

RPT tweak ups compliance burden

SUDIPTO DEY

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A major overhaul is in the offing in the way corporate India treats related-party transactions (RPTs) as a result of the Securities and Exchange Board of India's (Sebi's) decision on Tuesday to tighten the norms governing RPTs.

This may necessitate a relook at dealings between listed parent entities and their subsidiaries. Sebi's move to widen the scope of RPTs entails higher compliance burden for businesses, say experts.

"The revision is a result of the experience of round tripping. It is a positive vote in favour of companies who have been following good governance practices," says MP Vijay Kumar, chief financial officer at Sify Technologies. Sebi has sought to tighten regulations on RPTs for some time. A working group constituted in November 2019 had pointed out that many companies use innovative structures to avoid classification of transactions as RPTs.

"The company secretaries of listed entities would be first

required to re-identify 'related parties' under the Sebi regulations. Then, they need to review the transactions with such 'related parties' – both new and old," says Gaurav Pingle, a practicing company secretary. These would then be required to be disclosed in the new regime.

According to Moin Ladha, partner, Khaitan & Co, several business houses are structured with multiple entities, but operate more or less as a single unit. "This amendment may now cover transactions that would otherwise go unnoticed, and improve the governance mechanism," he says.

Bengaluru-based chartered accountant Fatema Hunaid points out that the definition of related party has been expanded to place the onus on the management to disclose any transaction that is aimed at directly or indirectly benefiting a related party, even though the transacting parties are unrelated. This provision comes into effect from April 1, 2023.

Leena Madhok, director, Grant Thornton Bharat, says the audit committee's approval for

transactions where the subsidiary of a listed company is a party, along with enhanced disclosure to the committee, the board and shareholders will help plug many governance loopholes.

Experts say the biggest challenge companies will have to address is identifying if there is any direct or indirect benefit to related parties. Sebi has placed the onus on the listed entity to drive complete transparency on the 'real' transacting parties and avoid using any 'fronts' to mask related-party dealings, experts add.

"This will require listed entities to extensively map out all related parties and take declarations and disclosures from appropriate stakeholders to ensure that all such transactions are mapped and disclosed," says Hunaid.

Experts say audit committee meetings now have to be more detailed and enquire into management actions on material transactions, particularly loans, advances, investments, and may be a few revenue items too. "The Board will mostly rely on audit committee views," says Vijay Kumar.

How Sebi changes the rules of the game

The new definition of RPTs under Sebi's Listing Obligations and Disclosure Requirement (LODR) Regulations impacts its coverage, method of approval and disclosures. Some key changes are:

■ All persons or entities forming part of the promoter or promoter group, are now covered, irrespective of their shareholding

■ The audit committee is required to approve

even transactions undertaken by subsidiaries where the listed entity is not a party

■ Certain enhanced disclosures have to be made to the audit committee, and to stock exchanges within prescribed timelines

