

INDUSTRY STANDARDS ON “MINIMUM INFORMATION TO BE PROVIDED FOR REVIEW OF THE AUDIT COMMITTEE AND SHAREHOLDERS FOR APPROVAL OF RELATED PARTY TRANSACTION (RPT)”

In order to facilitate uniform approach, the Industry Standards Forum (“ISF”)¹ comprising of representatives from three industry associations, viz. ASSOCHAM, CII and FICCI, under the aegis of the Stock Exchanges, have formulated industry standards, in consultation with the Securities and Exchange Board of India (‘SEBI’), to standardize the format for “*Minimum information to be provided to the Audit Committee and the shareholders, wherever required, for review and approval of a Related Party Transaction (RPT)*”. The said Industry Standards have been notified by SEBI on February 14, 2025 vide Circular No. SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/18.

The Industry Standards shall be applicable in respect of RPTs entered into by the Listed Entity **on or after 01st April 2025**.

National Stock Exchange of India has also issued the FAQs on the Applicability of the Industry Standards vide its circular dated 15th March, 2025.²

APPLICABILITY :-

1. Material RPT as defined under Regulation 23(1) & (1A) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“LODR Regulations”).
2. Transaction(s) with a related party, where the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, **exceed lower of the following:**
 - (a) 2% of turnover, as per the last audited consolidated financial statements of the listed entity;
 - (b) 2% of net worth, as per the last audited consolidated financial statements of the listed entity, except in case the arithmetic value of the net worth is negative.
 - (c) 5% of the average of absolute value of profit or loss after tax, as per the last three audited consolidated financial statements of the listed entity.

¹<https://assochem.org/uploads/files/Standards%20for%20Minimum%20Information%20to%20be%20provided%20for%20Related%20Party%20Transaction%20%20Approval.pdf>

² https://nsearchives.nseindia.com/web/sites/default/files/inline-files/NSECircular_15032025.pdf

APPLICABILITY MATRIX

TYPE OF TRANSACTION	THRESHOLD	BALANCE SHEET / P&L ITEMS	APPROVALS REQUIRED	DISCLOSURE REQUIREMENT
Material RPT	As described under Regulation 23(1) & (1A) of LODR Regulations	Both	Audit Committee and Shareholders	Comprehensive disclosures
Other RPT, but which is with promoter group or person/entity in which promoter or promoter group has concern or interest	Exceed the threshold provided above in pt. 2	Both	Audit Committee	Comprehensive disclosures
	Less than the threshold provided above in pt. 2	Balance sheet items	Audit Committee	Comprehensive disclosures
		P&L items		Limited disclosures
Residual RPT	Transaction(s) with a related party to be entered into individually or taken together with previous transactions during a financial year exceeding Rs. 1 Crore	Both	Audit Committee	Limited disclosures
	Transaction(s) with a related party to be entered into individually or taken together with previous transactions during a financial year less than Rs. 1 Crore			Minimum disclosures

EXPLANATION OF THE APPLICABILITY MATRIX

Post identification of RPT, the Company needs to classify the related party transactions as follows:

- I. **Material RPT** - Transactions falling under the definition of material RPT (**covered under both balance sheet and P&L items**) as provided under Regulation 23 (1) & (1A) of LODR Regulations shall be approved by the Audit Committee as well by the shareholders of the Company and **Comprehensive disclosure*** must be given for such RPT.
- II. **RPTs (other than material RPT) to be entered into with promoter/ promoter group/ entity where promoter group is concerned or interested:**
 - a. **Exceeding threshold as specified above in pt. 2**– In case where the transaction (**covered under both balance sheet and P&L items**) is not material, but which is with promoter group or person/entity in which promoter or promoter group has concern or interest than such transaction shall be approved by the Audit Committee of the Company and **Comprehensive disclosure*** must be given to the Committee for such RPT.
 - b. **Below the threshold** – In such case the transaction shall be approved by the Audit Committee of the Company. For transaction covered under the balance sheet item, **Comprehensive disclosure*** must be given whereas for transaction covered under the P&L item, **Limited disclosure^** must be given to the Committee.
- III. **Residual RPTs (other than RPTs identified in Point I and II above) –**
 - a. **RPTs exceeding Rs. 1 crore** - Transaction(s) (**covered under both balance sheet and P&L items**) with a related party to be entered into individually or taken together with previous transactions during a financial year exceeding Rs. 1 Crore requires approval from the Audit Committee of the Company and **Limited disclosure^** must be given to the Committee.
 - b. **RPTs less than Rs. 1 crore** - Transaction(s) (**covered under both balance sheet and P&L items**) with a related party to be entered into individually or taken together with previous transactions during a financial year less than Rs. 1 Crore requires approval from the Audit Committee of the Company and **Minimum disclosure#** must be given to the Committee.

**Comprehensive Disclosures - All disclosures as specified in Para 4 of RPT Industry Standards.*

^Limited Disclosures - All disclosures as specified in Para 4 of RPT Industry Standards, except few items as specified in the RPT Industry standards.

#Minimum Disclosures - All disclosures as specified in Rows A(1), A(2), A(4), A(5) and B(1) of Para 4 of RPT Industry Standards.

Para 4 of RPT Industry Standards is accessible through below link.

<https://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20250215-1>

NOTE: - For the purposes of this applicability matrix:

- (i) 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% 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.

- (ii) Balance Sheet items include:**
 - a. Loans, inter-corporate deposits or advances given by the listed entity or its subsidiary.
 - b. Investment made by the listed entity or its subsidiary.
 - c. Guarantee (excluding performance guarantee), surety, indemnity or comfort letter, by whatever name called, made or given by the listed entity or its subsidiary
 - d. Borrowings by the listed entity or its subsidiary; and
 - e. 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

- (iii) P&L items include:**
 - a. Sale, purchase or supply of goods or services or any other similar business transaction; and
 - b. Payment of royalty.

ROLE OF MANAGEMENT AND AUDIT COMMITTEE OF THE LISTED ENTITY:

1. The management is required to provide comments or information against each such line item for the review and comments of the audit committee which are required to be captured in the minimum information disclosures placed before the audit committee and to indicate 'NA', where the field is not applicable and 'NIL', where no comments have been provided.
2. In case specific comments have been sought from the Audit Committee on specified occasions, such comments must be recorded in the minutes of the Audit Committee.
3. A Certificate is required from the CEO or CFO or any other KMP of the Listed Entity and from every director of the Listed Entity who is also promoter ("promoter director") to the effect that:
 - (i) the RPTs to be entered into are not prejudicial to the interest of public shareholders; and
 - (ii) the terms and conditions of the RPT are not unfavourable to the listed entity, compared to the terms and conditions, had similar transaction been entered into with an unrelated party.

MINIMUM INFORMATION TO BE PROVIDED TO THE SHAREHOLDERS FOR CONSIDERATION OF RPTs: -

1. The explanatory statement contained in the notice sent to shareholders shall provide the minimum information relevant for each RPT along with the comments of the Board of Directors and Audit Committee, if any.
2. The notice sent to shareholders shall include the following information as a part of the explanatory statement:
 - (a) Information as placed before the Audit Committee.
 - (b) The Audit Committee can approve the redaction of commercial secrets and other information that would affect competitive position of listed entity from disclosures to shareholders. Further, the Audit Committee shall certify that, in its assessment, the redacted disclosures still provide all the necessary information to the public shareholders for informed decision-making.
 - (c) Disclose the fact that the Audit Committee reviewed the certificate provided by the CEO or CFO or any other KMP as well as the certificate provided by the promoter directors of the Listed Entity.

CACS VIEW –

- ❖ All RPTs, irrespective of whether they are specific or omnibus approvals or ratification, would warrant minimum disclosure/ information, to the Audit Committee and shareholders, wherever applicable, under the RPT Industry Standards.
- ❖ The RPTs for F.Y. 2025- 26 for which omnibus approval is already obtained before the notification of the RPT Industry Standards would not warrant submission of these information. However, for approval of any material modification to such RPTs on or after April 1, 2025, the Industry Standards shall apply.

CONCLUSION

The advent of RPT Industry standard:-

- ❖ Pushes the management of the listed entities for providing detailed information to the Audit Committee in collaboration with the Promoters CEO, CFO, Business heads, finance team, etc.
- ❖ More informed and mindful decision-making and record-keeping by the Audit Committee.
- ❖ Transparency for the shareholders for informed decision-making.
- ❖ Helps in analyzing the adequacy and clarity of the information.

Suggestions may be sent to rupesh@cacsindia.com

Rupesh Agarwal | Managing Partner | Chandrasekaran Associates | Company Secretaries 11-F, Pocket Four | Mayur Vihar Phase One | Delhi - 110 091 | Tel. +91-11-2271 0514 rupesh@cacsindia.com | info@cacsindia.com | www.cacsindia.com

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