



## **Amendments to Related Party Transactions under SEBI Listing Regulations**

*Latest update:*

*“New Related Party Rules are set to be effective from 01 April 2022. SEBI panel is not deferring new Rules to October 2022”*

# Background

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- In November 2019, SEBI had set up a Working Group on Related Party Transactions to look into the requirements pertaining to related parties and RPTs by listed entities and to strengthen the corporate governance standards.
- SEBI vide notification dated 9 November 2021, has amended provisions relating to Related Party Transactions (RPT) under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('SEBI LODR').
- The SEBI expert panel has recently clarified that there is no deferment of applicability of the amendments and thus are effective from 01 April 2022



# Key Amendments

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Following are the key changes to be effective from 01 April 2022 as per SEBI notification published in the Official Gazette dated 9 November 2021 and SEBI Circular No. SEBI/HO/CFD/CMD1/CIR/P/2021/662 dated 22 November 2021:

- Definition of “**related party**” (RP) and “**related party transactions**” (RPT)
- Change in monetary limits for classification of **material RPTs**
- **Disclosure** requirements for RPTs
- Process to be followed for approval of RPTs by **Audit Committee and Shareholders**



## Related Party - Definition

As per the SEBI regulations, the Related Party definition is amended as follows-

Particulars	Up to 31 March 2022	With effect from 01 April 2022	Proposed to be effective from 01 April 2023
Definition of <b>Related Party</b>	Promoter or promoter group holding more than 20% shareholding in the listed entity	<p>Promoter or promoter group of the listed entity, irrespective of shareholding, shall be deemed to be a related party.</p> <p>Any person or entity holding more than 20% equity shares in the listed entity either directly or on a beneficial interest</p>	Any person or entity holding more than 10% equity shares in the listed entity either directly or on a beneficial interest

# Related Party Transactions - Definition

As per the SEBI regulations, the Related Party Transactions definition is amended as follows:

Particulars	Up to 31 March 2022	With effect from 01 April 2022	Proposed to be effective from 01 April 2023
Increased scope of <b>Related Party Transactions</b>	Transactions between: <ul style="list-style-type: none"><li>Listed entity and its related parties</li></ul>	Transactions between: <ul style="list-style-type: none"><li>Listed entity and its related parties</li><li>Listed entity and related parties of the subsidiary</li><li>Subsidiary of listed entity and related parties of listed entity</li><li>Subsidiary of listed entity and its related parties</li></ul>	Transactions between: <ul style="list-style-type: none"><li>Listed entity and any other person/entity, purpose and effect of which is to benefit its related parties or related parties of its subsidiary</li><li>Subsidiary and any other person/entity, purpose and effect of which is to benefit its related parties or related parties of the Listed entity</li></ul>

The amended rules, have removed the following transactions from the preview of Related Party Transactions:

- Issue of specified securities on a preferential basis
- Issue of dividend, subdivision or consolidation of securities, rights issue or bonus issue or buy-back of shares uniformly to all shareholders
- Acceptance of deposits by banks/non-banking finance companies.

# Material Related Party Transactions

Transaction with a related party shall be considered material, if

Particulars	Up to 31 March 2022	With effect from 01 April 2022
<b>Material</b> Related Party Transactions	Transactions exceeding 10% of the consolidated annual turnover of the listed entity	Transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds: <ul style="list-style-type: none"><li>• INR 1,000 crore or</li><li>• 10% of annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity</li></ul> <b>whichever is lower</b>



**IMPORTANT**

# Scope of Shareholder & Audit Committee approvals increased

- Prior approval of **shareholders** of the listed entity will be required for material RPTs and subsequent material modifications
- Prior approval of **Audit Committee** (independent directors) is required for all RPTs and any subsequent material modifications
- **Audit committee** to define 'material modifications' and disclose it as part of the policy on materiality of RPT.
- Special approval by the **Audit committee** is required where the subsidiary company is involved in a related party transaction and the value of transaction or aggregate of such transactions during the financial year:

With effect from 01 April 2022	Proposed to be effective from 01 April 2023
Exceeds 10% of the annual <b>consolidated</b> turnover, as per the last audited financials of the listed company.	Exceeds 10% of the annual <b>standalone</b> turnover, as per the last audited financials of the listed company.



# Scope of Shareholder & Audit Committee approvals not mandated

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## No prior approvals are mandated in the following cases:

- An RPT where the listed subsidiary is a party but the listed entity is not a party and RPT provisions under SEBI LODR are applicable to such listed subsidiary.
- Transactions entered **between two wholly owned subsidiaries of listed holding company**, whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.



# Disclosure Requirements (1/2)

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- Information to be reviewed by the Audit Committee for approval of RPTs
  - Type, material terms and particulars of the proposed transaction
  - Name of the related party and its relationship with the listed entity or its subsidiary, including nature of its concern or interest (financial or otherwise)
  - Tenure of the proposed transaction (particular tenure shall be specified)
  - Value of the proposed transaction
  - Proposed RPT as a percentage (%) of listed entity's annual total revenues, total assets and net worth, on a consolidated basis
- Justification as to why the RPT is in the interest of the listed entity
- A copy of the valuation or other external party report, if any such report has been relied upon
- Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT on a voluntary basis

## Disclosure Requirements (2/2)

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If the transaction relates to any loans, inter-corporate deposits, advances or investments made or given by the listed entity or its subsidiary:

- Details of the source of funds in connection with the proposed transaction
- Any financial indebtedness is incurred to make or give loans, inter-corporate deposits, advances or investments – 1) nature of indebtedness 2) cost of funds 3) tenure
- Applicable terms, including covenants, tenure, interest rate and repayment schedule, whether secured or unsecured; if secured, the nature of security
- Purpose for which the funds will be utilized by the ultimate beneficiary of such funds pursuant to the RPT

Details like related party names, type of RPT, value of RPT, nature of indebtedness etc. to be submitted to stock exchanges **every six months** in the format specified by the Board with the following timelines:

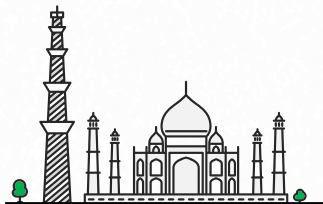
- **Within 15 days** from the date of publication of financials
- Simultaneously with the financials (**w.e.f. 01 April 2023**)

# Contact us



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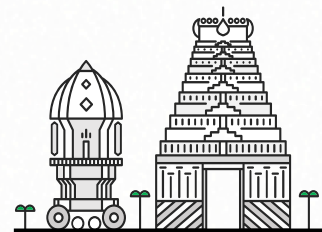
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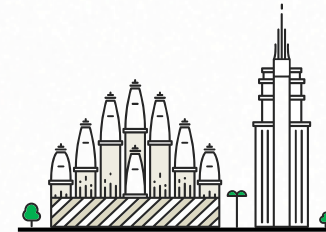
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# Thank You



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