

Related Party Transactions by Listed Entities

SEBI has amended the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“**LODR Regulations**”) and made the following key changes:

Definition of Related Party:

- The following person or entity shall now be deemed to be a “**related party**”, who is:
 - *Promoter or promoter group* of the listed entity; or
 - Holding *equity shares* in the listed entity, either directly or beneficially, at any time during the immediately preceding financial that are:
 - equal to or more than 20%; or
 - equal to or more 10% (*with effect from April 1, 2023*).

Definition of Related Party Transactions (“RPTs”):

- The term “**related party transaction**” has been widened to include the transactions between:
 - *listed entity* or *any of its subsidiaries* AND a *related party of the listed entity* or *any of its subsidiaries*; or
 - *listed entity* or *any of its subsidiaries* AND *any other person or entity* for the *benefit a related party* of the listed entity or any of its subsidiaries, *with effect from April 1, 2023*.
- Certain transactions, including the following, have been excluded from the scope of RPT:
 - *preferential issue* of specified securities, subject to compliance of the relevant SEBI regulations; and
 - acceptance of *fixed deposits by banks or NBFCs*, subject to terms specified and compliances under the LODR Regulations.

This Update is meant for general information and shall not be deemed to be a legal advice or opinion. This Update is neither intended to be an advertisement or solicitation.

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Materiality Threshold of Related Party Transactions:

- Earlier, the materiality threshold of an RPT was determined only based on percentage of the annual consolidated turnover as per the last audited financial statements.
- Now, if a RPT exceeds ***Rs. 1000 crores*** or ***10% of the annual consolidated turnover*** of the listed entity, *whichever is lower*, it would be considered as a material RPT.

Audit Committee Approval for RPT:

- ***Prior*** approval of audit committee of a listed entity is now required to be obtained in the following additional instances in relation to RPTs:
 - In case if any ***subsequent material modifications*** are made to an RPT.
 - In case only the subsidiary of listed entity is party to an RPT, and the listed entity is not a party, and if the value of the transactions, individually or taken together with previous transactions during a financial year, ***exceed 10% of annual consolidated turnover of the listed entity*** or with effect from April 1, 2023 ***exceed 10% of the annual standalone turnover of the subsidiary***.
- Prior approval of audit committee of the listed entity is ***not*** required for an RPT in which the listed subsidiary is a party, but the listed entity is not a party, subject to applicability of certain LODR Regulations. However, prior approval of audit committee of listed subsidiary is sufficient in case of RPT of its unlisted subsidiaries.
- **Materiality Policy of RPT:** Audit committee of the listed entity is required to define “**material modifications**” and disclose the same in the materiality policy of RPTs.

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The changes have been made vide SEBI notification dated November 9, 2021, which was published in the Official E-Gazette on November 10, 2021, and would come into force from April 1, 2022, unless specified otherwise ([available here](#)).

Persons permitted to vote to approve RPTs:

- Earlier, all entities falling under the definition of related parties were not permitted to vote to approve the relevant RPT, irrespective of whether the entity is a party to the particular transaction or not. Now, this provision has been deleted.

No Approval of Audit Committee or Shareholders of the listed company:

- For transactions between 2 wholly-owned subsidiaries of listed company, whose accounts are consolidated with the holding company and placed before the shareholders for approval.

Shareholders' Approval for RPT:

- *Prior* approval of shareholders of a listed entity is also required in relation to RPTs in case if any *subsequent material modifications* are made to the RPT.

Disclosures of RPT:

- The timeline to make RPT disclosures by listed entities has been reduced to *15 days*, instead of 30 days, *from the date of publication* and with effect from April 1, 2023, *on the date of publication* of its standalone and consolidated financial results, for every 6 months.
- Entities that have listed their *non-convertible securities* are required to make RPT disclosures in the annual report in compliance with the accounting standards.