Related Party Transactions: The End Of Soft Disclosures For Dealmakers



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Key Takeaways

- What's omnibus v. one-time approval for related party transactions?
- Sale of assets or goods or services, now only after inviting 3 competing bids – impact on JVs, platforms and existing framework agreements?
- RPTs now divided between promoter and non-promoter RPTs – what does that mean?
- Spotlight on guarantee commissions – what should one consider?
- Lending-related RPTs – preferential rates under scrutiny
- Creditworthiness of related party – new standards of information
- Royalties now require peer group comparison

Effective April 1, 2025, related party transactions ("**RPTs**") will be a herculean task to manage. Until now, information provided by the management to the audit committee was broad-strokes based and largely discretionary, often frustrating the RPT approval process. That era is officially over.

Industry bodies, in consultation with SEBI, have framed the minimum standard of information ("**MSI**") that must be provided for approval of RPTs[1], which must now be (a) incorporated into the agenda of the audit committee, and also, (b) into the explanatory statement in EGM notice, if the RPT is a 'material' RPT'. The standards set a benchmark for not just what's disclosed, but how rigorously it's justified.

To recap, RPTs are categorized as 'material' if the transaction value exceeds INR 1,000 crores or 10% of the annual consolidated turnover (5% in case of royalties). Disclosures to the exchange, separately, are mandated if RPTs breached the lower of – 2% of turnover, 2% of net worth (except where net worth is negative), or 5% of the average of absolute post-tax profit/ loss over the past three financial years.

Given the importance of these new disclosure requirements, we discuss the key highlights and detail the implications of some of the more prominent RPTs by listed companies.

I. Highlights

1. Clarity on omnibus v. one-time approvals

There had been some ambiguity in certain quarters about what constitutes an omnibus approval versus a one-time approval. Specifically – does every recurring transaction require an omnibus RPT approval with an annual refresh?

While the MSI doesn't expressly clarify this distinction, it does suggest that recurring transactions may fall into either category depending on the structure. Where the aggregate value of the transaction is fixed and known upfront, a one-time approval may suffice. However, where there is likely to be variation in unit economics and the aggregate amounts are not clearly defined, the transaction should be covered under an omnibus approval, based on broad indicative terms, a baseline value, and a formula for variation.

In short, listed companies should take a re-look at their transaction approvals, if the terms are variable. If the transaction involves fixed consideration, a one-time approval may be enough.

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[1] The Industry Standards Forum Guidance Note, officially titled "Industry Standards on Minimum Information to be Provided for Review of the Audit Committee and Shareholders for Approval of a Related Party Transaction," was issued by SEBI on February 14, 2025. It specifies the MSI that listed entities must provide to their audit committees and shareholders when seeking approval for RPTs. Effective from April 1, 2025, these standards are designed to facilitate informed decision-making and strengthen corporate governance practices by ensuring that all relevant details of RPTs are thoroughly reviewed and disclosed.

2. Impact on JVs and investment platforms?

Many listed companies operate through joint ventures or investment platforms that may qualify as a related party. In most cases, these platforms purchase goods, services, or assets from the listed companies. This raises the question – does every leg of such a sale require RPT approval and the tedious process of inviting competing bids? The answer likely requires a granular, case-by-case analysis. (*Discussed in detail below*)

3. RPTs divided basis risk – promoter and non-promoter related

The MSI categorizes the level of disclosure to the audit committee (and shareholders, if applicable) required for RPTs under three tiers – Comprehensive[2], Limited[3] and Minimum[4]. All material RPTs must be supported by comprehensive information.

Until now, there was no distinction between promoter-linked and non-promoter RPTs. The MSI now introduces a risk-based approach: RPTs involving promoters require comprehensive disclosures above a certain threshold – effectively treating them as material by default. For other RPTs, limited or minimum information may suffice, reflecting their lower perceived risk.

4. Shareholders empowered like never before: to receive full information; not just summaries

Until now, shareholders were only given abridged summaries of RPTs from the information shared with the audit committee. This often left shareholders without enough context to make informed decisions.

That changes now. First, the audit committee will now have access to a far broader data set, and the same information in its entirety must also be shared with shareholders, wherever their approval is required. While redactions for commercially sensitive information are permitted, they come with a caveat: the audit committee must justify the redaction and certify that it does not impair shareholders' ability to make an informed decision – a high bar in most cases.

As a result, independent directors must exercise caution when approving redactions.

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[2] Almost all RPTs fall under this category – namely, those that are material or involve promoters above specified thresholds. Unless the RPT is a low supervision matter – that is to say, a non-material RPT and not involving the promoters in any manner. These comprehensive disclosures are detailed disclosures including almost all financial, structural, historical, and pricing-related information relevant to the RPT.

[3] Just as exhaustive as comprehensive disclosures, but with a few relaxations built in. The relaxations include dispensation of a few conditions such as inviting competing bids for sale of goods or services, limiting related party creditworthiness check (borrowing costs of related party) to one year as against 3 years, projections for IRR on debt investments and royalty payouts to related parties, explaining why royalties are being out to related parties but no dividends to shareholders, peer comparison on royalty payouts. The relaxations are marginal.

[4] This lowest disclosure tier includes only the following select items – basic details of the related party, relationship and ownership of the related party, previous RPTs and amounts and basic details of the proposed RPT.

5. Management under a tighter leash

Earlier, the management was merely required to confirm that the transaction was not prejudicial to public shareholder interest, without giving a clear colour of the RPT. Now, the management is required to procure competing bids before sale of goods or assets, projected IRRs from upcoming investments, establish true arms' length etc. The audit committee is also now duty-bound to ask some of these questions and seek granular details of the RPTs, which were seldom asked earlier.

6. Lending RPTs: terms under a microscope

The MSI brings sharper scrutiny to lending-related RPTs by introducing a dual benchmarking requirement. Companies must now disclose: (i) The interest rates at which they have extended loans, ICDs, or advances to both related and unrelated parties over the past three years, and (ii) The rates at which both the listed entity and the related party borrow from their bankers or could borrow based on their credit profiles.

This framework makes it far more difficult to justify concessional or preferential rates without clear commercial reasoning. If a related party is receiving funds at cheaper rates than what others pay to the listed entity or its subsidiary, or cheaper than what the related party pays to others to raise capital – the audit committee must explain why.

The message is clear: if you're offering favourable funding, be prepared to defend the deal. (*Discussed in detail below*)

7. Guarantees v. shortfall undertaking v. comfort letters – creative labelling won't work

A few listed companies took a view that a guarantee was different from a comfort letter or shortfall undertaking and hence did not trigger disclosure and approval requirements, unless actually triggered. The MSI puts those arguments to rest and treats any guarantee (excluding performance guarantee), surety, indemnity or comfort letter, by whatever name called, in the same light. The broad wording of this requirement ensures that entities cannot avoid disclosure of any finance support transactions through creative labelling. (*Discussed in detail below*)

8. Guarantee commissions – did you charge? why not?

The MSI goes a step further when it comes to guarantees, sureties, indemnities and comfort letters – not only by recognising all such forms of financial support as requiring disclosure and approval, but also by asking a simple, often overlooked question: Is the listed entity getting paid for the risk it's taking?

The requirement to disclose whether a guarantee or support commission is being charged brings sharper focus on whether the arrangement is commercially sound or simply a related party favour. In many cases, the listed entity provides a financial backstop without deriving any benefit, exposing itself to risk with no compensation. This disclosure forces audit

committees and shareholders to consider: should the company be doing this at all – and if so, on what terms? (*Discussed in detail below*)

9. Valuing non-cash deal terms? how?

MSI takes a leaf from SEBI's recent order in Linde case (please refer to *Public M&A: JV's with exclusivity under SEBI's scanner – The Linde Case*), where SEBI required a non-compete obligation to also be valued as a part of RPTs. MSI now requires such non-cash valuations, or in other words, requires valuation of contractual promises that may not be pecuniary. For instance, MSI requires management to confirm if the RPT involves transfer of key intangible assets or key customers which are critical for continued business of the listed entity or any of its subsidiary? Also, MSI mandates that the management discloses if there any other major non-financial reasons for going ahead with the proposed transaction? If so, Linde case dictates that the value of such RPTs must be assessed by a valuer and be presented for approval accordingly.

10. Investments in focus – does the risk justify the reward?

For investments in related parties, MSI now mandates detailed disclosures on asset-liability mismatches and annualized returns to safeguard listed entities from liquidity risks and suboptimal returns. Companies must now specify if investments in debt instruments could create maturity mismatches (e.g., long-term investments funded via short-term borrowings), a measure introduced to prevent an IL&FS-like crisis. With this disclosure, the audit committee will have the information necessary to avoid investments whose tenures don't match short-term obligations. Additionally, expected annualized returns must be disclosed and benchmarked against the entity's cost of capital, ensuring transactions align with shareholder value. For instance, if a company expects to give 10% returns to its shareholders every year, and a debt investment in a related party returns 5%, the RPT would not make sense from a risk v. reward perspective.

11. Get your house in order – retrospective application?

MSI mandates that the management provides the audit committee with information on a 3-year look-back basis for several matters. So, if you need shareholder approval next year, details of the past years may also need to be explained. For instance, total amount of all the RPTs with the related party during each of the last three financial years must be disclosed for any fresh RPT approvals. Similarly, royalties paid to a related party also carry a 3-year look back.

12. Royalties – to be separately classified; peer level tests

Classification of royalty payments by purpose gives shareholders a clearer view of the true economic substance of these transactions. It reveals whether payments are genuinely tied to value-adding elements – such as technology or know-how – or are disproportionately skewed toward brand usage or management fees. For companies with composite license agreements that cover multiple purposes, the requirement to explain why the royalty

components can't be separated ensures that such structures aren't used to hide important details.

Historical disclosures further enhance oversight by allowing shareholders, regulators, and audit committees to spot patterns and anomalies that single-year data may obscure. If a company routinely pays high royalties for brand usage without a corresponding rise in brand value, market share, or performance, it signals potential misuse – perhaps to route profits to related parties. Tracking changes in the proportion of royalty payments over time can also reveal shifting justifications, often timed with regulatory changes or rising shareholder scrutiny.

Perhaps, an even more powerful disclosure is around peer benchmarking. By requiring companies to disclose whether industry peers pay royalty for similar purposes, and how the amounts compare over time, it places promoter-driven transactions in a market governance framework. Shareholders can now ask: Why is our company paying 12% of net profit as royalty while our peers pay only 4%? Why is royalty growing faster than turnover while competitors are flatlining? This peer data, when juxtaposed with profitability and turnover trends, serves as a red flag trigger for audit committees and proxy advisors.

Read our detailed piece - *Royalty RPTs: New Disclosure Mandate For Every Royal Rupee*.

13. Increased audit committee liability in evaluating RPTs

Audit committees must now rigorously evaluate RPTs, scrutinize detailed transaction data and offer specific, reasoned assessments – particularly around whether promoters may derive an unfair advantage at the expense of public shareholders.

This elevated standard of accountability increases the risk exposure for committee members, especially independent directors, who may face legal and reputational consequences if their certifications are later found to be inaccurate, incomplete, or misleading.

While the framework offers greater protection for public shareholders, it also demands a much higher degree of diligence and caution from those tasked with oversight.

II. Implications Of Prominent RPTs By Listed Companies

We discuss in detail below the impact of the MSI for sale/ purchase transactions; lending and guarantee RPTs.

A. Sale, Purchase, Supply of Goods/ Services RPTs: The Competitive Bidding Mandate

Prior to the MSI, there was no explicit requirement to demonstrate the competitiveness of pricing in RPTs involving goods and services. Companies typically provided broad justifications that transactions were conducted at "arm's length" without substantiating this claim with market comparisons.

The New Competitive Bidding Imperative

The new standards institute a fundamental shift by mandating a formal competitive process for RPTs involving the sale, purchase, or supply of goods and services. Key disclosure requirements now include:

1. Mandatory Bidding Process: Companies must disclose the number of bidders from whom quotations were received, along with details of the process followed to obtain those bids. The audit committee must comment on the sufficiency of bids if fewer than three were received – establishing three as the implicit minimum standard.

2. Best Bid Disclosure: The best bid/ quotation received must be disclosed along with its price and terms. Companies selecting a related party over the best bidder must explain this choice, with the audit committee explicitly justifying this deviation.

3. Quantification of Financial Impact: Perhaps most significantly, companies must calculate and disclose the "additional cost/ potential loss" incurred by transacting with a related party compared to accepting the best available bid.

4. Alternate Benchmarking: In scenarios where comparable bids are unavailable, companies must still establish an alternative basis to demonstrate that the RPT terms benefit shareholders.

Impact: This competitive bidding requirement fundamentally challenges common corporate practices where related party suppliers or customers were simply designated without market testing. The disclosure of "additional cost" quantifies precisely what minority shareholders are sacrificing when a company chooses a related party over the most competitive alternative. It transforms what was previously a subjective assessment into a concrete figure that audit committees must specifically justify.

For joint ventures and platform companies, this could significantly complicate operations. Each sale of goods or services to or from a platform entity that qualifies as a related party may now require this exhaustive bidding process – potentially disrupting established commercial relationships and introducing substantial process overhead.

Companies that structured their supply chains around related parties for operational efficiency will now face administrative burdens of continual competitive bidding. They may also need to restructure continuing contracts as defined-value arrangements rather than open-ended relationships to avoid repeated approval processes.

Finally, audit committees must now substantively evaluate whether a price premium for transacting with a related party is justified, creating greater accountability for independent directors.

The standards effectively create a rebuttable presumption that the lowest-price bidder should be selected, placing the burden on management to prove otherwise.

B. Loans, ICDs, Advances RPTs: Dual Benchmarking and Financial Scrutiny

So far, related-party lending has required disclosures around source of funds, nature of indebtedness, cost of funds, tenure, covenants, interest rate, nature of security (if any), ultimate beneficiary of the funds etc. The MSI now expand on these aspects, introducing more granular details and additional requirements.

The New Dual Benchmarking Framework

The MSI introduces an analytical approach to lending-related RPTs through comprehensive comparative disclosures:

1. Dual Benchmarking Requirement: Companies must disclose interest rates at which both the listed entity and the related party borrow from their own bankers, establishing the market cost of capital for both entities.

2. Historical Lending Pattern Analysis: Companies must disclose interest rates charged on loans to related and unrelated parties over the last three financial years, creating a benchmark for the company's normal lending practices.

3. Creditworthiness Assessment: Latest credit rating of the related party (other than structured obligation rating (SO rating)[5] and credit enhancement rating (CE rating)[5]) must be disclosed. If the related party lacks a formal credit rating, the audit committee must specifically comment on the creditworthiness of the related party.

4. Borrowing History Disclosure: The total borrowings of the related party over three years must be disclosed, creating visibility into its overall leverage and financial dependence.

5. Default History: Any defaults by the related party over the last three years must be disclosed, with management required to specifically justify the transaction if past defaults exist.

6. Scrutiny Of Advances: Details of advances extended, including their breakdown, duration, and percentage share of the total loans disbursed during the preceding 12 months, must be disclosed.

Impact: This dual benchmarking approach makes it substantially harder to justify concessional financing terms. If a related party receives funds at a rate lower than what others pay to the listed entity or lower than what the related party pays to other lenders, the audit committee must provide specific justification for this differential treatment. This provides a market-based benchmark, allowing the company to assess whether the interest rate being offered aligns with what the related party could obtain externally – and whether the transaction is primarily structured to solely benefit the related party, particularly if it has a low credit rating that affects its ability to access funds at competitive rates.

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[5] SO Rating is a rating given to the financial instruments rather than the standalone credit profile of the issuing entity. CE ratings are given to debt instruments whose credit risk is mitigated through external support, such as guarantees, collateral, or other credit protection mechanisms, which elevate the instrument's rating above that of the issuer. In both cases, SO and CE ratings apply to specific instruments, not to the creditworthiness of the entity itself. They reflect reliance on structural or third-party support, and not the issuer's own financial strength.

For example, if a related party with a BB rating is typically borrowing at 14% in the market, but receives a loan from the listed entity at 9% – enabled by the listed entity's strong credit rating, this may indicate that the listed entity is essentially using its financial standing to raise funds on behalf of the related party, thereby conferring a benefit that would not have been available to the related party independently.

The three-year lookback requirement serves as a benchmarking tool to evaluate lending-related RPTs. It enables the audit committee and shareholders to assess whether related parties have consistently benefited from preferential terms, and whether those terms deviate from external benchmarks. It also brings a degree of retrospective scrutiny into the framework. While the disclosure itself pertains to a current or proposed transaction, the reference to past lending patterns requires the company to dig into its historical lending data. This could effectively result in disclosure of details from older transactions, even if those are not under fresh consideration – particularly where they serve as a basis of comparison.

Disclosure of a related party's credit rating serves as a tool to assess the financial wherewithal of the related party and its ability to meet repayment obligations. A rating agency (reports are usually public) analyses a company and its financial prospects threadbare. These rating agencies are regulated by SEBI and hence could give some degree of comfort / visibility to the shareholders. SO and CE ratings are specifically excluded to ensure that the assessment reflects the standalone financial strength of the related party, rather than being influenced by external support or structural enhancements.

The borrowing history disclosure will give a clear idea of the amounts both in terms of volume and pricing, over the last three financial years. This enables the audit committee to assess whether the related party is being charged a lower rate by the listed entity despite paying higher interest elsewhere on comparable borrowings. In essence, this helps determine whether the related party is receiving any benefit or a haircut on the rate charged, simply by virtue of being a related party. If such a concession exists, the audit committee is expected to provide a clear justification for it.

Apart from this, making a distinction between loans and advances is a significant step. The SEBI Master Circular grouped loans, ICDs, advances, and investments under a single disclosure category, without drawing the distinction that MSI now makes. From an RPT standpoint, this distinction matters. Advances are typically operational in nature and are expected to be settled within 3-5 months. If they remain outstanding for longer durations – say, beyond six months or a year, shareholders may need to scrutinize the arrangement more closely. This becomes particularly relevant in the context of terms of sale or purchase of goods. For instance, if a related party requires a 3-month advance payment for the supply of certain goods, while an unrelated party supplies the same goods at the same price without any advance, the terms of the related party transaction may merit further evaluation.

This framework effectively eliminates the unspoken practice of using listed entities as captive financing sources for other group companies on favorable terms.

C. Guarantees, Sureties, Indemnities and Comfort Letters: Pricing Financial Risk

Corporate guarantees and support instruments have long operated in a regulatory gray area, with many companies providing financial backstopping to related parties without adequate compensation or risk assessment. The MSI closes this gap by treating all forms of financial support as substantive transactions requiring proper pricing and disclosure.

So far, many companies took the position that guarantees differed from comfort letters or shortfall undertakings, avoiding disclosure and approval requirements by using creative labelling. When disclosed, these instruments often lacked proper pricing for the risk assumed.

The New Financial Support Framework

The MSI create a comprehensive approach to financial support instruments:

1. Uniform Treatment of Support Instruments: All guarantees, sureties, indemnities, and comfort letters are treated identically, regardless of terminology, preventing circumvention through creative labelling.

2. Commission Disclosure Requirement: Companies must explicitly disclose whether a guarantee or support commission is being charged, focusing attention on whether the listed entity is being compensated for the risk it assumes.

3. Recovery Mechanism Disclosure: Contractual provisions on how the listed entity will recover monies if the guarantee or other support instrument is invoked must be detailed.

4. Value of Obligations: Disclosure of the value of obligations undertaken by the listed entity or its subsidiary in respect of any guarantee, surety, indemnity, or comfort letter. This ensures that shareholders and the audit committee are fully aware of the actual exposure being assumed – whether or not the liability has crystallised. Importantly, the standard also calls for disclosure of any provisions required to be made in the books of account of the listed entity or its subsidiary. This is a crucial addition, as such arrangements may give rise to contingent liabilities requiring accounting provisions under applicable standards.

5. Solvency and Default History: The solvency status, going concern status[6], and default history of the related party must be disclosed for the past three years, ensuring financial support isn't extended to unstable entities without explicit acknowledgment of the risk.

[6] AS-1 – The enterprise is normally viewed as a going concern, that is, as continuing in operation for the foreseeable future. It is assumed that the enterprise has neither the intention nor the necessity of liquidation or of curtailing materially the scale of the operations.

Impact: These requirements are intended to help assess whether the listed entity derives any tangible benefit from taking on such obligations. Since these arrangements involve assuming a contingent liability, the audit committee and shareholders should be clearly informed if the listed entity is bearing the risk without any corresponding gain – to enable an informed evaluation of the transaction's commercial soundness and fairness.

The disclosures under the MSI are important for two reasons: First, where the listed entity is taking on a contingent liability, it is only fair that shareholders and the audit committee whether it is being compensated through a guarantee/ support commission, especially in related party situations where the guarantor may not directly benefit otherwise. Second, the requirement to disclose recovery mechanisms ensures that these arrangements are not open-ended; there should be a clear contractual basis for the guarantor to recover the amounts from the related party if the guarantee is invoked.

These requirements directly confront the common practice of listed entities providing financial backstops without corresponding compensation. In mandating the disclosure of whether a guarantee or support commission is being levied, the MSI have taken a leaf from the income tax and GST laws. Much like how transfer pricing provisions require arm's length justification for intra-company transactions, or how GST laws require valuation and taxation of services between related parties, the new RPT disclosure regime emphasizes transparency and substance over form.

Conclusion

The recent changes introduced by SEBI enhance transparency and strengthen oversight of RPTs, significantly benefiting public shareholders. Expanded definitions of related parties and rigorous disclosure requirements under the new MSI compel companies to provide detailed justifications and context for transactions. This enables audit committees to better scrutinize transactions, especially those significantly impacting company finances. By closing regulatory loopholes, these amendments reduce the scope for abusive practices, protect shareholder interests from potential conflicts, and improve overall corporate governance. Ultimately, these reforms build investor confidence, ensuring that shareholder value is safeguarded through more accountable corporate decision-making.

Of course, it poses certain practical challenges (and a huge information overload for audit committees), but acts as a good counterbalance to the current scheme of things where audit committee approvals are seen more as a check the box.

The new disclosure mandate marks a significant shift in the governance of RPTs. By embedding rigorous disclosure obligations through the MSI, the framework ensures that substance–not form–drives regulatory compliance. These changes compel companies to move beyond boilerplate disclosures, mandating clear commercial rationale and comparability against market benchmarks.

Crucially, the new standards equip audit committees and shareholders with the information symmetry necessary to evaluate RPTs not just for procedural compliance but for fairness, transparency, and accountability. In doing so, they close longstanding regulatory loopholes that previously enabled opaque or value-eroding transactions, particularly in promoter-driven contexts. Yes, the burden of compliance has increased – particularly in terms of data collation, continuous benchmarking, and record-keeping. But that is a necessary trade-off to protect public shareholder interest, deter abusive related-party behaviour, and reinforce the integrity of capital markets.

In essence, SEBI's overhaul of the RPT framework transforms audit committee approvals from a procedural formality to a genuine safeguard of shareholder value.

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