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Simplifying the approval process for Related Party Transactions

10 July 2025

Introduction

1.1. Regulations 23(2), 23(3) and 23(4) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (SEBI Listing Regulations) read with Paragraph 4 of Part A and Paragraph 6 of Part B of Section III-B of the master circular for compliance with the provisions of the SEBI Listing Regulations by listed entities (Master Circular) mandate the listed companies to provide information to the audit committee and shareholders, as the case may be, in order to seek their approval for RPTs proposed to be undertaken.

1.2. The Securities and Exchange Board of India (SEBI) issued a circular dated 15 February 2025, pursuant to which the Industry Standards Forum (ISF) formulated the Industry Standards on Minimum information to be provided for review of the audit committee and shareholders for approval of a related party transaction (February Standard) with an aim to enhance transparency and facilitate uniformity in compliance with the requirement (as specified in paragraph 1.1 above) to provide the prescribed information to the audit committee and shareholders, as the case may be, for approval of related party transactions (RPTs).

1.3. However, basis feedback and requests received from various stakeholders for simplification of the February Standard, ISF in consultation with SEBI, issued the revised Industry Standards on Minimum information to be provided to the Audit Committee and Shareholders for approval of Related Party Transactions (RPT Industry Standard) through SEBI circular dated 26 June 2025 in supersession of the February Standard.

1.4. The RPT Industry Standard will be effective from 1 September 2025 (Effective Date).

Key differences between the February Standard and the RPT Industry Standard

2.1. With the issuance of the RPT Industry Standard, the ISF along with SEBI aimed to bring ease of doing business, while also maintaining the adequacy of minimum information required for the audit committee and/or the shareholders to make an informed decision. Some of the key factors that differentiate the RPT Industry Standard from the February Standard include:

2.1.1. rationalising the applicability matrix and non-applicability of RPT Industry Standard to transactions below INR 1.00 crore;

2.1.2. considerable reduction in the information required to be provided to audit committee and/or the shareholders to the absolute necessary;

2.1.3. exclusion of the requirement of certificate to be provided by promoter directors of the listed company, in addition to the certificate by (i) either of chief executive officer, managing director, whole-time director or Manager; and (ii) chief financial officer, along with rationalising the information to be provided as part of the certificate;

2.1.4. de-emphasising the requirement for inviting bids from third parties for certain RPTs and need for justification in the event no bids were invited for such RPTs by the listed company;

2.1.5. limiting the scope of information required to be provided for RPTs pertaining to payment of royalty, including simplifying the requirement to provide peer comparison data; and

2.1.6. simplifying the role of the audit committee by removing the requirement of providing onerous confirmation by the audit committee.

Key Components of the RPT Industry Standard

3.1. Applicability of RPT Industry Standard

3.1.1. The RPT Industry Standard is applicable to:

i. all RPTs placed before the audit committee for review and approval in terms of Regulations 23(2) and 23(3) of SEBI Listing Regulations; and
ii. all 'material' RPTs placed before both the audit committee and the shareholders for review and approval in terms of Regulations 23(1) and 23(1A) of SEBI Listing Regulations (Material RPTs).

3.1.2. The RPT Industry Standard is not applicable to:

i. RPTs which are exempt under Regulation 23(5) of SEBI Listing Regulations;
ii. quarterly review of RPTs by the audit committee in terms of Regulation 23(3)(d) of SEBI Listing Regulations; and
iii. RPTs whose value, either individually or taken together with previous transactions during a financial year, (including RPTs approved by way of ratification) do not exceed ₹1.00 crore.

3.2. Waterfall mechanism for applicability

The applicability and extent of information to be provided for approval of RPTs pursuant to the RPT Industry Standard is categorised in three parts:

3.2.1. Part A of the RPT Industry Standard: this part lists the minimum information to be provided for all RPTs to which the RPT Industry Standard is applicable and are categorised under the following headings:

i. basic details of the related party (as prescribed under A1 of Part A);
ii. relationship and ownership of the related party (as prescribed under A2 of Part A);
iii. details of previous transactions with the related party (as prescribed under A3 of Part A);
iv. amount of the proposed RPTs (as prescribed under A4 of Part A); and
v. basic details of the proposed transaction (as prescribed under A5 of Part A);

3.2.2. Part B of the RPT Industry Standard: this part lists the minimum information to be provided (in addition to the information required to be provided under Part A) for specified types of RPTs undertaken by the listed entity. The seven categories are as follows:

i. sale, purchase or supply of goods or services or any other similar business transaction and trade advances (as prescribed under B1 of Part B);
ii. loans and advances (other than trade advances) or inter-corporate deposits given by the listed entity or its subsidiary. (as prescribed under B2 of Part B);
iii. investment made by the listed entity or its subsidiary (as prescribed under B3 of Part B);
iv. guarantee (including performance guarantee in nature of security/contractual commitment or which could have an impact in monetary terms on the issuer of such guarantee), surety, indemnity or comfort letter, by whatever name called, made or given by the listed entity or its subsidiary (as prescribed under B4 of Part B);
v. borrowings by the listed entity or its subsidiary (as prescribed under B5 of Part B);

vi. sale, lease or disposal of assets of subsidiary or of unit, division or undertaking of the listed entity or disposal of shares of subsidiary or associate. (as prescribed under B6 of Part B); and

vii. transactions relating to payment of royalty. (as prescribed under B7 of Part B).

3.2.3. Part C of the RPT Industry Standard: this part lists the minimum information to be provided (in addition to the information required to be provided under Part A and Part B) if any of the RPTs, as specified in paragraphs 3.2.2 (ii) to (vi) above, is 'material' as defined under Regulations 23(1) and (1A) of the SEBI Listing Regulations.

3.2.4. The format of information required to be provided in respect of Material RPTs, is prescribed under C1 to C6 of Part C.

3.3. Treatment of transactions undertaken prior to effective date

3.3.1. While the RPT Industry Standard is applicable from the Effective Date, the following RPTs will not require fresh approval in accordance with RPT Industry Standard, unless there is any material modification to the terms of such RPT:

i. which were approved by audit committee and/or shareholders before Effective Date; and
ii. omnibus approval has been granted before Effective Date for RPTs for the financial year 2026.

3.3.2. Further, the RPT Industry Standard will not apply to RPTs approved by audit committee before Effective Date, irrespective of whether the notice to shareholders is sent either before, on or after the Effective Date.

3.4. Role of audit committee

3.4.1. The RPT Industry Standard has significantly rationalised the role of the audit committee and has provided the process of approval by the audit committee of the RPTs. The approval process aligns with the well-established principle which requires the management to justify entering into the said RPT, along with relevant information as required under the RPT Industry Standard and for the audit committee to rely on the given information and seek additional information for approving or rejecting the RPT. Additionally, if the audit committee rejects the RPT, the rejection is required to be recorded in the minutes of the meeting along with the reasons for rejection.

Guidelines for presenting information before the audit committee

4.1. The information mandated under the RPT Industry Standard is required to be provided only in the specified formats in Part A, B and C, as applicable. In this regard:

4.1.1. all financial information of the related party will have to be extracted from the audited financials of such related party, if mandated to be disclosed under the RPT Industry Standard. If the audited financials are unavailable, then such information will need to be drawn from the books of account which are duly certified by the related party.

4.1.2. unless self-evident, the management will be required to specify the reason for non-applicability of a specific field of information sought under the RPT Industry Standard.

4.1.3. provide a copy of the valuation or other report prepared by external party, if any.

4.2. A certificate signed by (i) either the chief executive officer, managing director, whole-time director or Manager; and (ii) chief financial officer, confirming that the terms of the proposed RPT are in the interest of the listed entity (Management Certificate)

4.3. The information, as indicated in paragraph 4.1 above is required to be provided separately for each type of RPT.

4.4. The audit committee has the power to seek additional information, comment on the information provided and deny approval for undertaking an RPT with the rationale for non-approval being recorded in the minutes of the audit committee meeting.

Guidelines for presenting information before the shareholders for approval of Material RPTs:

5.1. The information to be provided for a Material RPT, as indicated in paragraphs 3.2.3 and 3.2.4 above, will be required to be provided as part of the explanatory statement contained in the notice of general meeting sent to the shareholders. In this regard:

5.1.1. the RPT Industry standard permits redaction of commercial secrets and information which can affect the competitive position of the listed company; and

5.1.2. such redaction can be done only with prior approval of the audit committee and board of directors of the listed company (Board), coupled with an affirmation from them that the redacted disclosure is sufficient for public shareholders to take an informed decision to approve the Material RPTs.

5.2. The explanatory statement, in addition to requirements under Companies Act 2013, shall include:

5.2.1. all the information which placed before audit committee in accordance with the RPT Industry Standard;

5.2.2. the basis for determination of price and other material terms and conditions of the Material RPT along with a justification that the said Material RPT in the interest of the listed entity; and

5.2.3. disclosure that (i) the audit committee has reviewed the Management Certificate(s); and (ii) that the audit committee has approved the Material RPT and is being recommended by the Board for approval by shareholders;

5.3. in the event the audit committee considered a report of external party, for approval of the Material RPT, then the listed company may choose to provide a weblink and QR code for the shareholders to access such report.

Conclusion

While the February Standard laid a solid foundation for standardisation of the disclosure requirements, the RPT Industry Standard reflects the proactiveness of SEBI to align with the feedback and requests received from various stakeholders. The revisions through RPT Industry Standard aim to strike a balance between the jurisprudence of law and the commercial viability of the disclosures mandated under the RPT Industry Standard.

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