THE POWER OF BEING UNDERSTOOD

RSM

RSM India Newsflash – Related Party Transactions: Note on Regulatory and Practical Considerations

Newsflash
Related Party Transactions: Note on Regulatory and Practical Considerations

For Circulation Only
03 July 2026

1.0 Background

Every transaction that a company enters into with a related party is subject to regulatory scrutiny. The Companies Act, 2013, lays down the core regulatory framework for Related Party Transactions (RPTs), requiring that such transactions be undertaken at arm's length and subject to appropriate approvals. In addition, the Securities Exchange Board of India imposes enhanced obligations on listed entities vide its LODR (Listing Obligations and Disclosure Requirements) Regulations, 2015, mandating stricter approval thresholds, detailed disclosures, and continuous monitoring to ensure robust governance and transparency in RPTs.

As such, the arm's length standard forms the cornerstone of both the Companies Act, 2013 and the SEBI LODR Regulations, 2015. However, neither framework prescribes a specific computational mechanism or methodology for the determination of arm's length outcomes. In this context, guidance may be drawn from other legislations, notably the Transfer Pricing (TP) Regulations as outlined under Chapter X of the Income-tax Act, 2025 (erstwhile IT Act, 1961), herein referred to as IT Act, which contains a detailed methodology to evaluate RPTs.

2.0 The Regulatory Framework

2.1. Who is a Related Party (RP)?

Companies Act, 2013: Section 2(76)
Under Section 2(76) of the Companies Act, 2013, a 'related party' in relation to a company means: • A director or his relative; • A Key managerial personnel (KMP) or his relative; • A firm in which a director, manager or his relative is a partner; • A private company in which a director, manager or their relative is a member or director;

Companies Act, 2013: Section 2(76)
• A public company in which a director or manager holds, along with relatives, more than 2% of paid-up share capital; • Any body corporate whose Board, Managing Director (MD) or manager is accustomed to act on the advice of a director or manager of the company; • A holding, subsidiary or associate company, or a subsidiary of a common holding company; • an investing company or the venturer of the company • A Director (other than an Independent Director) or KMP of the holding company or his relative.
SEBI (LODR) Regulations, 2015 — Regulation 2(1)(zb)
An entity shall be treated as a RP if it qualifies as a RP under Section 2(76) of the Companies Act, 2013, **or** if it is a RP under the applicable accounting standards. **In the following cases any person or entity is deemed to be a related party:** (a) any person or entity forming a part of the promoter or promoter group of the listed entity; or (b) any person or any entity, holding equity shares of 10% or more in the listed entity either directly or on a beneficial interest basis during the immediate preceding financial year. **Exclusions:** Listed units of mutual funds, are excluded from the "10% shareholding"

2.2. What constitutes a RPT?

➢ **Under Section 188 of the Companies Act, 2013**, RPTs include:

- **Sale, purchase** or supply of goods or materials;
- **Selling, disposing** of, or **buying property** of any kind;
- **Leasing of property** of any kind;
- Availing or **rendering of services;**
- **Appointment of agents** for the purchase or sale of goods, materials, services or property;
- **Appointment of a RP** to any office or place of profit in the company, its subsidiary or associate company;
- **Underwriting the** subscription of securities or derivatives of the company.

Under SEBI LODR, an RPT means any transfer of resources, services or obligations between a listed entity (or its subsidiary) and any other person, where the purpose and effect are to benefit a related party, irrespective of whether consideration is charged, and includes single or grouped transactions under a contract.

- **Specific exclusions:**

    - **Preferential issue of securities** compliant with SEBI ICDR Regulations 2018
    - **Uniform corporate actions** (dividend/ Stock split / consolidation/ Rights issue / bonus issue / Buy-back) offered proportionately to all shareholders.
    - **Bank/NBFC deposits**- Fixed deposits (if uniformly offered and disclosed), Current/savings account deposits (as per RBI norms), including interest payments.
    - **Retail transactions**: Purchases by directors/KMP/relatives on uniform terms, without a business relationship.
    - Units of listed mutual funds.

3.0 Approval and Key Obligations

3.1. RPT Thresholds prescribed under the Companies Act, 2013

Monetary thresholds are provided under **Section 188 read with Rule 15 (3) of Companies (Meetings of Board and its Powers) Rule, 2014,** which requires approval from the shareholders and Board of Directors (BOD) where transactions are not in the ordinary course of business or not at arm's length.

Transaction Category*	Threshold[1] for Board / Shareholder Approval
Sale / purchase / supply of goods or materials	10% or more of Turnover
Buying or selling of property of any kind	10% or more of Net Worth
Leasing of property of any kind	10% or more of Turnover
Availing or rendering of services	10% or more of Turnover
Appointment to office or place of profit in a company (its subsidiary or associate company)	Monthly remuneration exceeding *Rs.* 2.5 Lakh
Underwriting of securities or derivatives	Exceeding 1% of Net Worth

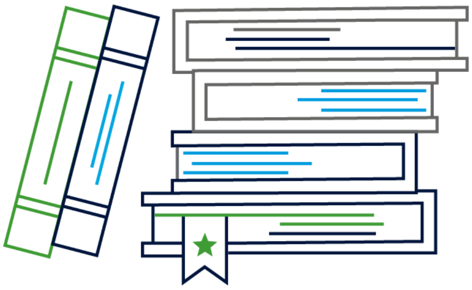
**The monetary thresholds above apply to transactions entered into individually or taken together with all previous transactions in a financial year.*

[1] *The Turnover or Net Worth shall be computed on the basis of the Audited Financial Statement of the preceding FY.*

Non-compliance with Section 188 may attract monetary penalties (Rs. 25 lakhs in case of listed companies and Rs. 5 lakhs in case of other company), apart from rendering the transaction voidable and exposing the company and its directors to governance and reporting risks.

3.2. SEBI LODR Regulation 23: Key Obligations

Listed companies must comply with Regulation 23 of SEBI LODR in addition to the Companies Act requirements. **Key obligations include:**



- All RPTs require prior Audit Committee approval (not merely recommendation).
- Material RPTs[2] and Brand Usage / Royalty exceeding 5% of annual consolidated turnover[3], individually or cumulatively, requires shareholder approval. All RP must abstain from voting.
- Omnibus approval for repetitive transactions; valid for one year, subject to quarterly review.
- RPT materiality policy must be published on the company website, with a weblink in the Annual Report.
- Quarterly comprehensive disclosure of material RPTs required alongside corporate governance compliance report.

3.3. SEBI LODR: RPT Disclosure Requirements Framework

Transaction type	Disclosure requirement
RPT < 1 crore	Limited disclosures (***Refer to category A of Appendix A)***
RPTs between Rs. 1 crore and lower of Rs.10 crore or 1% of annual consolidated turnover	Minimum disclosures (***Refer to category B of Appendix A)***
All other RPTs	Comprehensive disclosures (***Refer to category C of Appendix A)***

[2] *As per SEBI LODR Regulation 23 (read with Schedule XII- Related Party Transactions) amended up to January 22, 2026*

Consolidated Turnover (Con. TO)	***Threshold***
Up to Rs. 20,000 Cr	*10% of the Con. TO*
> Rs. 20,000 Cr <= Rs. 40,000 Cr	*Rs. 2,000 Cr + 5% of the Con. TO over Rs. 20,000 Cr*
> Rs. 40,000 Cr	*Rs. 3,000 Cr + 2.5% of the Con. TO over Rs. 40,000 Cr or Rs. 5000 Cr, whichever is lower.*

[3] *For the purpose of computing the thresholds, the annual consolidated turnover of the listed entity shall be determined based on the last audited financial statements of the listed entity.*

4.0 Arm's Length Principle and Computation Mechanism

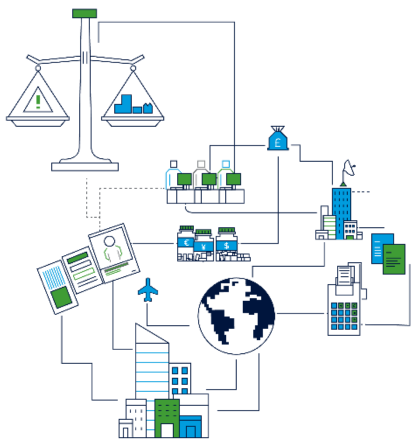
Both the Companies Act, 2013 and SEBI LODR Regulations recognise the concept of ALP. However, neither framework prescribes a computational methodology for determining or demonstrating what constitutes 'arm's length' in practice. This creates a compliance and evidentiary gap, particularly where transactions are material, complex, or subject to scrutiny by auditors and regulators.

TP principles set out in the Income Tax Act provide a structured and widely accepted framework for determining ALP. These principles are supported by established methodologies, comparable data, and documentation standards, making them suitable for broader governance application beyond tax compliance and are also supported by global guidelines.

4.1. TP Methodologies and their Application to RPTs

Section 165 of the IT Act, 2025 (erstwhile Section 92C of the IT Act, 1961) provides that the ALP shall be determined by applying the Most Appropriate Method (MAM). The selection of the MAM is driven by the functional profile of the transacting parties, nature of arrangement, availability of reliable comparable data, degree of comparability adjustments required, and the nature and characteristics of the transaction.

5.0 RPT Benchmarking: Key Transactions and Applicable Methods



In practice, different categories of RPTs are benchmarked using appropriate TP methods. The benchmarking essentially can be categorised under two categories, Internal vs External. Internal comparability envisages comparing the third-party transaction of the Company/ group company itself with other unrelated parties so as to determine the ALP. However, the external benchmarking means to compare the prices from publicly available data, which may be based on general source or specified financial/ transfer pricing databases. Generally, the Internal comparability is preferred over external one as it neutralizes several distinguishing factors, such as the local factors and the economies available or unavailable to the Company/ group in particular, having bearing over the comparison of price charged from third party transactions and RPT.

6.0 Concluding Remarks

Given the increasing regulatory focus on RPT, the determination of the arm's length position assumes critical importance within the overall governance and compliance framework. Adopting an ex-ante approach to benchmarking, particularly in respect of proposed or ongoing transactions, enables companies to evaluate pricing and commercial terms at the outset, obtaining a valuation or external report, thereby facilitating informed decision-making at the BOD and Audit Committee level, while strengthening disclosure compliance under the Companies Act, 2013 and SEBI LODR Regulations, 2015.

From a practical standpoint, the application of established TP methodologies provides a structured and defensible framework for benchmarking. In carrying out such benchmarking, companies typically rely on local and global databases, including Indian TP databases such as Prowess, Ace TP, Capitaline, NSDL, etc., and international databases such as TP Catalyst/BvD, Onesource, Bloomberg, Loan Connector, RoyaltyStat, RoyaltyRange, KtMine etc., depending on the nature of the transaction and availability of comparable data.

With the Ministry of Corporate Affairs (MCA) placing increased emphasis on governance, transparency, and enforcement, which is coupled with stringent penalty provisions (director or any other employee violates section 188 of Companies Act, 2013 - *Rs.* 25 lakh in case of listed companies and *Rs.* 5 lakh in case of other company). Accordingly, a robust and well-documented arm's length analysis serves not only to enhance the defensibility of RPTs but also as a key risk mitigation measure, helping in reduction of adverse regulatory consequences and litigation exposure.

Appendix A- Disclosure requirements

Category A. RPTs below Rs. 1 crore- Limited Disclosures
No specified requirements; it is supposed to adhere to minimum disclosures as a good governance practice.
Category B. RPTs between Rs. 1 crore and lower of Rs. 10 crore or 1 per cent of turnover - Minimum Disclosures

Information to the **Audit Committee** would include the following:
 	
• **Transaction details:** Type, material terms, and key particulars
• **RP details:** Name, relationship with the listed entity/subsidiary, and nature of interest (financial or otherwise)
• **Tenure and value:** Duration and total transaction value
• **Turnover thresholds:**
  - The percentage (%) of the listed entity's consolidated turnover (preceding FY)
  - For subsidiary RPTs: Percentage (%) of subsidiary's standalone turnover
• **Financial transactions (loans/ICDs/advances/investments):**
  - Source of funds
  - If borrowing is involved: nature, cost, and tenure of indebtedness[4]
  - Key terms: covenants, tenure, interest rate, repayment schedule, security (if any)
  - End-use/purpose for the ultimate beneficiary
• **Justification** as to why the RPT is in the interest of the listed entity
• **Copy of Valuation or external expert report**
• **Counterparty turnover (voluntary): Percentage (%) of counterparty's consolidated turnover represented by the RPT.**
• **Additional information:** any other relevant

[4] *The requirement of disclosure in financial transactions, is not applicable to listed banks/NBFCs/insurance companies/housing finance companies)*

Additionally, the **shareholder notice (explanatory statement)** should include all information provided to the Audit Committee.

Category C. All other RPTs- Comprehensive Disclosures

- For other RPTs (not covered under Category A/B) exceeding *Rs.* 10 crore or 1% of turnover, detailed disclosures under the RPT Standards are required in a three-part format:
- **Part A:** Basic details (party, relationship, past transactions, value, tenure, justification, interested directors/KMPs).
- **Part B:** Additional disclosures for specific RPT categories, including:
  - Sale/purchase/supply of goods or services
  - Loans and advances (other than trade advances) or inter-corporate deposit, Investments, Borrowings
  - Guarantees or indemnities (inc. performance guarantee in nature of security/contractual commitment)
  - Asset or share disposals
  - Royalty payments
- **Part C:** Includes additional disclosures for material RPTs, such as credit ratings, default history, solvency position, impact on financial ratios, and industry benchmarking.

Shareholder notices: The notice sent to shareholders seeking approval for any material RPT must include the following information in addition to the requirements under the Companies Act, 2013:

- **Minimum information requirement:** to assess whether the RPT terms and conditions are favourable.
- **Mandatory inclusions in explanatory statement:**
  - **Present information in the prescribed RPT Standards format**, as reviewed by the Audit Committee.
  - **Explain that the RPT is in the company's interest**, including the basis of pricing and key material terms.
  - Confirm that the Audit Committee has reviewed the **CEO/MD/WTD/Manager and CFO certification**.

- Disclose that the **Audit Committee and BOD have approved the RPT** and recommended it to shareholders.

- Provide a **web link and QR code to any valuation or external report** considered by the Audit Committee.

- Disclose that the Audit Committee and Board have **approved redaction of commercially sensitive information** and confirm that the redactions still enable informed shareholder decision-making.

- Include any **other material information** as necessary.

The RPT Standards also require certain additional certifications and documentation, as stated below:

- **Certification:** CEO/MD/WTD/Manager and CFO to certify to the Audit Committee that the RPT is in the interest.

- **Documentation:** Maintain records of approvals, justifications, and all supporting documents, including external reports, if any.

Board of Directors (BOD): Responsible for **approving RPTs and recommending them to shareholders.** In coordination with the Audit Committee, the BOD may authorise redaction of commercially sensitive information while ensuring disclosures remain sufficient for informed shareholder decision-making.

THE POWER OF BEING UNDERSTOOD

For further information please contact:

RSM Astute Consulting Pvt. Ltd.

9th Floor, Maker Chambers VI, Nariman Point, Mumbai - 400021

3rd Floor, Technopolis Knowledge Park, Mahakali Caves, Chakala, Andheri East, Mumbai - 400093

T: (91-22) 6108 5555/ 6121 4444
F: (91-22) 6108 5556/ 2287 5771

E: emails@rsmindia.in **W:** www.rsmindia.in

Offices: Mumbai, New Delhi - NCR, Chennai, Kolkata, Bengaluru, Navi Mumbai, Surat, Hyderabad, Ahmedabad, Pune, Gandhidham, Jaipur and Vijayanagar.

facebook.com/RSMinIndia

X.com/RSM_India

linkedin.com/company/rsm-india

Youtube.com/c/RSMIndia

3 July 2026