

Fair, Transparent, Accountable: SEBI's RPT Overhaul



Prasenjit Sarkar
Partner, CFO Advisory
Grant Thornton Bharat

In India, the Securities and Exchange Board of India (SEBI) regulates the securities market, with the primary responsibility of ensuring transparency and protecting investors' interests. Since being granted statutory powers in 1992, SEBI has been enhancing corporate governance for the past 33 years. Under SEBI Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015 and subsequent circulars/notifications issued from

time to time, SEBI has specified the scope of related-party transactions (RPTs) and outlined the process for their approval by the Audit Committee and the shareholders.

Further, SEBI notified new Industry Standards for minimum information to be provided to the Audit Committee and shareholders for approval of RPTs. The same was notified through Part B of Section III-B of SEBI Master Circular dated 11 November 2024 (as amended) and would be effective from 01 September 2025. The notified changes bring substantial revisions to how companies report and manage transactions with related parties (RPs), thereby promoting greater transparency and accountability.

Importance of monitoring RPTs

RPTs take place between two parties with a pre-existing relationship, such as between a parent company and its subsidiaries, a company and its key managerial personnel, two subsidiaries, or as may be defined under the LODR from time to time. In most cases, these transactions are essential for business operations; however, they also pose significant risks, including:

- Potential conflict of interest
- Unfair pricing, i.e., a transaction at prices other than arm's length
- Fraudulent activities

Therefore, RPT regulations are of utmost importance to ensure that these transactions are conducted fairly and transparently, safeguarding the interests of investors and all other stakeholders involved.

SEBI's new Industry Standards

The Industry Standards Forum (ISF), consisting of representatives from three industry associations—Associated Chambers of Commerce and Industry of India (ASSOCHAM), Confederation of Indian Industry (CII), and Federation of Indian Chambers of Commerce and Industry (FICCI)—prepared the Industry Standards regarding minimum information to be provided to the Audit Committee and shareholders for their review and approval

of an RPT. This was done in consultation with SEBI under the guidance of the Stock Exchanges.

Key aspects of these Industry Standards include:

1. Enhanced disclosure requirements

Companies will be required to disclose detailed information about their RPTs, including the nature of the relationship between the parties, the terms and conditions of the transactions, and the rationale behind them. This will enable investors and regulators to better understand the nature and impact of these transactions.

2. Standard formats

SEBI has prescribed a specific format in which the information needs to be disclosed to the Stock Exchanges in order to facilitate a uniform disclosure by listed companies. The disclosure norms have been classified into three categories, including common, transaction-specific, and material RPT disclosures.

3. Independent valuation

To ensure objectivity and fairness, valuation reports or external assessments are required for certain transactions. This adds an additional layer of validation and integrity to the approval process. External reports (including valuation reports) need to be disclosed in shareholder notices via web link and QR code.

4. Certification

A certificate from the Chief Executive Officer/Managing Director/Whole-time Director/Manager, and Chief Financial Officer is required to confirm that the terms of the proposed RPTs serve the best interests of the listed entity.

Implications for companies

The introduction of the Industry Standards will have wide-ranging consequences, prompting companies operating in India to plan and adapt proactively. They will need to enhance their internal controls and governance frameworks to comply with the new requirements. This may involve:

- Sensitising the management and the Audit Committee/Board about the ISF requirements and compliance
- Implementing robust processes for identifying and disclosing RPTs to the Audit Committee in a timely manner, along with the minimum information which the LODR requirements mandate
- Revising their existing standard operating procedure/processes for RPT compliance
- Ensuring that RPTs are supported by independent valuations, wherever required
- Engaging shareholders more actively in the approval of material RPTs by providing them with all relevant information that was made available to the audit committee.

While these changes may increase the compliance burden on companies, they are likely to result in greater

transparency and trust in the corporate sector, ultimately benefiting investors.

Challenges and opportunities

The implementation of SEBI's new Industry Standards for RPTs may present several challenges for companies. These include:

- Adjusting to the enhanced disclosure and approval requirements
- Ensuring that independent valuations are conducted in a timely manner
- Engaging with shareholders effectively in the approval process

However, these challenges also present opportunities for companies to enhance their governance frameworks and build greater trust with investors by providing transparency in how the RPTs are approved and undertaken. The revised circular applicable from 01

September 2025 is a welcome move that brings greater clarity and consistency to the disclosure process for RPTs. By simplifying the information requirements and providing a uniform format, SEBI has addressed the practical concerns raised by stakeholders.

Conclusion

SEBI's push towards transparency in RPTs is a major step in strengthening corporate governance. The new Industry Standards will enhance the disclosure and approval of RPTs, ensuring that they are conducted fairly and transparently. While the implementation of these standards may introduce some challenges for companies, they also present opportunities to build greater trust. As India's regulatory framework continues to evolve, SEBI's initiative sets a high standard for corporate governance and aligns with global best practices.