

The purpose and effect test for RPTs

Workshop on understanding the intricacies, laying systems and implementing

By Vinod Kothari Consultants



17th March 2023, Friday
5:00 p.m. to 7:00 p.m.



For registrations [Click here](#)



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Mode: Through Zoom



INR 5000, plus GST per participant

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Course Outline

- Meaning and intent of the P&E test
- Parallels from other countries
- Twin tests of P&E – cumulatively to be satisfied. Meaning of “Purpose” and “Effect”. Examples where one element is satisfied, not the other
- Approaches to scrutinising the P&E of transactions:
 - Sensitisation approach: Confirmation/affirmation from related parties
 - Destination-based approach: Bringing the major parties with whom the related party transacts into the radar, for RPT check
 - Transaction-based approach: Scrutinising major transactions and their counterparties
 - Smoke-and-fire approach: Smoke indicates that there may be fire; hence, unusual transactions indicate that there may be vested interest.
- Laying controls in vendor/procurement/counterparty analysis system
- Is the purpose of the amendment preventive, or does it expect to find transaction which had the P&E of benefiting a related party?
- Role of the audit committee
- Potential impact on disclosures as a part of IndAS 24/ AS 18
- Changes in the RPT policy



Faculty

Vinod Kothari
Managing Partner

Why this workshop?

SEBI's definition of RPT, effective 1st April, 2023, will change and include all transactions done with any party, with the purpose and effect [P&E] of benefiting a related party.

While it is impossible for any company to draw up a list of unrelated parties, it is important to understand that the purpose of the P&E test is to rope in those transactions, which, while effectively being RPT, were simply escaping the definition by a manoeuvred structure, interposing an unrelated party(ies) in the process. Therefore, the provision is essentially an anti-avoidance provision. Further, the universe of “related parties” is a finite universe, while that of unrelated parties is infinite. Hence, what should be the right approach to identifying transactions engineered with the purpose, and having the effect of benefiting related parties? How does the audit committee or the compliance officer satisfy itself/herself that transactions were not done with the P&E of benefiting related parties?

This change still requires a lot of work. While the ultimate in RPT surveillance may be a system tracking transactions based on their unusual pattern, and not necessarily based on who the counterparty is, it may be a high hanging fruit to develop systems that scrutinise transactions for such unusual features. Therefore, what are the practical, practiceable ways of ensuring that company has done the needful for the new inclusion in RPT definition?

The workshop will throw relevant questions, and try to develop answers.