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CHARTERED ACCOUNTANTS

Navigating SEBI's Industry Standards for Related Party Disclosures:

Enhancing Transparency and Governance

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INDUSTRY STANDARDS FOR RELATED PARTY DISCLOSURES: A WAY FORWARD FOR GOOD GOVERNANCE

Related Party Transactions (RPTs) have long been a focal point in corporate governance, primarily due to the potential for conflicts of interest, financial irregularities, and promoter-driven advantages. Historically, RPT disclosures were often unstructured and narrative-based, resulting in ambiguity and scope for selective reporting.

The Audit Committee plays a pivotal role in the review and approval of RPTs. However, it has historically faced challenges due to inconsistent and incomplete disclosures.

To address these concerns, SEBI issued a circular on **February 14, 2025**, introducing Industry Standards on **"Minimum Information to be Provided for Review by the Audit Committee and Shareholders for Approval of RPTs"** ("Industry Standards"), originally set to be effective from **April 1, 2025**.

Subsequently, via a circular dated **March 21, 2025**, the effective date was revised to **July 1, 2025**, and further postponed to **September 1, 2025**, through another circular dated **June 26, 2025**.

This document provides an overview of the key elements of the Industry Standards and their implications for governance.

A Legal Framework

I) The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 mandate that RPTs must be approved by the Audit Committee, and in certain cases, by the shareholders.

II) A master circular issued by SEBI on November 11, 2024, laid down broad requirements for disclosures before the Audit Committee and share-holders (Section III-B). However, it did not specify a structured format.

III) To standardize disclosure and ensure compliance, SEBI issued the circular dated February 14, 2025, mandating adherence to the Industry Standards.

B Key Components of the Industry Standards

I) Minimum Disclosure Requirements

The Industry Standards provide a structured format covering:

1. Related Party and Transaction Details

- Basic details of the related party
- Nature of relationship and ownership
- Financial performance of the related party
- History of previous transactions
- Proposed transaction amount

2. Specific Transaction Details

- Nature and terms of the proposed transaction
- Transactions involving sale/purchase of goods or services
- Loans, inter-corporate deposits, or advances
- Investments made by the listed entity/subsidiary
- Guarantees, indemnities, comfort letters, etc.
- Borrowings by the listed entity or its subsidiaries
- Sale/lease/disposal of assets or shares
- Royalty or similar payments

II) Applicability Matrix

The Standards include an Applicability Matrix, categorizing RPTs based on:

- Materiality thresholds (material, non-material, residual)
- Nature of the relationship (with promoter or otherwise)

Applicability and approval matrix for RPTs

The RPT Industry Standards provide guidelines for listed entities to obtain necessary approvals from the Audit Committee and shareholders. These standards also establish value-based thresholds for the required disclosures.

Steps for compliance:

1. Identify related parties and RPTs: As per LODR Regulations.
2. Classify RPTs: Based on the thresholds in the applicability matrix to determine the required approvals anddisclosures.

(Source: Industry Standards on “Minimum information to be provided for Review of the Audit Committee and Shareholders for Approval of Related Party Transaction (RPT)” dated
14 February 2025)

Promoter or promoter group shall be deemed to be concerned or interested in any person, if they in any way, whether directly or indirectly—

(a) where the person is a body corporate, holds more than 2 percent shareholding or voting rights of that body corporate, or is a promoter, managing director, manager, Chief Executive Officer of that body corporate; or

(b) where the person is a firm or other entity, the promoter(s) or the promoter group is a partner, owner or member, as the case may be.

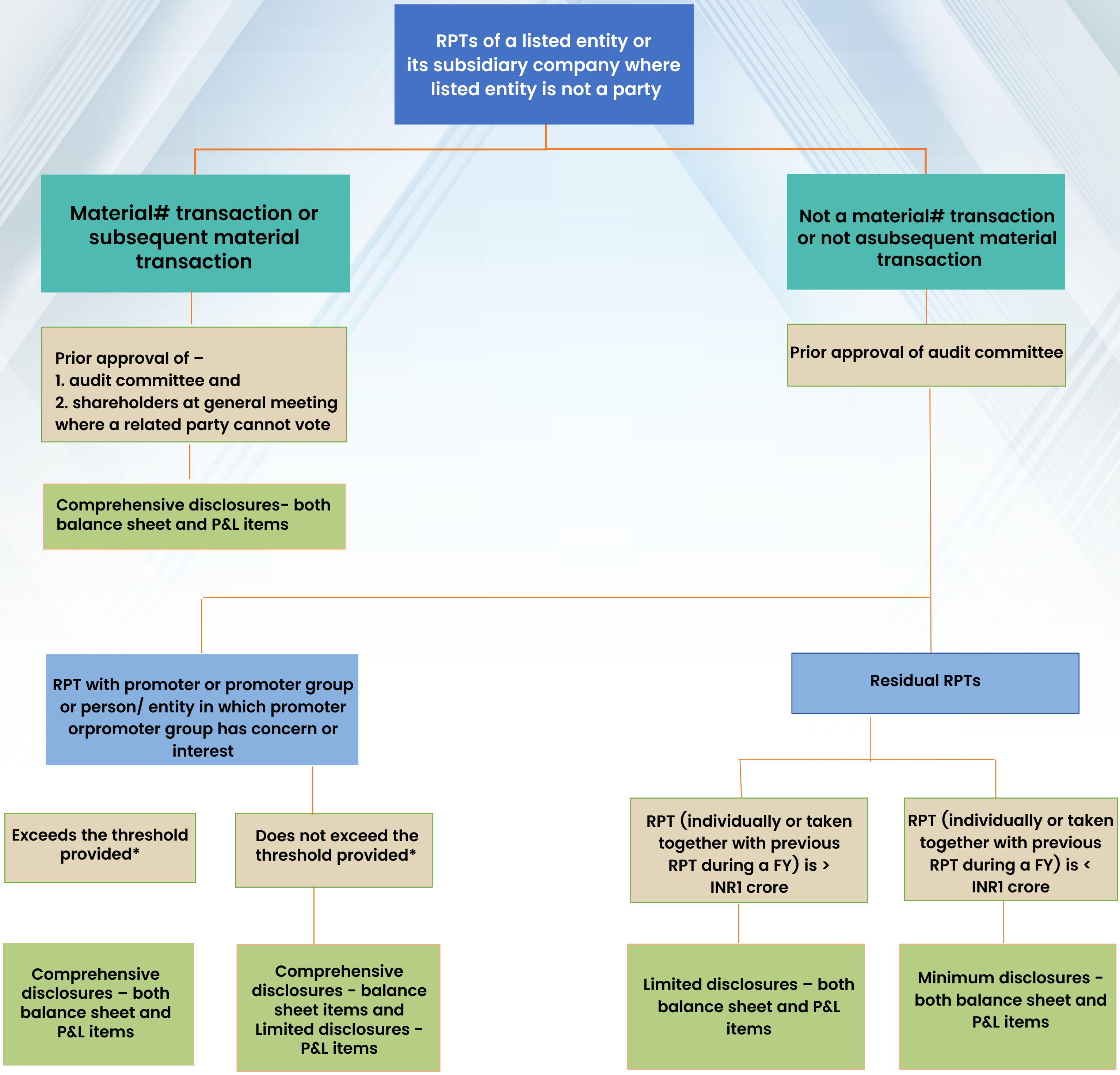
Applicability matrix:

Type of transaction	Threshold	Balance Sheet / Profit and Loss (P&L) items	Approvals required	Disclosure Requirement
Material RPTs	An RPT would be considered to be material •based on the materiality policy formulated by the listed entity, including clear threshold limits which are duly approved by the Board of Directors. •individually or taken together with previous transactions during a financial year, that exceed the lower of INR1,000 crore or 10 percent of annual consolidated turnover; or •individually or taken together with previous transactions during a financial year exceed 5 percent of annual consolidated turnover for brand usage/royalty payments	Both	Audit Committee + Shareholders	Comprehensive disclosures
Other RPTs, but which is with promoter/promoter group or person/entity in which promoter or promoter group has concern or interest	Exceeds the lower of - • 2 per cent of turnover as per last audited consolidated financial statements, • 2 per cent of net worth (if positive) as per last audited consolidated financial statements, or • 5 per cent of average profit/loss after tax over the last three years as per audited consolidated financial statements	Both	Audit Committee	Comprehensive Disclosures
	Less than the above threshold	Balance sheet items	Audit Committee	Comprehensive Disclosures
		Profit and Loss items		Limited disclosures

Residual RPTs	Transaction(s) with a related party to be entered into individually or taken together with previous transactions during the financial year exceeds INR1 crore in a financial year	Both	Audit Committee	Comprehensive Disclosures
	Transaction(s) with a related party to be entered into individually or taken together with previous transactions during the financial year less than INR1 crore in a financial year	Both	Audit Committee	Minimum Disclosures

III) Disclosure Flowchart

Below flowchart summarises the disclosure requirements



Material as per Regulation 23 of the LODR Regulations
* RPTs entered into individually or taken together with previous transactions during a FY exceeds the lower of –

- 2 per cent of turnover as per last audited consolidated financial statements of listed entity,
- 2 per cent of net worth (if positive) as per last audited consolidated financial statements of listed entity, or
- 5 percent of average profit or loss after tax over the last three years as per audited consolidated financial statements of listed entity

C Minimum Information to be Provided to the Audit Committee

I) Required Submissions

Management must present the following while seeking approval or ratification:

1. Line-by-line responses in the prescribed format, with 'NA' or 'NIL' as appropriate.
2. Certificates from the CEO, CFO, or other Key Managerial Personnel (KMP), and all promoter directors.
3. Intimation of any non-submission of certificates for material RPTs.
4. Valuation or third-party reports, where available.
5. Certified financial data if audited statements are not available.
6. Disclosure if the related party follows a different financial year.
7. Detailed breakdown of management or royalty fees.
8. Benchmarking of royalty payments against at least three industry peers:
   - Priority to Indian listed peers
   - If unavailable, global listed peers
   - If none, refer to Research Analyst Peer Set
   - Explanation required if the peer group is not comparable
   - State explicitly if fewer than three peers are available
9. Audit Committee must provide its own comments on relevant line items.

D Minimum Information to be Provided to Shareholders

When seeking shareholder approval for material RPTs, the notice must include:

I) All information submitted to the Audit Committee in the prescribed format.

II) Disclosure of any redaction, approved by the Audit Committee, along with certification that sufficient information has been provided for decision-making.

III) Justification for why the transaction is in the interest of the company.

IV) A statement from the Audit Committee affirming:

- Adequate disclosures were reviewed
- The transaction does not benefit promoters at the expense of public shareholders Confirmation that the Audit Committee reviewed the certificates provided by the CEO, CFO/KMPs, and promoter directors.
- Valuation or external reports reviewed by the Audit Committee.
- In case of asset sales or similar transactions:
  1. Mention whether bids from unrelated parties were considered
  2. If not, provide justification and an alternate basis for recommending the transaction
- Comments of the Board or Audit Committee, if any.
- Any other relevant information.

E Commentary and Observations

I) The adoption of these Industry Standards represents a significant step forward in strengthening corporate governance, transparency, and financial discipline.

II) To comply effectively, listed entities must invest in:

- Robust information systems for timely and accurate data collection.
- Streamlined business processes to ensure all relevant information is captured and available for stakeholders.

III) It is important to note that the disclosure requirements under the Industry Standards are in addition to those mandated by the Companies Act, 2013, and the applicable Indian Accounting Standards (Ind AS) regarding RPTs.

IV) A careful and well-coordinated approach will be necessary to balance compliance across all applicable legal and regulatory frameworks.

THANK YOU....

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Competence Credibility Commitment

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