Related Party Transactions (“RPT”) review

- Companies Act 2023 Regs.
- SEBI LODR Minimum Industry Standards on Information for RPT approvals
- Simplified rules for External Commercial Borrowings

June 2026



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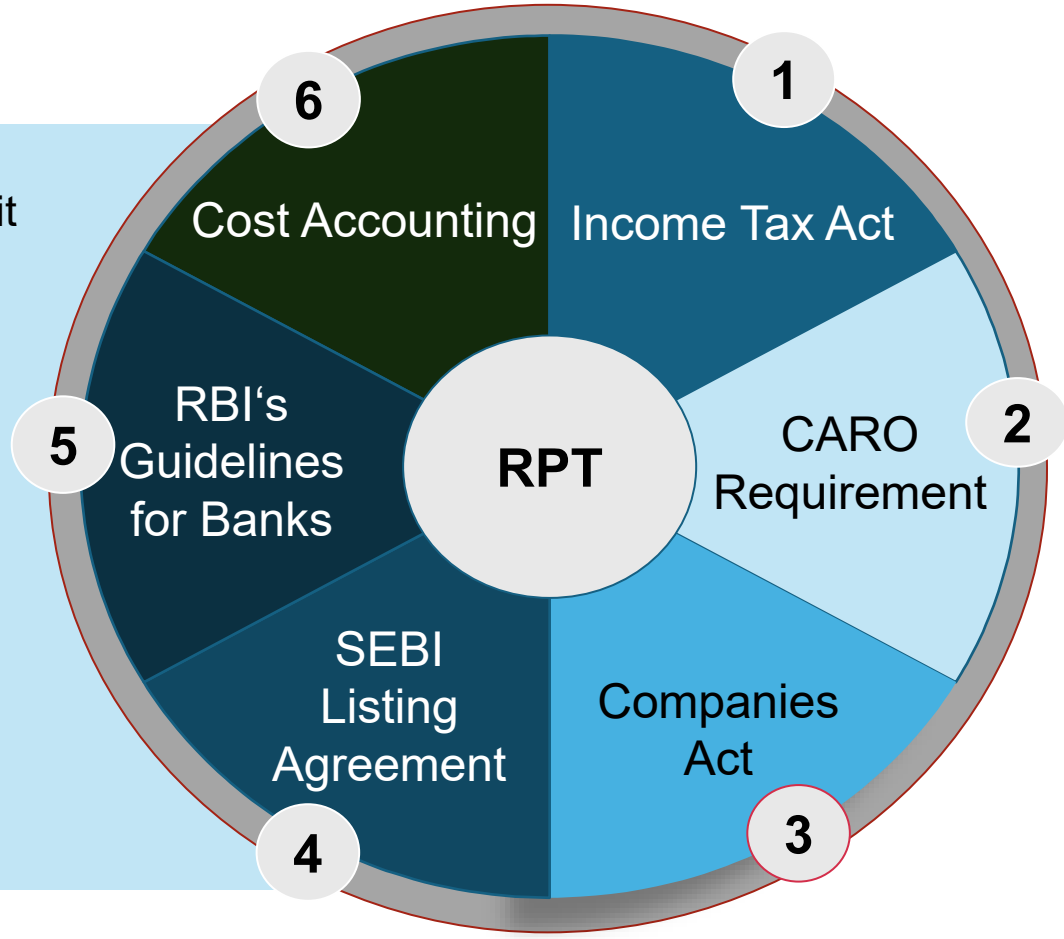
Companies Act RPT Regulations

01



Related Party Transactions (RPTs)

- Self regulatory with significant onus on Board of Directors and Audit Committee towards Shareholders
- Increased transparency and compliance
- A paradigm shift to consolidate the governance of RPTs with other regulatory requirements.
- Broader coverage of RPs and transactions than the Domestic Transfer pricing provisions
- Greater emphasis on arm's length behavior of the RPs
- Significant penal consequences



Who needs to comply with the related party provisions

Companies Act, 2013	● All Companies ● Exemption to Certain Private Companies

Exemption to certain Private Companies

The Ministry of Company Affairs (MCA) has *relaxed* applicability of certain provisions of the Companies Act 2013 (CA 2013) for private companies vide a notification dated 5 June 2015 (having prospective effect).

❑ Section 188 shall not apply to transactions between a private company and its holding company, subsidiary, fellow subsidiary, and associate company [i.e., section 2(76)(viii) will not apply with respect to section 188].

Following are allowed to vote in an ordinary resolution

➢ Members who are Related Parties of a Private company.

➢ Interested directors of a Private company who have a vested interest in a transaction can participate in a board meeting provided they disclose their interest.

Related party, with reference to a company u/s 2(76)(viii), means any company which is :–

(A) a holding, subsidiary or an associate company of such company; or

(B) a subsidiary of a holding company to which it is also a subsidiary (fellow subsidiary)

Who needs to comply with the related party provisions

Will provisions of section 188 apply to foreign companies?	• Yes, based on the understanding of the underlying intent of the Act; the 'related party' of an Indian 'company' can be a foreign company. Therefore, transactions by an Indian company with a foreign company, which is its subsidiary, associate, fellow subsidiary, or holding company would be covered by section 188.
• Would intangible related transactions fall under the ambit of section 188? • Can shares or debentures be considered to be 'property' for the purpose of section 188(1)?	• Yes. Sec 188(1)(b) specifies selling or otherwise disposing of, or buying, property of any kind. Therefore, it is interpreted to mean that "property of any kind includes movable or immovable, tangible or intangible, financial or non-financial.
• Is the Audit Committee approval required prior to execution of the contract with a related party?	• Section 177(4) (iv) does not specifically use the word 'prior approval.' Hence, one view is that it may be acceptable to obtain approval even after the execution of the contract. The second view is that the term used is 'approval' and not 'ratification.' This seems to indicate that the approval should be obtained prior to execution of the contract.

Compliance Matrix

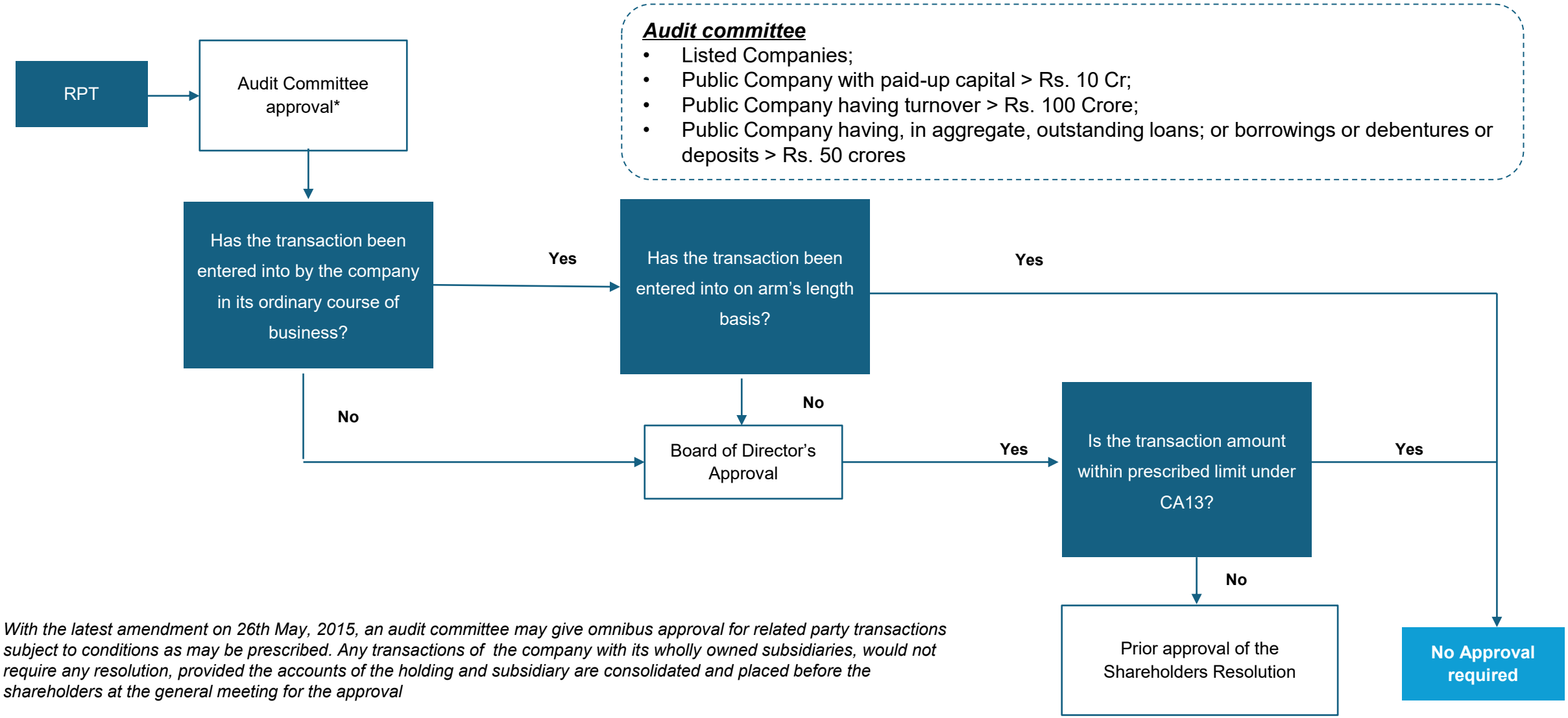
	Arm's Length	Not at arm's length
Ordinary course	Section 188 does not apply (Third proviso to Section 188)	Board approval required for entering into such a transaction **AND** If certain thresholds met (Rule 15 – Chapter XII), resolution at general meeting required

	Arm's Length	Not at arm's length
Not ordinary course	Board approval required for entering into such a transaction **AND** If certain thresholds met (Rule 15 – Chapter XII), resolution at general meeting required	Board approval required for entering into such a transaction **AND** If certain thresholds met (Rule 15 – Chapter XII), resolution at general meeting required

Ordinary course of business and arm's length

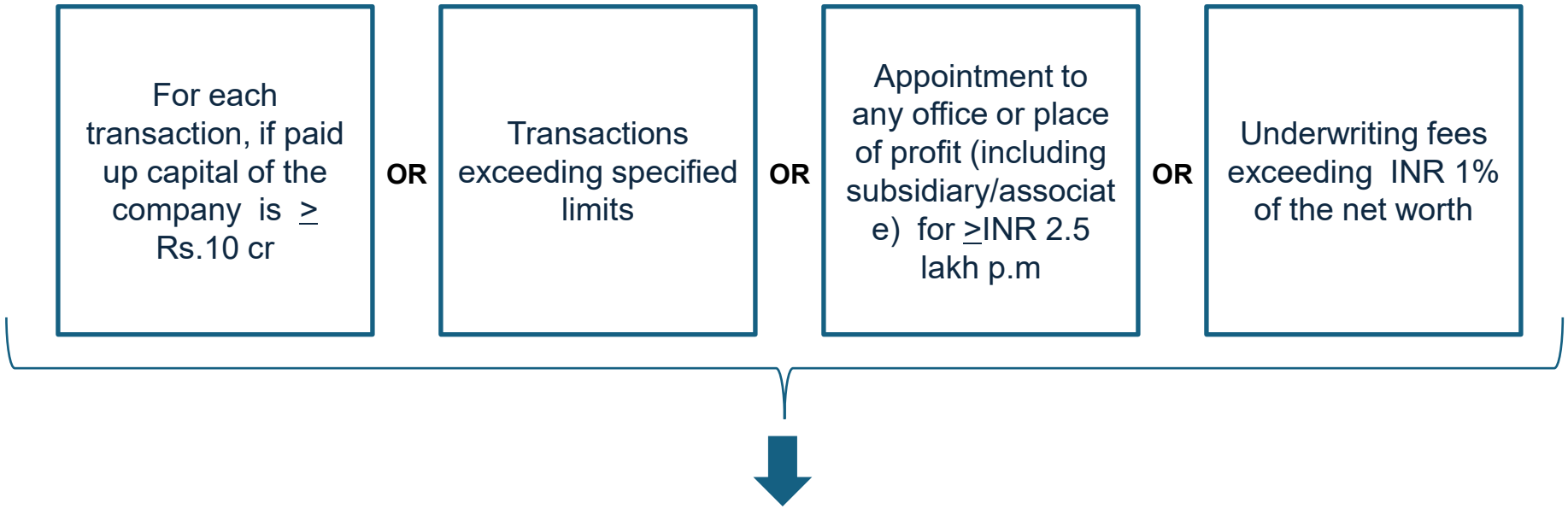
Ordinary Course of business ('OCB')	❑ Not defined under Companies Act 2013 ❑ 'In ordinary course' may mean, transactions undertaken: ❖ In normal course, i.e. not undertaken in extra-ordinary or exceptional circumstances, or ❖ As part of customary business practices, or ❖ As part of long-standing conduct ❑ Transactions outside the "ordinary course of business" as Standard on Auditing 550 Issued by ICAI ❖ Complex equity transactions, such as corporate restructurings or acquisitions; ❖ Transactions with offshore entities in jurisdictions with weak corporate laws to include leasing of premises or the rendering of management services by the entity to another party if no consideration is exchanged; ❖ Sales transactions with unusually large discounts or returns; ❖ Transactions with circular arrangements, for example, sales with a commitment to repurchase; ❖ Transactions under contracts whose terms are changed before expiry.
Arm's length transactions	• Transaction at arm's length if **conducted** as if parties are unrelated, so that there is no conflict of interest • Use of the term 'conducted' emphasizes focus on 'substance' • Focus on arm's length 'basis' indicates importance of underlying price setting policy

Approval Procedure for Related Party Transactions



With the latest amendment on 26th May, 2015, an audit committee may give omnibus approval for related party transactions subject to conditions as may be prescribed. Any transactions of the company with its wholly owned subsidiaries, would not require any resolution, provided the accounts of the holding and subsidiary are consolidated and placed before the shareholders at the general meeting for the approval

Related Party Transactions
When does the company need to go to its shareholders? *



Transactions	Limits#
Sale, purchase or supply of any goods or material	> 10% of the annual turnover
Selling or otherwise disposing of or buying property of any kind	> 10% of net worth
Leasing of property of any kind	> 10% of turnover
Appointment of any agent for purchase or sale of goods, materials, services or property	> 10% of the turnover

** Notified; # Rules*

SEBI LODR
RPT Regulations

02



SEBI’s Enforcement Actions concerning RPTs – Illustrative cases

- **SEBI gives administrative warnings for failure to obtain necessary approvals**
- **Transactions with "purpose and effect" of benefiting related parties are scrutinized, regardless of legal structure**
- **Penalty exposure on non-disclosure of RPT with connected entities (e.g., common directors, promoter linked entities)**

Case 1	Fund diversion to **promoter-linked entities** via loans to weak borrowers with **no due diligence**. Penalties imposed on 27 entities involved in the scheme. SEBI found the company transferred funds to interconnected entities (common directors/addresses) **in violation of RPT rules**. The board **failed to disclose these transactions, misleading investors**
Case 2	Business allocation agreements with Praxair India (related party). Enforcement action for non-compliance with LODR Regulations. SEBI ruled all RPTs **without shareholder approvals** must be aggregated. The **board approved deals without valuation reports, harming public shareholders.**
Case 3	**Undisclosed RPTs** between the company and subsidiaries **exceeding audit committee limits**. Administrative warning from SEBI for inadequate disclosures and approvals. **SEBI noted contradictions** in the company’s claims that these were not RPTs, despite the audit committee treating them as material.
Case 4	Penalty imposition and restrainment of certain senior officials (including a promoter) from holding any directorial or KMP position in listed entities for specified period on issues involving **diversion of funds** to **promoters and their relatives linked entities** and **failure to disclose RPTs**
Case 5	Allegations of **financial misconduct**, namely diversion and siphoning of funds, **Non-disclosure of RPTs** and Misrepresentation of financial statements. SEBI imposed a penalty on the company, its executives and restrained the company from accessing the securities market and holding positions as directors or key managerial personnel for specified periods.
Case 6	Non-reporting of related party transactions in financial statements, **lack of approvals for RPTs.** Show-cause notice issued, penalties contingent on SEBI’s final order. The Group has contested allegations, asserting minimal material impact.

Increased onus while reviewing RPT for providing approvals



Convergent Standards



Risks



Expectations

Enhanced disclosures

The objective of SEBI's RPT disclosure framework and Transfer pricing is to ensure that the mutual relationships have not influenced the value and the consideration is at 'arm's length'

01

Shift from compliance to accountability

Price setting vs Outcome testing approach

RPTs are now under **twin scrutiny** where **SEBI** has increased the rigour on RPTs from a governance, transparency and stakeholder protection perspective; and **Income Tax Department** from a transfer pricing compliance perspective

02

Increased onus on Independent directors

- Independent directors and audit committees are now expected to assess whether an RPTs have been in the interest of the listed entity
- All related party transactions and subsequent material modifications to said transactions shall require prior approval of the audit committee [Subsidiary RPTs also subject to approval based on thresholds]
- Significant penalty provisions for non-compliance

03

Purpose of SEBI LODR RPT Regulations

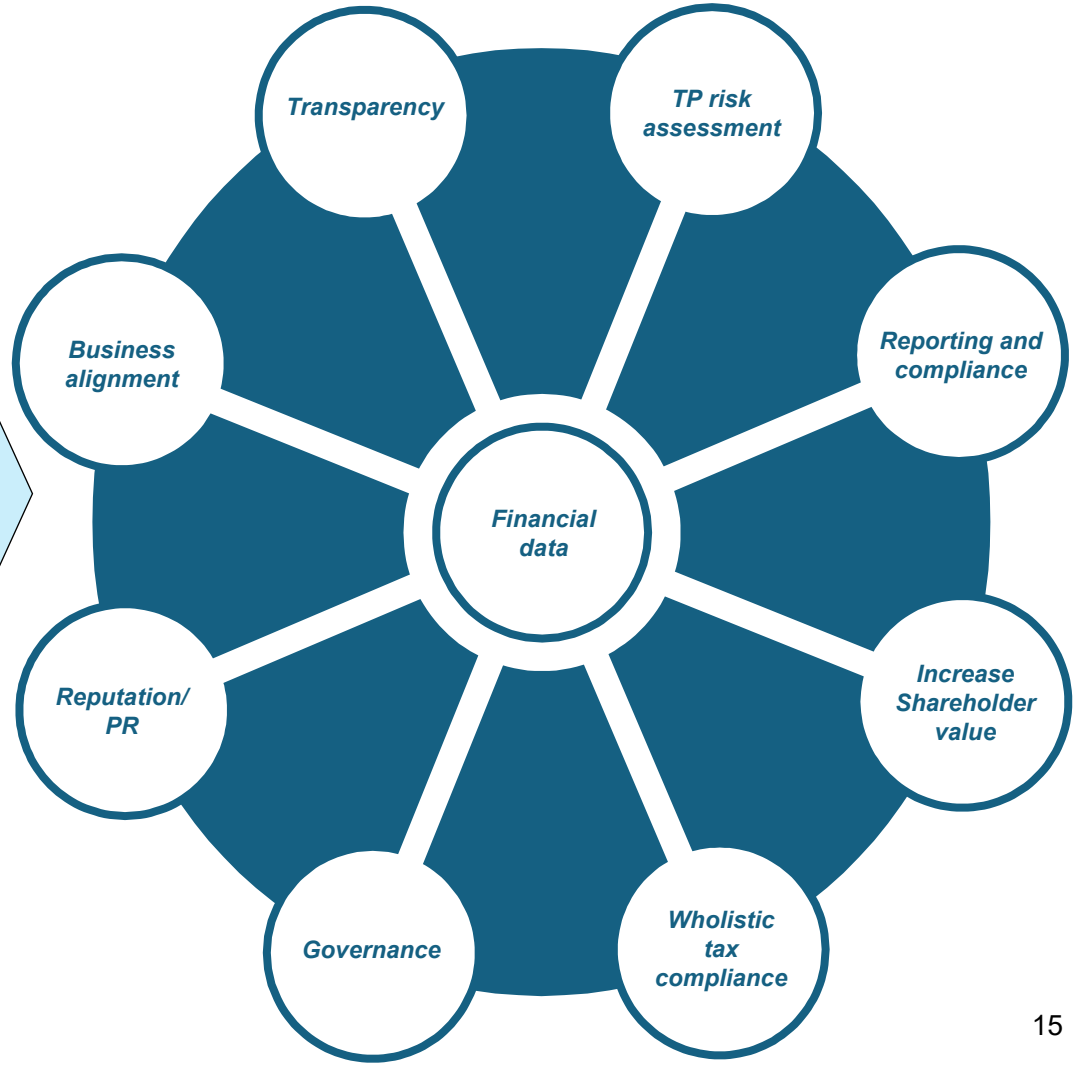
- The SEBI (Listing Obligations and Disclosure Requirements) (Sixth Amendment) Regulations, 2021 has *inter alia,* widened the ambit of Related Parties ("RPs") and Related Party Transactions ("RPTs")

- The changes have been introduced with a regulatory intent of introducing greater transparency and the below stricter governance norms
  - **To monitor direct/ indirect control:** RP definition expanded to cover "promoter, promoter group and interested entities" to monitor the direct/ indirect control over the affairs of the company
  - **Alignment with global practices:** Insertion of a "fixed minimum monetary RPT threshold" in line with the transaction data of top 500 listed entities for larger coverage for approval purposes
  - **Track Movement of assets/ value out of listed entities:** RPT definition widened to cover RPT's of the listed entities' subsidiaries
  - **Increased monitoring by shareholders:** "Prior" shareholder approval of Material RPT and modifications to Material RPTs
  - **Monitor "benefit to related parties":** The amendment has widened the ambit of RPTs to include transactions that not only have a direct nexus with an RP, but eventually also those which would indirectly benefit the RP

Key corporate governance perspectives

Companies initially viewed transfer pricing as a compliance burden, but the larger objective of transparency and efficiency has quickly evolved ...

- How do I interpret the related party policy in light of my group's **tax structure** and is it consistent with what is publicly available?
- Have I considered the **risk and impact** of how tax authorities and investor analysts around the world will interpret my policy?
- How do I make sure that what I put in the Annual report (Revenue, profits and tax) is consistent with the **Master and entity-level Local file** data?
- How do I create a framework for reviewing and providing **governance and efficiency** over the transfer price amongst each territory thereby boosting investor confidence?
- How do I ensure **alignment** between my policy with the "evolving business opportunities and wider tax reporting process?



Need for transparency and efficiency in RPT

There are jurisdictions with significant profits but low levels of tax accrued

A group's activities in a jurisdiction are limited to those that pose less risk

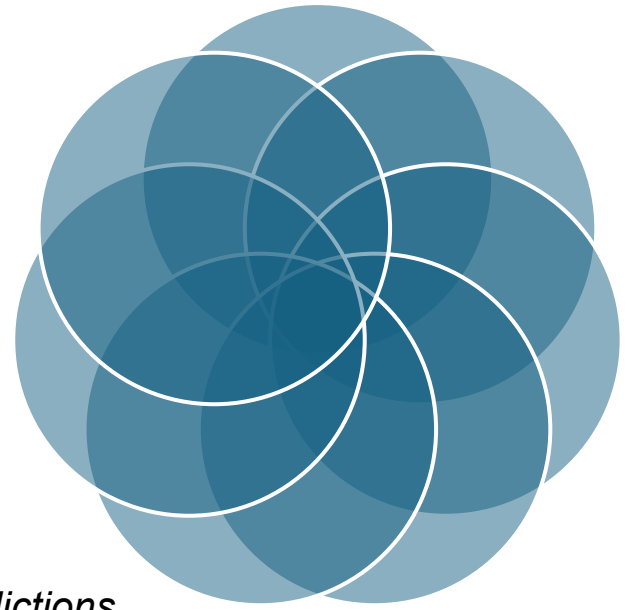
There is a high value or high proportion of related party revenues in a particular jurisdiction

There are jurisdictions with significant profits but little substantial activity

There are jurisdictions with significant activities but low levels of profit (or losses)

The results in a jurisdiction deviate from potential comparables

A group has activities in jurisdictions which pose a BEPS risk



Audit committee discussions – Increased focus on governance



Unanticipated material changes in geo-political space

- Evaluation of global footprint of subsidiaries
- Financial stress & operational inefficiencies
- Exposure to political instability, high inflation and high remittance costs
- Regulatory challenges



Expected approach: “Objective risk assessment”

- **Related Party Pricing Policy Review**
  - Policy for exploitation of Intellectual Property (IP) Rights
  - Intra-Group Financial/ performance Guarantees
  - Management support service charges
- **Highlight inconsistencies between conduct and contract**
  - “Substance over form”: PE/ PoEM implications and related profit attribution considerations

Snapshot of the regulations

- Changes to Related Party and Related Party Transaction definitions
- Revised thresholds for prior approval of Material RPTs by shareholders

03



New definition of Related Party - Reg. 2(zb)

Related Party

Directors and KMP along with relatives; Director (other than an independent director) or KMP of holding company or his relative

- Firm in which in which director / manager or his relative is a partner
- Pvt. Co. in which director / manager or his relative is a director or member
- Public Co. in which director / manager is a director and holds more than 2% of its shares

Body Corporate which is:

- Holding Co.
- Subsidiary including fellow subsidiary
- Associate Co. including fellow Associate Co.
- Holding 20% or more of share capital or voting rights of the Co.
- Joint venture including fellow JV

Any body corporate whose Board or Managing Director/Manager is accustomed to act on the advice, directions or instructions of a Director or Manager

Any person on whose advice or instructions Director or Manager of the Company acts

Before amendment

"related party" means a related party as defined under sub-section (76) of section 2 of the Companies Act, 2013 or under the applicable accounting standards:

Provided that any person or entity belonging to the promoter or promoter group of the listed entity **and** holding 20% or more of shareholding in the listed entity shall be deemed to be a related party.

Provided further that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s).

Substituted

After amendment

Proviso to the definition of related party in regulation 2(zb) of the amended LODR Regs has been amended to provide that –

With effect from 01 April 2022

(a) Any person or entity that

(i) forms a part of the promoter or promoter group of LE *(irrespective of its shareholding)*; **or**

(ii) holds 20% or more equity shares (other than promoter or promoter group)* at any time during the immediately preceding financial year

With effect from 1 April 2023

(a) Any person or entity that

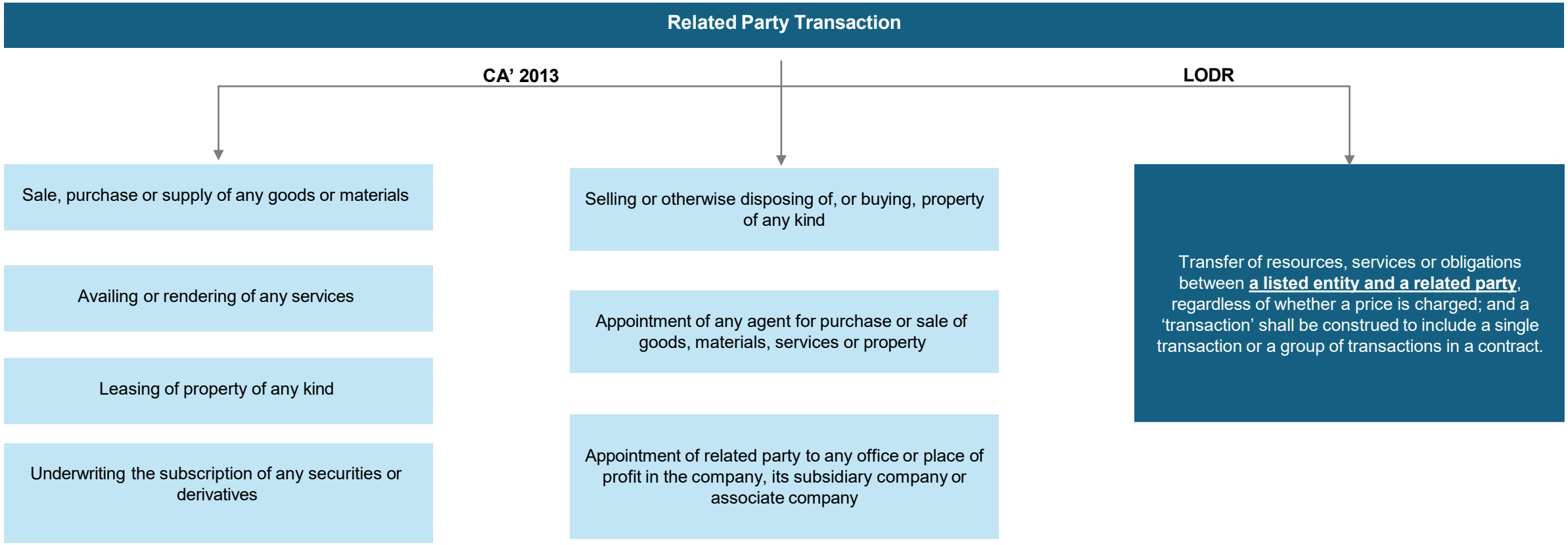
(i) forms a part of the promoter or promoter group of the listed entity *(irrespective of its shareholding)*; **or**

ii) holds 10% or more equity shares (other than promoter or promoter group)* at any time during the immediately preceding financial year

***Note** - *In determining shareholding, following "beneficial interest" per Section 89 of Co Act to be considered*

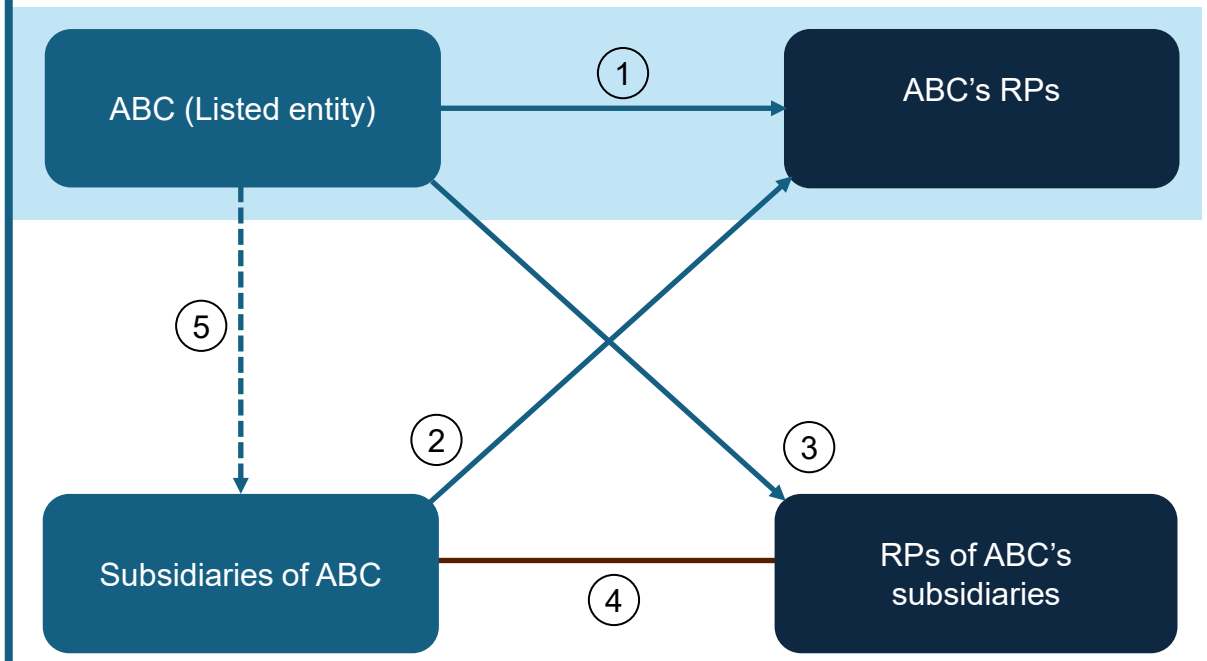
- *either directly/ indirectly through any contract, arrangement*
- *right/ entitlement of a person alone (or) together with any other person*
  - *exercise/ cause to exercise rights attached to such shares*
  - *receive/ participate in any dividend/ distribution of such shares*

Definition of Related Party Transaction



Related party transactions | Widened scope

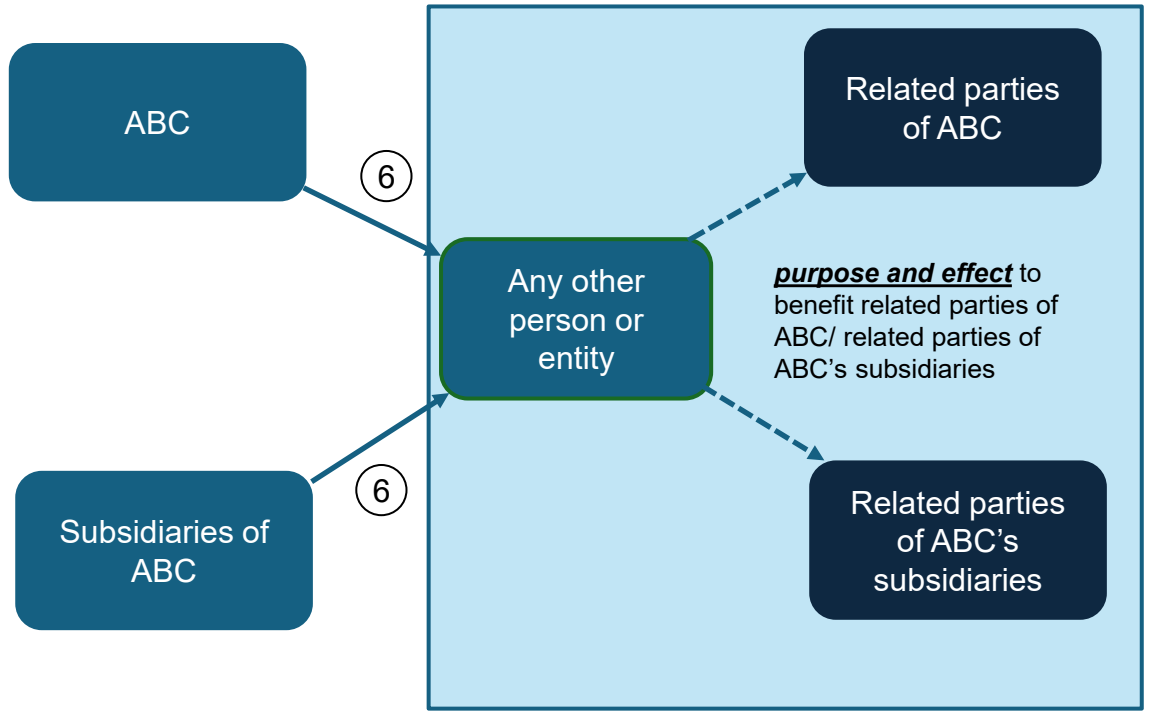
With effect from April 01, 2022



1. RPTs between ABC and RPs of ABC
5. RPTs between ABC and its subsidiaries

2. RPTs between ABC's subsidiaries and ABC's RPs
3. RPTs between ABC and RPs of ABC's subsidiaries
4. RPTs between ABC's subsidiaries and its RPs

With effect from April 01, 2023



6. Transactions between ABC/ its subsidiaries with any other person/ entity

New RPTs to be analysed due to the expanded definition

Audit Committee approval – An Overview

Present disclosure requirements

6–10-line items covering key aspects of proposed RPT, with management having flexibility to present the extent of details

No statutory certifications required from KMP or comments from Audit Committee required

No significant obligation to disclose financial details, RP credentials, or past transactions with RPs

No requirement for obtaining bids/quotes or peer benchmarking

Documentation requirements applicable from September 1, 2025

01

Part A capturing 'Minimum Information' applicable to all RPTs

02

Seven specific types of RPTs – Part A and Part B disclosures applicable

03

***Material RPTs**
If RPT value (whether entered into individually or taken together with previous transactions during a financial year) exceeds thresholds specified in the new Schedule XII – Part A, Part B and Part C data

04

Additional requirements for Material RPTs put to Shareholders for approval

05

Not applicable to RPTs between

- listed entity and its WOS
- two WOS of listed entity
- RPTs not exceeding INR 1 crore

Not applicable for "Omnibus cases") → Quarterly RPT review under SEBI LODR

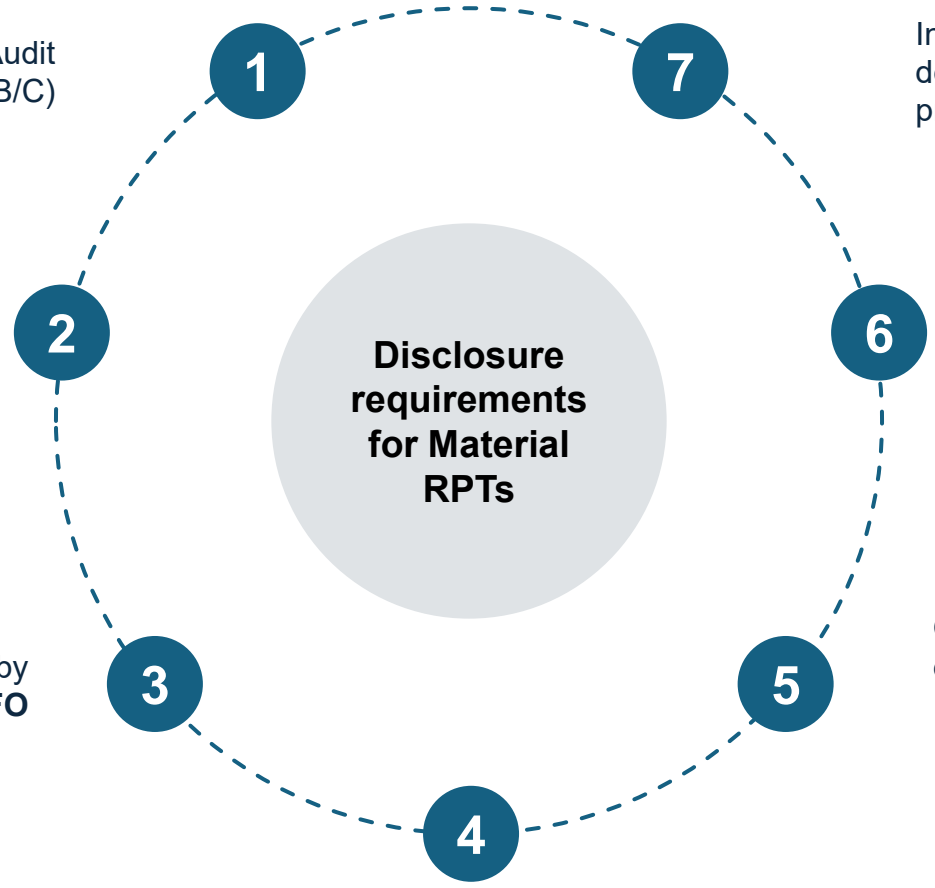
*Thresholds for RPT **approval by Audit Committee and Shareholers remain the same**

Limited disclosures - Relaxation vide Circular issued on October 13, 2025

If the value of the RPT (individually or cumulatively during a FY) does not exceed **1% of annual consolidated turnover or Rs.10 crore (whichever is lower)** the entity may now furnish only **limited information as per** Annexure-13A instead of the full Industry Standard disclosures mentioned above - with immediate effect.

Such limited disclosures were already provided in *Disclosure obligations of listed entities in relation to Related Party Transactions vide SEBI Circular dated November 22, 2021

Shareholder approval - Disclosure requirements for material RPTs



1. All applicable disclosures submitted to the Audit Committee (as per Part A/B/C)
2. Justification on proposed transaction being in the interest of the listed entity
3. Review confirmation/certification by CEO/MD/WTD/Manager & **CFO**
4. Confirmation of RP not being an NPA, willful defaulter, insolvent or disqualified under Section 29A of IBC
5. QR Code/weblink for Shareholder to access the support documents like valuation or external-party report (if any)

   → ***Brief memo is typically uploaded by companies***
6. Audit and Board's endorsement of the transaction. Redacted info (if commercially sensitive), with affirmation that public shareholders have sufficient data.
7. In case of multiple types of proposed transactions, details to be provided separately for each type of the proposed transaction

Prior-approval of RPTs – Revised thresholds effective from December 2025

Following the detailed consultation paper proposing significant amendments to RPT provisions, towards ease of doing business, rolled out by SEBI on August 4, 2025, amendments were approved by SEBI in its Board Meeting on 12th September, 2025.

Changes to definitions:

- Definition of Related parties to include the directors or key managerial personnel of the listed entity or its subsidiary, and relatives of such directors or key managerial personnel

Thresholds for prior approval of Material RPTs by shareholders - From Listed entity's perspective

- Introduction of scale-based threshold for prior approval of material RPTs by shareholders, in place of earlier thresholds which were regardless of turnover levels
- Omnibus approval granted by the shareholders for material RPTs in an annual general meeting shall be valid till the date of the next annual AGM
- Omnibus approvals for material RPTs, granted by shareholders in general meetings other than AGM, the validity of such omnibus approvals shall not exceed one year from the date of such approval
- Letter providing web-links/ QR codes to be provided for holders of non-convertible securities who have not registered

Thresholds for prior approval of Material RPTs by shareholders - From unlisted subsidiary's perspective

- Clearer rules for computation of prior approval limits for subsidiaries' material RPTs
- Networth based prior approval thresholds for newly incorporated subsidiaries without any financial track record
- De minimis exemption from prior approvals for RPTs of subsidiaries if the aggregate value is less than INR 1 crore

Prior-approval of RPTs – Revised thresholds effective from December 2025

<table>
<tr><th>Regulation/Clause</th><th>Erstwhile Provision</th><th>Amended Provision</th><th>Impact</th></tr>
<tr><td>Definition of Material RPT
(Reg. 23(1))</td><td>RPT is a Material RPT if the transaction value (whether entered into individually or taken together with previous transactions during a financial year) exceeds the lower of:
• ₹1,000 crore; or
• 10% of annual consolidated turnover as per last audited financials</td><td>RPT is a Material RPT if the transaction value (whether entered into individually or taken together with previous transactions during a financial year) exceeds thresholds specified in the new Schedule XII as follows
<table><tr><th>Turnover</th><th>Material RPT threshold (as a % of consolidated turnover)</th></tr><tr><td>Up to ₹20,000 crores turnover</td><td>10% of turnover</td></tr><tr><td>Between ₹20,000 –₹40,000 crores turnover</td><td>₹2,000 crores + 5% of turnover above ₹20,000 crores</td></tr><tr><td>Above ₹40,000 crores turnover</td><td>Lower of the below:
a) ₹3,000 crores + 2.5% of turnover above ₹40,000 crores; or
b) ₹5,000 crores</td></tr></table></td><td>The new scale-based threshold mechanism based on turnover for Material RPTs means that a fewer number of Material RPTs may require shareholders' approval. This would facilitate ease of compliance for listed entities.</td></tr>
<tr><td>RPTs of Subsidiaries
(Reg. 23(2))</td><td>Audit Committee approval required if:
• RPT value > ₹1 crore; and
• Exceeds 10% of subsidiary's annual standalone turnover.</td><td>Audit committee approval required if:
• RPT value > ₹1 crore; and
• Exceeds the lower of:
(i) 10% of subsidiary's annual standalone turnover, or
(ii) Listed entity's Material RPT threshold as per Schedule XII (refer above).</td><td>Harmonizing the threshold under Reg. 23(2) with the proposed materiality threshold under Reg. 23(1) would address issues where the transaction undertaken by the subsidiary of the listed entity exceeds the material RPTs threshold requiring shareholder approval but does not exceed 10% of the standalone turnover of the subsidiary, thus not requiring audit committee approval.</td></tr>
</table>

Prior-approval of RPTs – Revised thresholds effective from December 2025

Aspect	Erstwhile provision	Amended provision
RPTs with Subsidiaries Lacking 1 Year Audited Financials (Reg. 23(2)(c))	Audit Committee approval required if: • RPT value > ₹1 crore; and • Exceeds 10% of paid-up share capital + securities premium.	Audit Committee approval required if: • RPT value > ₹1 crore; and • Exceeds the lower of: (i) 10% of paid-up share capital + securities premium, or (ii) Listed entity's Material RPT threshold as per Schedule XII (refer above). Paid-up capital to be as of a date not older than 3 months before approval.
Validity of Shareholder Omnibus Approval	Omnibus shareholder approvals were possible, but the regulation did not clearly cap how long they could remain valid	• If omnibus approval comes from AGM, it remains valid only until the next AGM (within legal timelines). • If from a non-AGM general meeting, its validity cannot exceed one year from the approval date.

Other observations:

- The existing thresholds for brand royalty RPT i.e., >5% of consolidated turnover of listed entity remains unchanged
- The existing exemptions from prior approvals from Audit Committee and shareholders of listed entities in the following cases remains unchanged:
  - Transactions entered into between two government companies;
  - Transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.
  - Transactions entered into between two wholly-owned subsidiaries of the listed holding company, whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.

Prior-approval of RPTs – Revised thresholds effective from December 2025 – Listed entity

Value threshold for Audit Committee and Shareholder approval

All RPTs (including subsequent material modifications) require prior approval of Independent directors of Audit Committee.

Material RPTs, which exceed the following thresholds, require Shareholder approval in addition to the Audit Committee approval

Turnover	Material RPT threshold (as a % of consolidated turnover)
Up to ₹20,000 crores turnover	10% of turnover
Between ₹20,000 –₹40,000 crores turnover	₹2,000 crores + 5% of turnover above ₹20,000 crores
Above ₹40,000 crores turnover	Lower of the below: a) ₹3,000 crores + 2.5% of turnover above ₹40,000 crores; or b) ₹5,000 crores

RPT Threshold in relation to brand royalty: 5% of consolidated turnover of the listed entity

Audit committee may grant omnibus approval for RPTs which are repetitive in nature.

The validity of such omnibus approval is as follows:
- If omnibus approval comes from AGM, it remains valid only until the next AGM(within legal timelines).
- If from a non-AGM general meeting, its validity cannot exceed one year from the approval date.

The above requirements shall not apply if the value of RPT does not exceed Rs.1 crore

Value threshold for Disclosure (Refer SEBI Circular Ref. No.: NSE/CML/2025/29 dated June 26, 2025)

- **Part A -** Applicable for **all types of RPTs**
- *Provided that if the value of the RPT (individually or cumulatively during a FY) does not exceed **1% of annual consolidated turnover or Rs.10 crore (whichever is lower)** the entity may now furnish only **limited information as per Annexure-13A** instead of the full Industry Standard disclosures mentioned above w.e.f October 13, 2025.*
- **Part B** – Applicable for **seven specific types of RPTs.**
- *It is hereby inferred that, those RPTs which do not meet Part C thresholds will require disclosure as per Part A and Part B standards. We shall notify in case there is any notification by SEBI on this specific aspect.*
- **Part C** – Applicable for **seven specific types of RPTs,** if they exceed the materiality thresholds mentioned in the adjacent column

Prior-approval of RPTs – Revised thresholds effective from December 2025 – Subsidiary

Value threshold for Audit Committee and Shareholder approval	Value threshold for Disclosure (Refer SEBI Circular Ref. No.: NSE/CML/2025/29 dated June 26, 2025)

Audit committee approval required if:

- RPT value > ₹1 crore; **and**
- Exceeds the lower of:
  (i) 10% of subsidiary's annual standalone turnover, or
  (ii) Listed entity's Material RPT threshold of the listed entity (parent) as follows:

Turnover	Material RPT threshold (as a % of consolidated turnover)
Up to ₹20,000 crores turnover	10% of turnover
Between ₹20,000 –₹40,000 crores turnover	₹2,000 crores + 5% of turnover above ₹20,000 crores
Above ₹40,000 crores turnover	Lower of the below: a) ₹3,000 crores + 2.5% of turnover above ₹40,000 crores; or b) ₹5,000 crores

- The transaction undertaken by the subsidiary of the listed entity which exceeds Rs.1 crore but does not exceed 10% of the standalone turnover of the subsidiary or the threshold as per Schedule XII (as shown above) doesnot require audit committee approval.

- **Part A -** Applicable for **all types of RPTs**
- *Provided that if the value of the RPT (individually or cumulatively during a FY) does not exceed **1% of annual consolidated turnover or Rs.10 crore (whichever is lower)** the entity may now furnish only **limited information as per Annexure-13A** instead of the full Industry Standard disclosures mentioned above w.e.f October 13, 2025.*
- **Part B** – Applicable for **seven specific types of RPTs.**
- *It is hereby inferred that, those RPTs which do not meet Part C thresholds will require disclosure as per Part A and B standards. We shall notify in case there is any notification by SEBI on this specific aspect.*
- **Part C** – Applicable for **seven specific types of RPTs,** if they exceed the materiality thresholds mentioned in the adjacent column

Point to ponder: It is unclear whether the newly introduced relaxed disclosure requirements will also apply to material RPTs that fall within the INR 10 crore threshold (if it is calculated as 10% of the consolidated turnover) or whether they will still be subject to enhanced and comprehensive disclosures.

Revised Industry Standards- Transaction-wise disclosure

04



Audit Committee approval - Summary of Information Disclosure (1/4)

- All ABC's related party transactions and **subsequent material modifications** to said transactions shall require prior approval of the audit committee
- Audit Committee to define material modifications in policy on materiality of Related Party Transactions and on dealing with such transactions

*Disclosure obligations of listed entities in relation to Related Party Transactions vide SEBI Circular dated November 22, 2021

Part A: Related Party and Related Party Transaction (RPT) basic information *(referred to Annexure 13-A in SEBI circular dt. Oct 13, 2025*

- Basic details of related party (name, country, business).
- Relationship/ ownership (shareholding, capital contribution, indirect holdings).
- Previous transactions (last FY, current FY to last quarter, defaults).
- Amount of proposed transaction (Materiality, % of turnover, financial information of related party)
  - Basic details of proposed transaction (type, details, tenure, omnibus approval, value, justification, interested KMPs, valuation report, other info).

Part B and Part C: RPT specific data based on category of transaction and Materiality

Category of transaction	Part B – specific type of RPT	Part C – Additional information for Material RPT
Sale/Purchase/Supply of Goods/Services, Trade Advances	• Bidding or other process for choosing the RP, if any • Price determination method • Trade advance details (amount, tenure, self-liquidating)	No additional information

Audit Committee approval - Summary of Information Disclosure (2/4)

Part B and Part C: RPT specific data based on category of transaction and Materiality

Category of transaction	Part B – specific type of RPT	Part C – Additional information for Material RPT
Sale/Purchase/Supply of Goods/Services, Trade Advances	• Bidding or other process for choosing the RP, if any • Price determination method • Trade advance details (amount, tenure, self-liquidating)	No additional information
Loans/Advances/ICDs (non-trade)	• Source of funds, • Indebtedness, Borrowing cost, • Interest rates, • Maturity date, Repayment terms, • Security, Purpose	• Credit rating, • Past defaults (3 yrs), • NPA/ willful defaulter/IBC status, Section 29A disqualification
Investments	• Source of funds, • Debt incurred for investment, • Investee's fund usage, • Material terms	• Credit rating (for debt securities), • Regulatory approvals (if applicable)

Audit Committee approval - Summary of Information Disclosure (3/4)

*Disclosure obligations of listed entities in relation to Related Party Transactions vide SEBI Circular dated November 22, 2021

Part B and Part C: RPT specific data based on category of transaction and Materiality		
Category of transaction	**Part B – specific type of RPT**	**Part C – Additional information for Material RPT**
Guarantees, Sureties, Indemnities, Comfort Letters	• Rationale, legal binding obligation on listed entity, • Material covenants such as commission, contractual provisions • Recovery mechanism, if invoked, • Value of obligation, • Accounting provisioning	• Credit rating, • Past Solvency/going concern (3 yrs), • Past defaults (3 yrs), Total obligation, • NPA/willful defaulter /IBC status
Borrowings by entity/subsidiary	• Key covenants, • Interest rate, • Borrowing cost, • Maturity, Security • Repayment, Purpose	• Debt-to-Equity and Debt service coverage ratios (before/after transaction) • Not applicable to BFCs/Insurance/Banks/HFCs

Audit Committee approval - Summary of Information Disclosure (4/4)

Part B and Part C: RPT specific data based on category of transaction and Materiality		
Category of transaction	**Part B – specific type of RPT**	**Part C – Additional information for Material RPT**
Sale/Lease/Disposal of Assets or Shares of Subsidiary/Associate	• Bidding or other process for choosing the RP, if any, Pricing, • Rationale for sale, lease or disposal • 3-year financials of unit/entity put for disposal, • Expected impact on entity's performance	• Past similar transactions, • Any non-cash consideration (shares or kind), • Information on resultant segment elimination • Involvement of Intangible/customer transfers, • Non-financial rationale for such disposal
Royalty payments	• Purpose of payment, • Category of pay-out (brand/trademark, tech know-how, professional or corporate management fees etc), • Confirmation on consistency of rate to companies in other jurisdictions – if not additional information on min/max rate charge to group companies, • Sunset clause (if any)	Past 3-year data covering: • Gross royalty • Purpose of royalty • Royalty-to-profit ratios, • Rate growth in royalty vs PAT/Turnover growth • Peer benchmarking Benchmarking criteria: • Min 3 suitable and relevant industry peers • If listed entity part of any sectoral index, consider other constituents

SEBI LODR: Flags alarming trends in related-party royalty payments

SEBI's **study report** on royalty payments which publicly listed Indian companies make to related parties from FY 2013-14 to FY 2022-23, focusing on 233 companies across various sectors

25%

pay royalties to related parties that exceed 20% of their net profits

in half of the instances, the companies either do not pay dividends to shareholders or pay more in royalties than they do in dividends to non-related party shareholders

63 companies

which make payments to related parties report net losses

79 companies

consistently pay royalties to their related parties throughout the study period

18 companies

royalty payments exceed both turnover and net profits for the entire period

their aggregate royalty payments grow at a CAGR of 14.6% which is more than double the CAGR for turnover (6.5%) and net profits (6.0%)

Issues flagged by proxy advisory firms

- Lack of correlation between Royalty payments and company performance
- Concerns about payments made in perpetuity
- Lack of transparency in how these payments are disclosed
- Potential harm to minority shareholders

Need for a solid pricing policy aligned with business realities

Comparison of Current and proposed ECB regulations

05



Background

- Foreign Exchange Management (Borrowing and Lending) Regulations, 2018, along with the Master Direction on External Commercial Borrowings, Trade Credits, and Structured Obligations (‘existing regulations’), set the framework for eligible borrowers to raise external commercial borrowings (‘ECB1’) from recognized non-resident lenders.
- As announced in the Statement on Developmental and Regulatory Policies dated October 1, 2025, the Reserve Bank of India (‘RBI’) has proposed changes to the regulatory framework for External Commercial Borrowings under the Foreign Exchange Management (Borrowing and Lending) Regulations, 2018.
- The draft changes have been introduced under the Foreign Exchange Management (Borrowing and Lending) (Fourth Amendment) Regulations, 2025 (‘Draft regulations’) and are open for public comments. The Draft regulations aim to make compliance easier while allowing eligible entities better access to foreign capital.
- In this alert, we have analysed the proposed amendments to the ECB framework, outlining the significant changes introduced in the draft, and their potential implications for eligible borrowers and the broader landscape of external financing in India.
- The final ECB regulations represent a major shift toward a flexible external borrowing framework in India. Relaxation of all-in-cost and minimum average maturity period is expected to reduce funding costs for Indian borrowers. Further, the widening of scope of recognized lender also gives more flexibility for borrowing, especially from individuals who are not equity shareholders. Similarly, the widening of scope of eligible borrowers also brings other entities into the ambit of ECB such as LLPs, registered partnership firms, etc.



Amendments proposed to the ECB framework (1/7)

Particulars	Existing Regulation	Draft Regulation	Impact due to changes
Eligible Borrowers	• Eligible borrowers include entities allowed to receive FDI, along with entities listed as per the Master Direction such as units in SEZ, port trusts etc. • Separate definition for eligible borrowers was provided for FCY and INR- denominated ECBs. INR denominated ECB was additionally allowed for certain entities engaged in micro-finance activities.	• Person resident in India (PRI) registered, incorporated, or established under a Central or State Act can raise ECBs. • The draft does not differentiate between FCY or INR-denominated ECBs for an eligible borrower.	• As per the existing regulations, entities allowed to receive FDI did not include entities such as LLPs since they could only receive foreign investment and not FDI. • The draft regulations **broadens the ECB eligibility, allowing LLPs, registered partnership firms**, other entities set up under a Central or State Act to access foreign funding. • Individuals cannot avail ECB as per the draft regulations as well.
Recognised Lenders	• The lenders must be residents of FATF/IOSCO countries. The lenders can also be multilateral and regional financial institutions of which India is a member. • Individuals are permitted as lenders if they are foreign equity holders (i.e. holds minimum 25% directly or 51% indirectly in borrower). Foreign branches or subsidiaries of Indian banks can lend only in foreign currency.	A recognized lender can be- • A person resident outside India or • A branch outside India or in the IFSC[2] of an entity whose lending business is regulated by the Reserve Bank.	• The expansion of the definition of recognised lenders allows any non- resident individual to act as a lender **without requiring equity ownership** in the Indian entity. • Further, the restriction on lender being a resident of FATF/IOSCO countries is removed. • Foreign branches (including IFSC branches) of an Indian entity engaged in lending business can also be a recognised lender.

[1] External commercial borrowings (ECB) means borrowing by a person resident in India from a person resident outside India.

[2] International Financial Service Centre (IFSC) shall have the same meaning as assigned to it under the International Financial Services Centres Authority Act, 2019 (50 of 2019) (as amended from time to time).

Amendments proposed to the ECB framework (2/7)

Particulars	Existing Regulation	Draft Regulation	Impact due to changes
Cost of Borrowing[3]	As per existing regulations, the all-in-cost ceiling is 450 basis points per annum over the 6-month LIBOR or equivalent for foreign currency ECBs, and 450 basis points over corresponding Government of India security yields for INR-denominated ECBs, or as prescribed by the RBI and Government of India.	• The draft regulations introduce market-linked borrowing rates (instead of all-in-cost ceilings), subject to satisfaction of AD Category I Bank. • ***ECB from a related party or group entity[4] or an otherwise connected lender shall be carried out at arm's length price, meaning the transaction shall take place as if transacting parties are unrelated parties.*** • ECB, with an average maturity of less than three years and export advances will remain subject to cost ceiling specified for Trade Credits. • Additionally, it is specified that ECB proceeds cannot be used to pay cost of borrowing.	The draft regulations permit borrowing costs to be determined by market rates, removing the all-in-cost ceilings. No definition has been provided for what is the market rate and it is left to the discretion of the AD banker. *Further,* ***the draft regulation mandates that in related party transactions, the transaction should be at arm's length price and may require a TP style robust documentation and benchmarking exercise to justify the transaction.***

[3] Cost of borrowing means rate of interest, other fees, expenses, charges, guarantee fees and export credit agency charges, whether paid in foreign currency or rupee, but shall not include commitment fees and statutory taxes payable in India.
[4] Group entity means a holding, subsidiary or associate company as defined under the Companies Act, 2013 (18 of 2013) (as amended from time to time).

Amendments proposed to the ECB framework (3/7)

Particulars	Existing Regulation	Draft Regulation	Impact due to changes
Maturity	The Minimum Average Maturity Period ('MAMP') is prescribed based on the purpose of borrowing and has multiple brackets such as 1 / 3 / 5 / 7 /10 years, depending on the purpose.	• Eligible borrowers must raise ECBs with an MAMP of 3 years, except manufacturing entities, which can raise ECBs for 1 to 3 years up to USD 50 million. • The satisfaction of MAMP is not required in cases of conversion to non-debt instruments, repayment using proceeds from issuance of non-debt instruments, lender debt waiver, or closure/merger/ acquisition/ liquidation of the borrower or lender.	**The MAMP is uniformly set for 3 years all types of borrowers**, except those engaged in manufacturing activity. This simplification provides greater freedom for repayment by non-manufacturing companies, which previously faced longer mandatory maturities of five to ten years. Further, it has been explicitly clarified that in certain circumstances like conversion of ECB to equity, repayment of ECB using FDI proceeds, etc., the condition of MAMP need not be satisfied.

Amendments proposed to the ECB framework (4/7)

Particulars	Existing Regulation	Draft Regulation	Impact due to changes
Prohibition and Permitted End-Use of ECB Funds	The negative list for ECB prohibits the use of funds for: • In the business of chit fund or Nidhi Company	Regulation 3A prohibits ECB funds from being used for, • In the business of chit fund or Nidhi Company	No change
	• Agricultural or plantation activities.	• Agricultural or plantation activities except activities/sectors permitted for Foreign Direct Investment (FDI)[5]	The draft regulations permits ECB for agricultural or plantation activities which are permitted under FDI.
	• Real estate activity or construction of farmhouses except, ○ Construction / development of industrial parks / integrated townships / SEZ, ○ Any activity under 'infrastructure sub-sectors' ○ Purchase/ long term leasing of industrial land as part of new project / modernization or expansion of existing units	• Real estate or farmhouse construction except, • Activities/sectors permitted for Foreign Direct Investment (FDI) ○ development of townships, city and regional level infrastructure, townships ○ construction of residential/ commercial premises, roads or bridges, educational institutions, recreation facilities • Purchase/long-term leasing of industrial land as part of newproject/ modernisation or expansion of existing units	• The draft regulations permits ECB for real estate activities which are permitted under FDI, thus standardizing the definition of real estate for both ECB and FDI. • For example, under the current ECB and FDI regulations, integrated township development does not fall under the negative list. However, what constitutes an integrated township varies under both the regulations. • Notably, the minimum area to be developed in case of ECB was 100 acres whereas the minimum area to be developed for FDI was 25 acres or 12 acres (depending on the type of project).

[5] Agriculture Entry Route –
(a) Floriculture, Horticulture and Cultivation of vegetables and mushrooms under controlled conditions.
(b) Development and production of seeds and planting material.
(c) Services related to agro and allied sectors.
Plantation Route – Tea sector including tea plantations, coffee plantations, rubber plantations, cardamom plantations, palm oil tree plantations, olive oil tree plantation. Note: Other than the above, foreign investment is not allowed in any other agricultural and plantation sector activity.

Amendments proposed to the ECB framework (5/7)

Particulars	Existing Regulation	Draft Regulation	Impact due to changes
Prohibition and Permitted End-Use of ECB Funds	Trading in Transferrable Development Rights (TDR)	Trading in Transferrable Development Rights (TDR)	No change
	On lending to entities for the above activities, except in case of ECB raised by NBFCs.	• On-lending, except by ○ A person resident in India whose lending business is regulated by the RBI; and ○ A person resident in India that is a company or a body corporate established under a Central Act / State Act lending to its group entity It is clarified that on- lending shall not be undertaken for prohibited end-uses or to a person who is not an eligi0ble borrower.	The restriction under the current regulations is for on- lending for any of the activities which fall under the negative list. However, the draft regulations merely use the words “on-lending” which indicate that on-lending itself is not permitted. ***Further, on- lending is permitted under the draft regulation if it is by Indian companies / body corporates to their group entities (except for prohibited end-uses and to persons who are not eligible borrowers). Thus, allowing more flexibility to move funds within the group.*** ***This proposal would be of specific interest to entities overseeing treasury/ finance functions or acting as cash-pooling hubs for the group.*** ***The arm’s length principle must also be met while on-lending to group entities thereby necessitating having in place a robust documentation to support the intra-group on-lending arrangement.***

Amendments proposed to the ECB framework (5/7)

Particulars	Existing Regulation	Draft Regulation	Impact due to changes
Prohibition and Permitted End-Use of ECB Funds	Investment in capital market including margin trading and derivatives and investment in equity	• Transacting in listed / unlisted securities, except for – ○ Investment in terms of the Overseas Investment framework ○ Merger, amalgamation, arrangement, or acquisition in accordance with the Companies Act, 2013, SEBI (SAST) Regulations, 2011 and Insolvency and Bankruptcy Code, 2016; and ○ Investment in primary market instruments issued by non-financial entities for on-lending as provided above.	Relaxation of restrictions permitting ECB proceeds to fund overseas investments and mergers & acquisitions under domestic corporate, securities, and insolvency laws is a notable positive development. Along with the RBI's recent move permitting domestic banks to provide financing for acquisitions, these measures are likely to increase the availability of capital for Indian companies to pursue strategic growth and expansion opportunities.

Amendments proposed to the ECB framework (6/7)

Particulars	Existing Regulation	Draft Regulation	Impact due to changes

Borrowing Limit	• Eligible borrowers can raise ECBs up to USD 750 million per financial year and start-ups can raise ECB up to 3 million or equivalent per financial year.	• Eligible borrowers can raise ECB up to the higher of:
		  ○ outstanding ECB up to USD 1 billion or
		  ○ total outstanding borrowings up to 300% of net worth[6] including both domestic and external borrowings as per last audited balance sheet.
		• The limits do not apply to Eligible Borrowers who are regulated by financial sector regulators. [7]
			The changes widen the limit of borrowings which enhances fund flows and access to more capital.
			
			The limits proposed in the draft are applicable to **eligible borrowers, including start-ups**. However, regulated financial institutions, including banks and NBFCs, are exempt from borrowing caps.
			
			This will provide larger groups a greater headroom to raise ECB (300% of net worth), including intra-group ECBs. This will allow companies to do better debt planning.
			
			However, at present it is unclear if the proposed borrowing limit is to be evaluated on a yearly basis or at specific time intervals

Forms of ECBs	• ECBs include loans, bonds, debentures, trade credits more than 3 years, and financial leases in both foreign and Indian currency.	• Any form of commercial borrowing which involves payment of interest and repayment of principal is regarded as ECB and it includes FCCB and FCEB. • Non-Convertible Preference shares and non-convertible debentures issued on or after 30th April 2007 are regarded as ECB.	Under the draft regulations, the definition of ECBs **focuses on the nature of borrowing** rather than the type of instrument.

[6] (i) In case of companies, net worth shall have the same meaning as assigned to it in the Companies Act, 2013 (18 of 2013); and (ii) In case of other entities, net worth shall be the sum of the capital contribution and undistributed profits after deducting therefrom the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the last audited balance sheet.

[7] Financial sector regulator means a financial regulatory body established under any law in force in India and includes the Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority of India and Pension Fund Regulatory and Development Authority.

Amendments proposed to the ECB framework (7/7)

Particulars	Existing Regulation	Draft Regulation	Impact due to changes
Currency	• ECB can be raised in any freely convertible currency or INR as specified by RBI. • However, INR- denominated ECB cannot be converted into foreign currency, and the borrower cannot take on foreign exchange risk through derivatives or any other means.	• ECB can be raised in Foreign Currency (FCY) or INR, and it can be changed from one FCY to another FCY or INR or vice versa. • Change in currency shall be made at prevailing exchange rate or one that lowers liability.	Under the draft regulations, ECBs can be raised in any currency and converted into any currency which marks a significant relaxation.
Reporting	Borrowers must submit monthly Form ECB-2 returns through the AD bank within 7 working days of month-end, including any changes in ECB parameters.	Reporting is event-based, requiring Form ECB-2 submissions for each drawdown, debt servicing and any changes in ECB parameters to be reported within 30 calendar days.	The draft regulations shift to event-based reporting, **requiring submission within 30 calendar days of each drawdown,** debt servicing, or any change in ECB parameters, ensuring timely and transaction-specific compliance.

[6] (i) In case of companies, net worth shall have the same meaning as assigned to it in the Companies Act, 2013 (18 of 2013); and (ii) In case of other entities, net worth shall be the sum of the capital contribution and undistributed profits after deducting therefrom the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the last audited balance sheet.

[7] Financial sector regulator means a financial regulatory body established under any law in force in India and includes the Reserve Bank of India, Securities and Exchange Board of India, Insurance Regulatory and Development Authority of India and Pension Fund Regulatory and Development Authority.

Key takeaways

Ensure all related party ECBs clearly meet arm's length pricing requirements.

Monitor whether ECB lending by overseas parties could trigger an associated enterprise relationship under the Income tax Act.

Prepare integrated documentation that satisfies both the new ECB regulations and TP requirements.

Key considerations

Following areas will need priority attention by companies:

Ensure all related party ECB arrangements adhere to arm's length pricing requirements through a benchmarking analysis

Closely monitor if any ECB lending arrangements by persons resident outside India can trigger AE relationship under the Income-tax regime.

Preparation of detailed documentation for related party ECBs keeping in mind the AD Bank expectations under the ECB regulations as well as TP documentation requirements under the Income-tax regime.

Evaluate if any structuring can be done within the group to see who can avail ECBs and how to do on-lending of funds.

Estimate Credit rating → Evaluation of the terms → Search for 3rd party comparable data** → Adjustment for differences in T&C* → Evaluation of external comparable against information available in public domain → Economic reasons for increase in interest rate from last year → Based on the above, arm's length interest rate can be determined

** differences such as tenor, country, or currency risk, depending upon the nature of search strategy employed.*
*** having similar terms and conditions on the publicly available sources and databases*

Annexures



Annexure 13-A

Minimum Information to the Audit Committee for approval of Related Party Transactions	Minimum Information to the Shareholders for approval of Related Party Transactions
a. Transaction Details: • Type, material terms, and particulars. • Tenure (specific duration). • Value of the transaction **b. Related Party Information:** • Name & Relationship with the listed entity or subsidiary • Nature of concern or interest (financial or otherwise). **c. Turnover Impact:** • Percentage of listed entity's annual consolidated turnover represented by the transaction • For subsidiary RPTs, percentage based on subsidiary's standalone turnover **d. Loans/Deposits/Advances/Investments (if applicable):** • Source of Funds • In case of finances through indebtedness, nature of indebtedness, cost of funds, tenure **e. Justification as to why the RPT is in the interest of the entity** **f. Valuation or external party report if relied upon** **g. Percentage of counter-party's annual consolidated turnover represented by the transaction** **h. Any other relevant details necessary**	The following information must be included as a part of explanatory statement: • A summary of the information provided by the management of the listed entity to the audit committee(As provided in the adjacent column) • Justification for why the proposed transaction is in the interest of the listed entity • Where the transaction relates to any loans, inter-corporate deposits, advances or investments , details as specified under (d) in the adjacent column • Valuation or other external report • Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT, on a voluntary basis • Any other information that may be relevant.

Penal consequences (1/2)

Under SEBI LODR Regulations

- **Monetary Penalties:** SEBI may impose fines on listed entities and their officers for non-compliance.
- **Suspension of Trading:** SEBI may suspend trading of securities in severe cases.
- **Debarment:** Directors or key personnel may be debarred from holding office in listed companies.
- Reputational Damage: Non-compliance can lead to loss of investor confidence and market perception

Under Companies Act, 2013 (Section 188)

- **Voidable Transactions:** Unauthorized RPTs may be declared voidable by the Board or shareholders.
- **Director Liability:** Directors may be required to indemnify the company for losses.
- Imprisonment & Fines:
  - **Listed companies:** Up to 1 year imprisonment or ?5 lakh fine or both.
  - **Unlisted companies:** Generally limited to fines.

Other Regulatory Risks

- **Income Tax Act, 1961:** Non-arm's length pricing may trigger transfer pricing adjustments and penalties
- **Ind AS 24:** Failure to disclose RPTs may lead to audit qualifications and scrutiny



Penal consequences (2/2)

Voidable

At the option of the audit committee/board/shareholders, unless ratified within three months

Disqualification

In case of conviction, the directors liable to be disqualified to act as director for a five-year period

Recovery

The company and its shareholders to initiate recovery of losses from director or any employees who had entered into unauthorized transactions

Indemnity

Directors to indemnify for any losses where transactions are with directors (or related-party of such director)

Penalty for directors (in case of listed company)

Fine INR 25,00,000

Penalty for directors (in case of unlisted company)

Fine INR 5,00,000

For first-time Non-Compliance

Fine of INR 1,000 per day till date of such non-compliance

For subsequent Non-compliance

Fine of INR 2,000 per day till date of such non-compliance

Non-compliance of Disclosure 23(9)

Fine of INR 5,000 per day

As per Companies Act

As per SEBI LODR

In addition to the above-mentioned penal consequences, the overseas jurisdictions have respective penal consequences

Thank you!