS VS SPECIFIC APPROVAL

	Omnibus	Specific
Nature	Recurring & repetitive (unforeseen needs: up to ₹1 Cr per transaction)	Specific transaction
Validity	Up to 1 year; fresh approval thereafter	Entire tenure of the RPT
Review	Quarterly, by the AC	Long-term RPTs reviewed annually by the AC

RPT Approval – Approval Matrix

	TRANSACTION	PRIOR APPROVAL FROM PARENT ENTITY
Entity & its RPs (other than WoS)	Up to the materiality threshold	ACB
	Material — exceeds the materiality threshold	ACB · Board · Shareholders
Subsidiary & RPs of entity / subsidiary (entity not a party)	Up to ₹1 Cr	*Not required*
	> ₹1 Cr and > 10% of the subsidiary's standalone turnover*, within the entity's materiality	ACB
	Exceeds the entity's materiality threshold	ACB · Board · Shareholders

** Or paid-up share capital + securities premium, where the subsidiary lacks one year of audited financials*

RPT Approval – Ratification

01

Who can ratify

Independent directors who are members of the Audit Committee

02

Time limit

Within 3 months of the RPT, or at the next AC meeting — whichever is earlier

03

Conditions

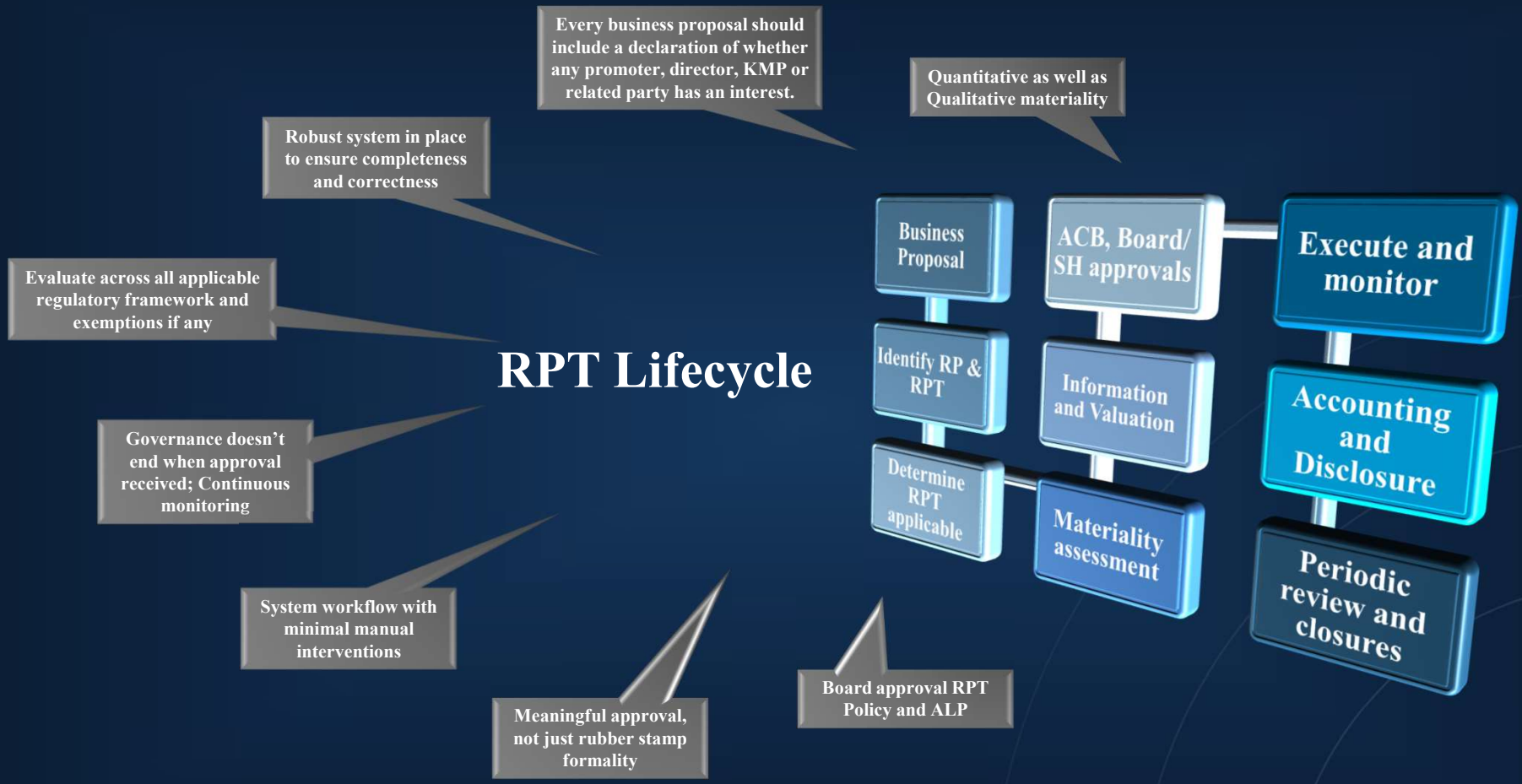
- Value ≤ ₹1 Cr per party
- Not a material RPT
- Reasons for missing prior approval placed before the AC
- Disclosed to SEs in the half-yearly Reg. 23(9) filing

04

If not ratified

- RPT is voidable at the AC's option
- If with / authorised by a director, that director indemnifies the entity for any loss

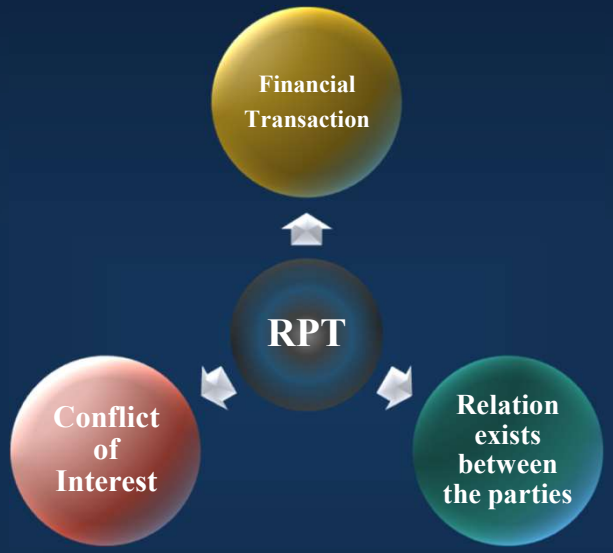
RPT Lifecycle



Key Factors in the RPT Lifecycle

- Creates Conflict of Interest
- Information asymmetry
- Identification of RPs
- Arm’s Length Framework (ALP)
- SEBI's framework has progressively moved beyond a simple direct transaction model
- Connects multiple Governance Functions across the entity
- Materiality ---- Applicability
- Approvals and Disclosures
- Impact on Shareholder wealth

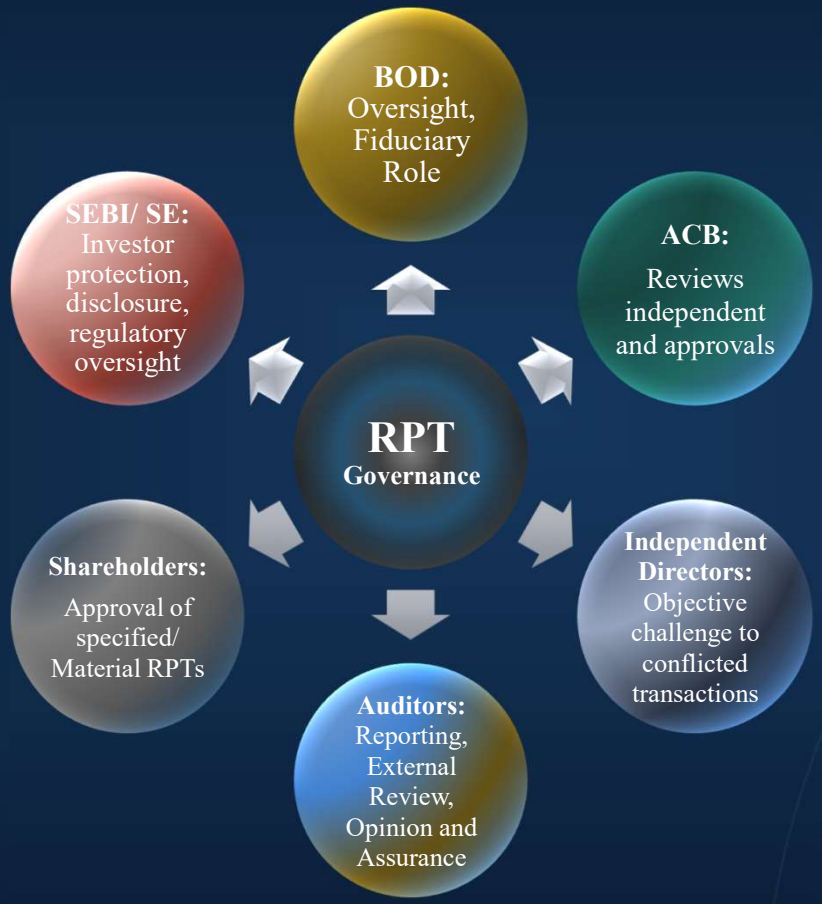
Why RPTs Are Treated Differently



*In RPTs, the **PROCESS** is as important as the **PRICE***
*FAIR PRICE **without** a CREDIBLE APPROVAL =*
Governance Concerns

Conflict → **Process** → **Pricing** → **Disclose** → **Account -ability**

Multi-Facet Corporate Governance



Existence of a RP relationship does not automatically mean fraud or misconduct. Governance process must establish that the RPT is appropriate, fairly evaluated and properly approved.

What Regulators Are Looking For



RPT: the deal behind the deal

01 From **approvals** → to **accountability**

02 Beyond the **thresholds**

03 From a **disclosure exercise** → to a **test of governance quality**

04 **Defensible governance**

Regulatory Architecture



A related party does not mean that every transaction with that party is automatically a RPT under every law. Definitions and scope differ across Acts.

Evolution of the SEBI Regulatory Framework

For a listed entity, Regulation 23 is the Core RPT Governance Framework

- **Jan'2026 onward** — Latest consolidated LODR Circulars
- **19 – Dec - 2025** — Revised RPT materiality framework
- **18 – Nov - 2025** — 5th amendment was notified
- **26 - June - 2025** — Revised Industry Standard was notified
- **01 -April - 2025** — SME Regulation 23 applicability
- **14 - Feb - 2025** — SEBI Industry Standards Initiative
- **13 - Dec - 2024** — RPT specific changes in SEBI LODR
- **01 - April - 2023** — Indirect benefit transactions included
- **2021 - 2022** — Expansion of RPT definition & Approvals
- **2018 - 2019** — RPT governance framework strengthen

Related party policy
Audit Committee approval
Material RPTs
Shareholder approval
Omnibus approvals
Disclosure requirements
Applicability to subsidiaries
Relevant exemptions

Key Amendments in SEBI LODR

Revised Materiality Framework:

Schedule XII turnover-linked thresholds replaced the old flat ₹1,000 crore / 10% test for material RPT

Subsidiary RPT threshold architecture:

The lower-of test now links subsidiary RPT approval to subsidiary turnover and the listed entity's material RPT threshold; special treatment exists for subsidiaries without a one-year audited track record.

Shareholder omnibus approvals:

Validity is specifically addressed under the amended regulation 23(4) – to be revisited and approved every year without simple roll-over.

SME Listed Entities:

Regulation 23 applicability and the ₹50 crore / 10% materiality framework deserve specific attention from April 1, 2025.

Industry standards:

The information package going to the ACB/ shareholders is no longer merely a company-designed checklist; SEBI-backed industry standards have materially raised expectations around decision-useful information.

Ind AS 24:

ICAI issued fresh educational material in February 2026 — a useful reference for auditors and auditees.

(1) Revised Materiality Framework

OLD: lower of ₹1,000 crore OR 10% of consolidated turnover

NEW: Schedule XII — progressive turnover-linked thresholds

GENERAL RULE

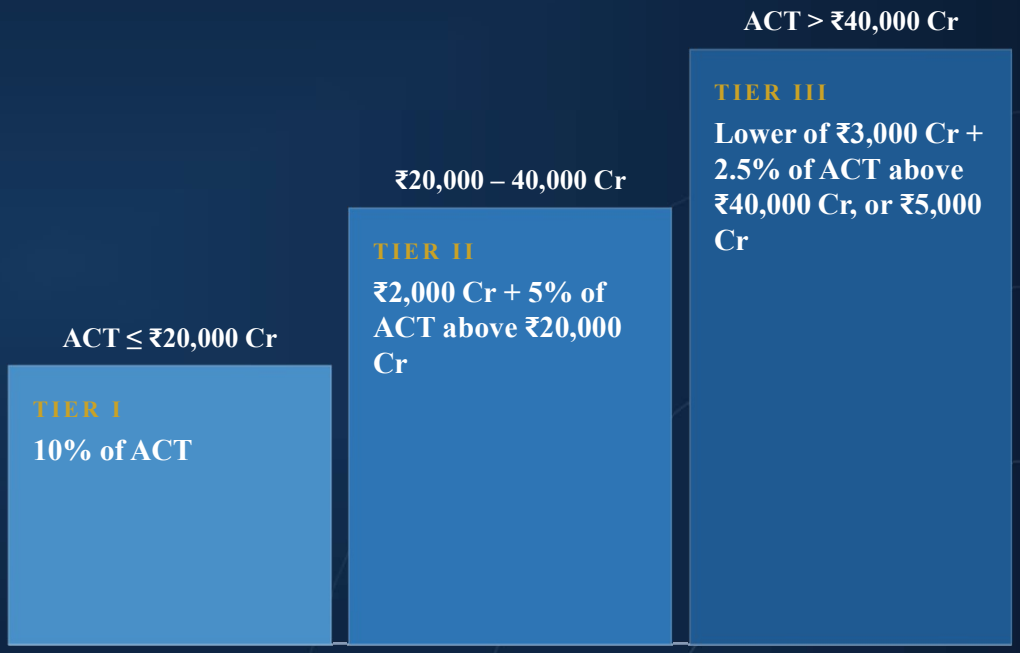
RPTs with a related party — individually or aggregated with earlier transactions in the FY — are material if they exceed the Schedule XII thresholds.

5%

BRAND USAGE / ROYALTY

Payments to an RP for brand usage or royalty are material above 5% of annual consolidated turnover (last audited FS).

SCHEDULE XII — MATERIALITY THRESHOLDS



ACT = annual consolidated turnover. Above the threshold → Material RPT (MRPT).

(1) Revised Materiality Framework

Consolidated turnover	Calculation	Material RPT threshold
₹10,000 Crores	10% × 10,000	₹1,000 Crores
₹20,000 Crores	10% × 20,000	₹2,000 Crores
₹30,000 Crores	2,000 + 5% × 10,000	₹2,500 Crores
₹50,000 Crores	3,000 + 2.5% × 30,000	₹3,750 Crores
₹1,50,000 Crores	3,000 + 2.5% × 1,10,000 = 5,750; cap	₹5,000 Crores

Threshold = shareholder-approval trigger for MATERIAL RPTs — not an "RPT applicability" threshold

(1) Revised Materiality Framework (Material Modifications)

1 **Not defined in the SEBI regulations**

2 **All RPTs & material modifications need prior AC approval**

3 **AC defines "material modification" in the RPT policy & discloses it**

PRESUMED MATERIAL

≥ 25%	Variation in value vs. the originally approved RPT
≠ ALP	Terms cease to be at arm's length
≥ 25%	Waiver / relief with financial impact on contract value
≥ 25%	Tenure extended, or contract continued beyond the agreed term

EXCLUDED

- ✓ Mandated by a change in law
- ✓ In line with the approved contract's terms
- ✓ Change in constitution via a scheme of arrangement (merger, demerger…)
- ✓ Purely technical — no substantive change in rights or obligations
- ✓ Applied uniformly to similar unrelated-party transactions

(1) Revised Materiality Framework (Material Modifications)

ORIGINAL RPT ↓ / MODIFICATION →	Non-material	Material
Non-material	**AC approval** Every RPT needs AC approval	**Prior AC approval** Material modification of a non-material RPT
Material	**AC approval** Non-material change to a material RPT	**Prior AC + shareholder approval** Highest scrutiny

"Materiality is not merely a mathematical exercise.
It is a governance filter that determines the level of scrutiny and shareholder involvement required."

RPT GOVERNANCE ≠ HOLD CO - ONLY GOVERNANCE

(2) Subsidiary RPT Thresholds

✕ **Entity is not a party**

✓ **Subsidiary is a party**

The practical lesson: Build RPT universe at subsidiary level, not only at the listed-company ledger.

RPT > ₹1 Cr

individually or aggregated with earlier transactions in the FY, exceeding the lower of:

→

10% of the subsidiary's annual standalone turnover*

OR

The entity's materiality threshold

→

Prior approval of the entity's Audit Committee

** Subsidiary without one year of audited financials: use paid-up share capital + securities premium, as on a date not older than 3 months before seeking AC approval.*

OMNIBUS APPROVAL OF SUBSIDIARIES' RPTS

1 Significant / material RPTs of the subsidiary are first approved by its own AC and / or Board — before execution

→

2 Then placed for prior approval of the entity's AC / Shareholders, as applicable

(3) Industry Standards for Disclosure

THE QUESTION IS SHIFTING FROM "WAS IT APPROVED?" TO "WHAT DID APPROVER KNOW?"

TIER 1 **RPT ≤ ₹1 Cr**	Industry Standards not applicable
TIER 2 **RPT ≤ 1% of ACT or ₹10 Cr, whichever is lower**	Reduced minimum information to the ACB (SEBI circular 13.10.2025)
TIER 3 **Above the tier-2 threshold**	Full disclosure as per the RPT Industry Standards

ACT = annual consolidated turnover

Reduced information (tier 2)

- **a** Type, key terms, parties, relationship, tenure & value
- **b** Value as % of the entity's ACT (previous FY)
- **c** Details of any loans, ICDs, advances or investments
- **d** Why the RPT is in the entity's interest
- **e** Valuation / external party report, if any
- **f** % of the counter-party's ACT (voluntary)
- **g** Any other relevant information

(3) Industry Standards for Disclosure

DISCLOSURES TO THE AUDIT COMMITTEE

SEBI CIRCULAR 26.06.2025 Industry Standards on minimum information for AC & shareholder approval of RPTs

Applicability: All RPTs above ₹1 Cr, except exempt RPTs and those under quarterly ACB review

Certification: CEO / MD / WTD / Manager and CFO confirm the RPT is in the entity's interest

PART A · All RPTs — **22 rows**

- Basic details of related parties
- Relationship & ownership
- Amount & key terms of the proposed RPT

PART B · Type-specific — **35 rows**

- Goods / services
- Loans, investments, guarantees
- Borrowings
- Sale / lease of subsidiary assets
- Royalty

PART C · Material RPTs — **20 rows**

- Additional information, only when a Part B-type RPT is material

77 ROWS

A · 22 | B · 35 | C · 20

(3) Industry Standards for Disclosure

DISCLOSURES TO SHAREHOLDERS

Everything placed before the Audit Committee

(Parts A, B & C)

+

1. Why the proposed RPT is in the listed entity's interest
2. Confirmation that the AC reviewed the CEO / MD / WTD / Manager & CFO certificate
3. AC & Board approval of the material RPT (or modification), with the Board's recommendation
4. Web-link & QR code to valuation / external reports considered by the AC
5. Redaction of commercial secrets, if approved by AC & Board — provided disclosure stays adequate
6. Any other relevant information

(3) Industry Standards for Disclosure

DISCLOSURES TO STOCK EXCHANGES



ANNUAL

Integrated Filing (Governance)

Annual affirmations on the RPT policy and RPTs form part of the Integrated Filing (Governance).



HALF-YEARLY

Reg. 23(9), SEBI LODR

RPT disclosures filed with the stock exchanges in XBRL format, along with the half-yearly financial results.

(4) Applicability extended to SME Listed Entities

DO NOT TREAT REGULATION 23 AS A "LARGE-CAP ONLY" ISSUE



Applicability

- ❑ Regulation 23 applicability was extended to qualifying SME listed entities from 1 April 2025.
- ❑ Materiality for SME listed entities uses ₹50 crore or 10% of consolidated turnover, whichever is lower, subject to the applicable framework.



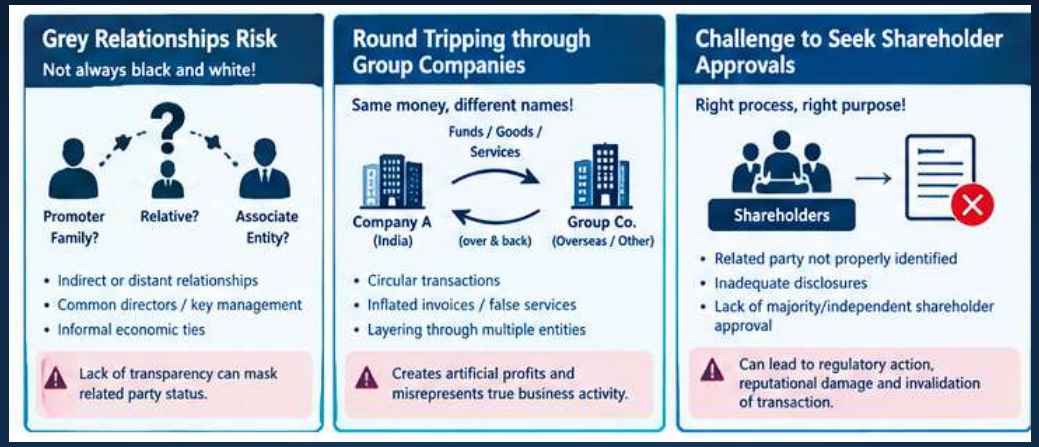
Approach adoption

- ✓ SME clients need a proportionately simpler—but equally evidence-based—RPT control architecture.
- ✓ CA opportunity: Build scalable RPT registers and approval packs rather than copying large-cap processes.


Corporate Governance
What you see is just the tip of the iceberg...
RPT compliance goes much deeper.
What Stakeholders See
• Approvals and disclosures
• Compliance certifications
• Reporting and transparency
VISIBLE
(The Tip)
Board/Shareholder approval
Disclosures in financial statements
Compliance with SEBI regulations
HIDDEN
(The Real Challenge)
Complexities and difficulties
in RPT compliance
RPT Compliance is not just about following rules...
It's about navigating a complex ecosystem of people, processes, regulations and expectations.
Strong Corporate Governance keeps you above the surface.
RPT Compliance is a journey, not a one-time checklist.


Identifying Related Parties
• Complex group structures
• Ultimate beneficial ownership
• Cross-border and indirect relationships
What looks like a third party may not be.
Regulatory Complexity
• Evolving SEBI regulations
• Multiple circulars and amendments
• Overlapping laws (Companies Act, SEBI, Income Tax, FEMA)
Rules keep changing, compliance never stands still.
Materiality & Thresholds
• Calculation under new rules
• Multiple tests (transaction, counterparty, assets, liabilities)
• Frequent changes in thresholds
A small number can create a big impact.


Conflict of Interest Risks
• Related party influence
• Potential for preferential terms
• Reputational and stakeholder concerns
Even perceived bias can damage trust.
Stakeholder Expectations
• Investors, regulators, lenders
• Independent directors and audit committee
• Public and financial impact
Non-compliance is costly.
Documentation & Disclosure
• Detailed and accurate disclosures
• Justification of commercial terms
• Public and financial and amendments
Incomplete records create regulatory and legal risk.
Process & Controls
• Identification under monitoring
• Approvals (Board, Audit Committee, shareholders)
• Timely disclooures and filings
Strong processes prevent weak outcomes.


Grey Relationships Risk
Not always black and white!
Promoter Family?
Relative?
Associate Entity?
• Indirect or distant relationships
• Common directors / key management
• Informal economic ties
Lack of transparency can mask related party status.
Round Tripping through Group Companies
Same money, different names!
Funds / Goods / Services
Company A (India)
(over & back)
Group Co. (Overseas / Other)
• Circular transactions
• Inflated invoices / false services
• Layering through multiple entities
Creates artificial profits and misrepresents true business activity.
Challenge to Seek Shareholder Approvals
Right process, right purpose!
Shareholders
• Related party not properly identified
• Inadequate disclosures
• Lack of majority/independent shareholder approval
Can lead to regulatory action, reputational damage and invalidation of transaction.


Borderline RPT for Materiality Classification
Below the threshold? Not always simple!
Below 10%
Near Threshold
Above 10%
Materiality Threshold
• Complex group structures
• Multiple transactions and timing
• Ambiguity in classification
May escape approvals and disclosure but still pose significant risk.
Aggregation Problem
Small pieces can make a big picture!
Multiple RPTs
Related parties
Material in total
• Same party, different transactions
• Different heads / categories
• Across group companies
Requires holistic view and proper aggregation methodology.
IL&FS Case (Past Event)
RPTs can topple even large institutions.
IL&FS
• Large exposure to group companies
• Evergreening of loans
• Mis-disclosure and weak governance
Led to financial crisis, loss of investor confidence and systemic risk.
Other Industry Cases / Corporate Failures
From listed to unlisted – RPT risks are real.
Satyam Computers
• RPTs with promoter group
• Inflated revenues & related party loans
DHFL (IL&FS Group)
• RPTs and group exposure
• Liquidity crisis & collapse
RPT misuse can lead to fraud, collapse and loss of stakeholder value.

Case study 1 — Premier Polyfilm

The auditor discovers a related-party identification gap

- ❑ Company entered into ordinary-course transactions with several entities during FY 2022–23
- ❑ Management/ internal teams believed certain entities were not related parties under the Companies Act definition
- ❑ During statutory audit, the auditor identified relationships falling within Ind AS 24
- ❑ Companies Act-only RP master can be incomplete for financial reporting and LODR purposes
- ❑ Control response: Reconcile Companies Act + Ind AS 24 + LODR definitions before year-end

THE RELATED-PARTY MASTER MUST BE MULTI-REGULATORY

Case study 2 — Niraj Cement Structurals

A small excess can still be a regulatory failure

Party	Shareholder-approved limit	Actual transaction	Unapproved excess
Niraj Patel JV	₹55 Crores	₹56.91 Crores	₹1.91 Crores
Niraj Babulnath JV	Within approved limit	See order	Fresh approval issue
Niraj Jandu JV	Within approved limit	See order	Fresh approval issue

- Company attributed the lapse to invoices / work approvals coming through late and to inadvertence
- SEBI found failure to obtain mandatory shareholder approval for material RPT modification
- Penalty: ₹4 lakh

APPROVED LIMITS ARE NOT ELASTIC;
OPERATIONAL OVERRUNS CAN BECOME GOVERNANCE FAILURES

Case study 3 — Linde India: Aggregation matters

SEBI interim proceedings: Materiality tested on aggregate annual value

- SEBI examined RPTs involving Linde India and Praxair
- The issue included whether multiple transactions/ contracts should be aggregated for materiality
- SEBI's July 2024 order directed that future RPT materiality be tested on the aggregate value of transactions with a related party during the financial year, irrespective of the number of transactions/ contracts
- Learning: Do not "reset the clock" merely because transactions sit in different contracts

AGGREGATE THE ECONOMIC EXPOSURE — NOT JUST THE CONTRACT

Case study 4 — Seya Industries

Substance, disclosure and the related-party ecosystem

- SEBI's May 2025 final order examined a complex group of transactions and related-party relationships.
- The order discusses transactions with entities treated as related parties under Regulation 2(1)(zc) and the related accounting/ disclosure framework.
- Ind AS 24 requires disclosure of the relationship and relevant transactions, balances and commitments necessary to understand their effect.
- Learning: Map the economic relationship first; disclosure is the output of that mapping.

DISCLOSURE QUALITY DEPENDS ON RELATIONSHIP MAPPING QUALITY

Case study 5 — Adicorp / Adani matter

A valuable lesson: Enforcement can turn on substance and evidence

- SEBI's September 2025 final order considered allegations concerning transactions involving Adicorp Enterprises and Adani Group entities.
- The proceedings considered the evolution of the RPT definition and the scope of the benefit limb.
- SEBI ultimately held the allegations in that proceeding were not established and disposed of matter without directions.
- Learning: Do not assume every allegation becomes a violation - build the factual and evidentiary record carefully.

GOOD GOVERNANCE IS ALSO ABOUT BEING ABLE TO PROVE THE NEGATIVE

Case study 6 — Bajaj Hindusthan Sugar

The 2026 order: When RPT risk becomes a fund-flow and investor-protection issue

- SEBI's May 2026 order examined alleged diversion/ misappropriation through RP and non-disclosure of RPTs.
- The investigation period covered FY 2010–11 to FY 2021–22.
- The order records alleged net transfer of ₹318.50 crore through Ojas Industries and alleged diversion of ₹870.60 crore through Bajaj Power Generation.
- Learning: Regulator can follow money flows across entities — the AUDIT TRAIL must do the same.

FOLLOW THE MONEY - FOLLOW THE CONTROL - FOLLOW THE BENEFICIARY

Case Study 7 – Promoter Group Procurement

Facts of the case: A listed manufacturing company buys raw materials worth ₹200 crore annually from a promoter-owned company.

AREAS OF CONCERN:

- Is the vendor a related party?
- Is the transaction ordinary course?
- Is pricing arm's length?
- Is there an independent procurement process?
- Are transactions aggregated?
- Is the approval valid?

FACTORS TO CONSIDER:

- Why is this vendor preferred?
- Are alternative vendors available?
- Is the price comparable?
- What are the payment terms?
- Is the company commercially dependent on the vendor?

Learnings: Ordinary course and arm's length should be demonstrated, not assumed.

Case Study 8 – Management Fee to Promoter Entity

Facts of the case: A listed company pays ₹40 crore annually to a promoter-controlled entity for management services.

AREAS OF CONCERN:

- What services are provided?
- Are the services actually received?
- How is the fee calculated?
- Are there comparable service arrangements?

FACTORS TO CONSIDER

- Is the price comparable?
- Is there duplication of services?
- Is the transaction covered by approval and disclosure requirements?

Learnings: A service agreement should be supported by measurable deliverables and pricing evidence.

Case Study 9 – Subsidiary sale of the Property

Facts of the case: A subsidiary sells land to a promoter group entity.

AREAS OF CONCERN:

- Is the transaction covered under the SEBI provisions?
- What is the relationship?
- Is the valuation independent and pricing fair?

FACTORS TO CONSIDER

- Is the price comparable?
- What is the effect on the consolidated group?
- Are shareholder approvals required?

Learnings: A service agreement should be supported by measurable deliverables and pricing evidence.

Common Mistakes and Their Impact

No.	Common mistake	Impact	Process-Area
1	Incomplete related party master	Parties may be missed	Identification
2	Ignoring indirect relationships	RPT identification may be incomplete	Identification
3	Missing subsidiary transactions	Group-level governance risk	Identification and Approval
4	Inadequate approval note	Audit Committee cannot make informed decisions	Approval
5	Excess over omnibus limit	Transaction may exceed approval	Approval
6	Relying on old approvals	Validity and terms may have changed	Approval
7	Late approval	Prior approval may be breached	Approval
8	No escalation mechanism	Breaches may remain undiscovered	Ratifications
9	No pricing evidence	Fairness cannot be demonstrated	ALP
10	Treating arm's length as a complete exemption	Other approval obligations may remain	ALP
11	Failure to aggregate	Materiality may be understated	Materiality
12	Inadequate shareholder disclosure	Shareholders cannot assess the transaction	Disclosure
13	Inconsistent financial reporting	Ind AS and statutory disclosure risks	Disclosure
14	Poor minutes	Approval rationale cannot be evidenced	Documentation
15	Inadequate monitoring	Actual transaction may differ from approved terms	Review-Monitoring

Key insights for the Thematic Areas of RPT Governance

Identification of RPs

- Is the counterparty a Related Party under SEBI LODR?
- Is the relationship direct or indirect?
- Is entity controlled by a promoter or director?
- Is there common control?
- Is there significant influence?
- Has the related party list been updated?
- Does the transaction involve a subsidiary?
- Are there changes during the year?

COMMON MISTAKES

- Using only the statutory register
- Failing to update the RPT master
- Ignoring indirect ownership
- Missing newly incorporated group entities
- Treating a change in ownership as irrelevant
- Failing to consider relevant accounting and regulatory definitions

BEST PRACTICE

- Maintain a single RPT universe, with clear mapping
- Automated workflow with minimum manual intervention
- Reconcile differences instead of assuming the definitions are the same

Key insights for the Thematic Areas of RPT Governance

ALP and Ordinary Course

- Is the counterparty a Related Party under SEBI LODR?
- Is the relationship direct or indirect?
- Is entity controlled by a promoter or director?
- Is there common control?
- Is there significant influence?
- Has the related party list been updated?
- Does the transaction involve a subsidiary?
- Are there changes during the year?

COMMON MISTAKES

- Considering Arm's length as automatically compliant
- Failing to obtain necessary approvals even though ALP evident
- Inadequate evidence/ records of ALP process
- Ordinary Course of Business = Most MISUNDERSTOOD concept
- Ordinary course of BUSINESS REALITY TEST, not a label inserted into the approval note

BEST PRACTICE

- Is this type of transaction regularly undertaken?
- Is it consistent with the company's objects and business?
- Is it commercially normal for the industry?
- Is the scale and structure ordinary?
- Is the transaction being undertaken only because of the related party relationship?
- Is the transaction consistent with prior practice?

Key insights for the Thematic Areas of RPT Governance

ACB Omnibus Approvals

- Regular purchase of raw materials
- Routine inter-company service charges
- Recurring lease payments
- Repeated ordinary-course transactions.

COMMON MISTAKES

- Using omnibus approval to bypass scrutiny of a one-time major transaction
- Recording the amount or nature of the transaction open-ended
- Considering that a PY approval continues indefinitely
- Ignoring changes in the nature of the transaction/ arrangement

BEST PRACTICE

- Use omnibus approval for genuinely recurring transactions
- Define limits clearly
- Monitor actual amounts
- Review the approval periodically
- Ensure the approval is consistent with the latest applicable rules

Key insights for the Thematic Areas of RPT Governance

Audit Committee Approvals

- Specified RPTs require prior approval of the ACB under Regulation 23; subject to applicable provisions and exemptions.
- Prior approval means approval should be obtained before the Entity enters into the transaction, not merely after the transaction has already been completed.
- If prior approval was required, ratified approval obtained after signing does not cure original non-compliance.

COMMON MISTAKES

- Sign first and seeking approval later
- Treating email circulation as a substitute to approval
- Vague omnibus approval for unlimited unrelated RPT
- Assuming ACB approval is sufficient

BEST PRACTICE

- Obtain approval before entering into Related Party Transaction
- Clearly specify the nature of transaction and its terms & conditions
- Maintain minutes of meetings and supporting information
- Track approval validity and limits to avoid breaches/ ratification
- Seek approval for material modifications/ changes

Audit Committee: 10 questions that change the quality of approval

Interrogate the transaction — not merely the paperwork

- ✓ **Why this related party?**
- ✓ **Why this price?**
- ✓ **What is the unrelated-party benchmark?**
- ✓ **What alternatives were considered?**
- ✓ **Who benefits economically?**
- ✓ **What happens if we do not approve?**
- ✓ **Are all commercial terms comparable?**
- ✓ **What is the FY cumulative exposure?**
- ✓ **What changes if the transaction is modified?**
- ✓ **What evidence supports today's conclusion?**

Key insights for the Thematic Areas of RPT Governance

Material RPTs

A material RPT is subject to enhanced scrutiny, including shareholder approval under the applicable SEBI LODR framework.

- RPT identification
- Material RPT determination
- Approval and Disclosure requirements

"Materiality is not merely a mathematical exercise. It is a governance filter that determines the level of scrutiny and shareholder involvement required."

COMMON MISTAKES

- Considering only individual invoices/ contracts
- Failing to aggregate Related Party Transactions during the FY
- Splitting a contract into several legal agreements
- Ignoring transactions undertaken through subsidiaries/ group company
- Treating different business divisions as unrelated

FACTORS TO CONSIDER FOR TESTING MATERIALITY

- Transactions with the same Related Party
- Transactions during the Financial Year period
- Related Party Transaction forming part of one arrangement
- Transactions executed through the subsidiaries/ group companies
- Economic substance over legal form

Key insights for the Thematic Areas of RPT Governance

Subsidiary RPTs

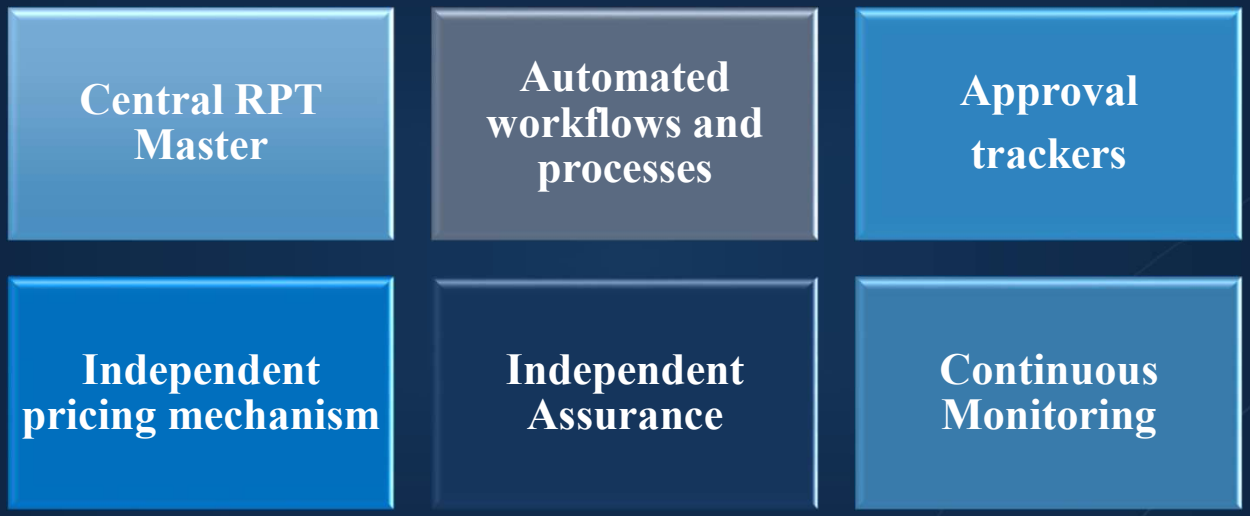
A transaction may be entered into by a subsidiary without the listed parent being a direct party to the arrangement; however transaction can still impact following:

- Consolidated Financial Statements
- Group Cash Flows
- Minority Shareholders
- Promoter group economies
- Listed company's governance risk framework

Do not assume that a transaction below the listed entity's materiality threshold is automatically outside all governance requirements.

- Is the transaction covered by Regulation 23?
- Is the listed entity itself a party?
- Does the subsidiary transaction meet the applicable threshold?
- Is Audit Committee approval required?
- Is shareholder approval required?
- Does the subsidiary have its own RPT policy?
- Are the transaction and relationship properly disclosed?

Best Practices to Adopt



Build a robust RPT governance framework

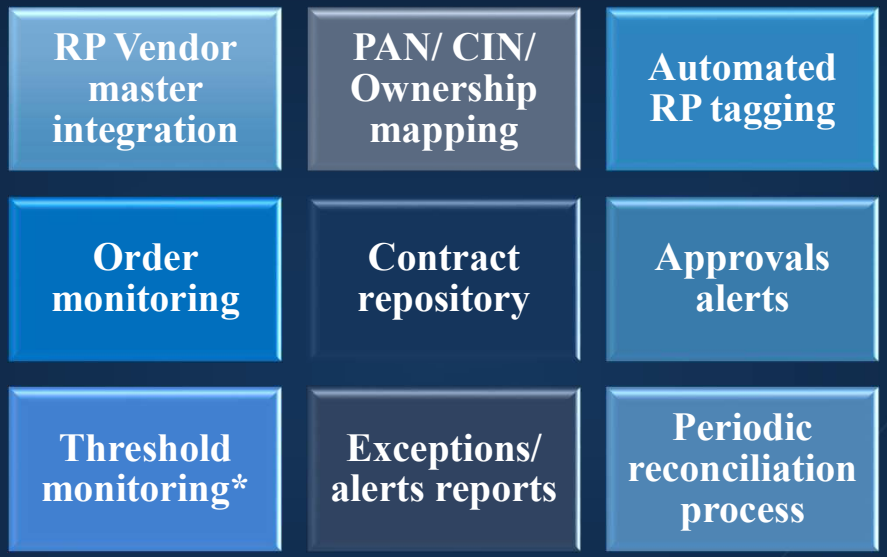
Best Practices to Adopt



Strong RPT Policy and Internal Framework

The policy should be OPERATIONAL.
It should tell employees EXACTLY WHAT TO DO when a transaction is proposed.

Best Practices to Adopt



Digital RPT monitoring

"The strongest RPT control is one that identifies transaction before the contract is created, rather than one that discovers it after year-end."

Best Practices to Adopt



Independent evaluation

A fairness opinion is an input to the governance process. It does not replace the statutory approval.

Best Practices to Adopt



Audit Committee effectiveness

"An effective Audit Committee is not measured by the number of RPT approvals granted. It is measured by the quality of the questions asked before approval."

Shift in the Governance Mindset

Identification v/s Ecosystem Mapping	Obtain Approval v/s Enable informed Approvals	Thresholds v/s Understanding Substance
Say Arm's Length v/s Demonstrate why ALP	Standard Disclosure v/s Commercial Rationale	Annual exercise v/s Continuous Monitoring

Stakeholders' Perspective



SEBI
"Whether it is a RPT? If yes, which approval – ACB, Shareholder, Disclosure?"

Companies Act
"Is it a **Sec.188** transaction?"

Governance
"Is RPT commercially reasonable?"

Audit
"What evidence is required SA550?"

Accounting
"What's required under IndAS 24 AS 18?"

Investors
"Does the arrangement transfer value away from shareholders?"

Meeting Stakeholders' Expectations

No.	Stakeholder	Key Expectations	How to Meet Stakeholder Expectations
1	Minority shareholders	No unfair value transfer	Independent scrutiny, transparent disclosures, shareholder approval
2	Promoters	Efficient and legitimate group transactions	Clear policy, timely approvals, well-documented pricing
3	Audit Committee	Reliable information	Detailed approval papers, benchmarking, exception reports
4	Board	Effective governance	Escalation mechanisms, risk reporting, clear responsibilities
5	Statutory Auditors	Reliable financial information	Reconciliations, contracts, balances, Ind AS 24 compliance
6	Secretarial Auditors	Legal and procedural compliance	Registers, minutes, approvals, filings and evidence
7	SEBI / Stock Exchanges	Investor protection	Timely disclosures and compliance with Regulation 23
8	Lenders	Protection of funds	Monitoring of guarantees, loans, security and cash flows
9	ESG / Institutional Investors	Governance integrity	Transparency, conflict management and accountability

"The objective of RPT compliance is not merely to avoid regulatory penalties. It is to demonstrate that the listed company is governed in the interests of ALL SHAREHOLDERS."

Auditor lens — SA 550

AUTHORISATION ≠ SUFFICIENT AUDIT EVIDENCE

RPTs are a financial reporting risk and a fraud-risk lens

- **Obtain understanding of related-party relationships and transactions**
- **Evaluate whether the identified relationships/ transactions create significant risks**
- **Remain alert to previously undisclosed related parties**
- **Inspect authorization and approval — but do not treat approval alone as conclusive**
- **Test unusual transactions, especially near period-end**
- **Evaluate whether disclosures faithfully reflect the substance**

Auditor Red-Flag Radar

Year-end spikes	Revenue / purchases / asset transfers	**Large advances**	No clear business rationale / weak recovery
Round numbers	₹50 cr / ₹100 cr without commercial detail	**New entities**	Sudden related party appearing near approval
Back-to-back	Funds move through intermediaries	**Unusual terms**	Long credit / advance / weak security
Modifications	Approved amount exceeded or terms changed	**Disclosure gaps**	Ledger ≠ RPT statement ≠ Ind AS 24

Learnings: Look for patterns, not isolated invoices

The 6E RPT Framework

A memorable operating model for Auditees and Auditors

1	2	3	4	5	6
ESTABLISH	**EXAMINE**	**EVALUATE**	**EVIDENCE**	**ESCALATE**	**EXPOSE**
Who is related?	*What exactly is the transaction?*	*Is price + rationale defensible?*	*What proves fairness / arm's length?*	*What approvals are required?*	*What must be disclosed / monitored?*

ESTABLISH → EXAMINE → EVALUATE → EVIDENCE → ESCALATE → EXPOSE

RPT Maturity Model

The goal is to shift from reactive approvals to evidence-based, governance-led transaction design

Maturity model is deliberately not a legal framework; it is a management tool

1 — REACTIVE	"Tell me what needs approval."
2 — COMPLIANT	"We have a policy and approvals."
3 — CONTROLLED	"We monitor RPTs continuously."
4 — EVIDENCE-BASED	"Every conclusion has evidence."
5 — GOVERNANCE-LED	"We design transactions for transparency and fairness."

Key Takeaways

Regulatory compliance begins with accurate identification of RP & RPT

RPTs are not inherently wrong; unmanaged conflicts are THE REAL RISK!

Arm's-length pricing is IMPORTANT, BUT it is NOT a SUBSTITUTE for required approvals

The ultimate objective is protection of Shareholder Value, Transparency & Trust

"Arm's length is a conclusion — not a declaration."

"Approval is meaningful only when the approver has meaningful information."

"Threshold is a trigger — not a safe harbour."

"RPT compliance is a test of the company's governance culture. The real question is not whether the company has an RPT policy; but whether the policy works before value is transferred."





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