

Evolution of concept of related parties and related party transactions

1956 – 29 th August 2013	
Meaning of related parties	
<u>Companies Act, 1956</u>	<u>Listing Agreement</u>
<p>The nearest provision to the present regime on RPTs was sec. 297 which provided for certain consent/approval in case of certain transactions for sale, purchase, or supply of any goods, materials or services. This section applied to (a) director of the company; (b) director’s relatives; (c) a firm in which the director or relative is a partner, or any other partner of such firm; (d) a private company of which the director is a director or member.</p> <p>In addition, Sec 299 of CA 1956, broadly corresponding to sec. 184 of CA 2013, merely requires the director to disclose his personal interests, and where interested, to recuse from voting.</p>	<p>Note 2 to Clause 32¹ - requiring disclosures in annual report</p> <p><i>For the purpose of the above disclosures the terms.....‘Related Party’ shall have the same meaning as defined in the Accounting Standard on “Related Party Disclosures (AS-18)” issued by ICAI</i></p> <p>As per para 10 of AS-18:</p> <p><i>A person or entity that is related to the company. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party, directly or indirectly, in making financial and/or operating decisions.</i></p>
Meaning of related party transactions	
<u>Companies Act, 1956</u>	<u>Listing Agreement</u>
<p>Major provisions intended to curb transacting with related parties was sec. 297. In addition, there were scattered restrictions on different types of transactions - Section sec. 295 on loans to directors or certain directors’ interested entities, sec</p>	<p>Effective Feb. 2000, Clause 49 of the Listing Agreement required audit committees to review related party transactions. For this purpose, related party transactions were defined as follows</p>

¹ Listing Agreement referred the definition of related party / related party transactions to be seen from Accounting Standard

<p>314 on office or place of profit, and sec. 299 on general duty of disclosure of conflicts of interest and recusal from participating in voting.</p> <p>Section 297 is the most relevant to the context, and applied to - (a) the sale, purchase or supply of any goods, materials or services or (b) underwriting the subscription of any shares in, or debentures of, the Company.</p> <p>Section 297 (2) carved out transactions done in cash at prevailing market prices.</p> <p>Section 314 says that except with the consent of the company accorded by a special resolution, - (a) no director of a company shall hold any office or place of profit, and (b) no partner or relative of such director, no firm in which such director, or a relative of such director, is a partner, no private company of which such director is a director or member, and no director or manager of such a private company, shall hold any office or place of profit carrying a total monthly remuneration of such sum as may be prescribed.</p> <p>Section 295 corresponds to sec. 195 of CA, 2013 and regulates giving of loans to directors, their relatives and partners, a firm in which such director or relative is a partner, a private company of which such director is director or member, a body corporate where at least 25% voting right can be exercised by such director, and a body corporate whose board is accustomed to act as per instructions of such director.</p>	<p>Explanation (i) to Clause 49(VII)(D)²:<i>The term "related party transactions" shall have the same meaning as contained in the Accounting Standard 18, Related Party Transactions, issued by The Institute of Chartered Accountants of India.</i></p>
<p>Audit Committee approval</p>	
<p><u>Companies Act, 1956</u></p>	<p><u>Listing Agreement</u></p>

² [Listing Agreement amended vide circular dated Oct 29, 2004](#)

<p>None</p>	<p>The requirement for listed entities to have an audit committee came from Clause 49(II), inserted with effect from Feb 21, 2000.</p> <p>The terms of reference of the audit committee included “Reviewing with management the annual financial statements before submission to the board, focusing primarily on;³</p> <p>XXX</p> <p><i>49(II)(2) Any related party transactions i.e. transactions of the company of material nature, with promoters or the management, their subsidiaries or relatives etc. that may have potential conflict with the interests of company at large”.</i></p> <p><i>Effective Oct 2004, the terms of reference was changed to provide:</i></p> <p><i>49(II)(E)- The Audit Committee shall mandatorily review the following information:</i></p> <p>XXX</p> <p><i>Statement of significant related party transactions (as defined by the audit committee), submitted by management</i></p>
<p>Board approval</p>	
<p><u>Companies Act, 1956</u></p>	<p><u>Listing Agreement</u></p>

³ [Clause 49 was added w.r.t. corporate governance on the recommendation of Kumar Mangalam Birla Committee – Feb 21, 2000](#)

Section 297 – approval of the Board required for every transactions covered by the section. In addition, approval of Central Government was required, if the paid up share capital of the Company exceeded Rs. 1 Crores.	None
Shareholders' approval	
<u>Companies Act, 1956</u>	<u>Listing Agreement</u>
Section 314 – Special Resolution required. The threshold for the remuneration for office or place of profit was to be prescribed in terms of sec. 314 (2) (i)	Nothing prescribed
Disclosure with stock exchange or MCA	
<u>Companies Act, 1956</u>	<u>Listing Agreement</u>
form 23 required to be filed on MCA	<i>Effective August, 2001</i> Clause 32- The company will make disclosures in compliance with the Accounting Standard on "Related Party Disclosures" in its Annual Report ⁴ .

⁴ [Inserted vide Amendment to the Listing Agreement dated 31st August, 2001](#)

30 th August 2013 - July, 2014	
Meaning of related parties	
<u>Companies Act, 2013</u>	<u>Listing Agreement</u>
<p>Section 2(76) of the Companies Act 2013</p> <p><i>"related party", with reference to a company, means—</i></p> <p>(i) a director or his relative;</p> <p>(ii) a key managerial personnel or his relative;</p> <p>(iii) a firm, in which a director, manager or his relative is a partner;</p> <p>(iv) a private company in which a director or manager is a member or director;</p> <p>(v) a public company in which a director or manager is a director or holds along with his relatives, more than two per cent of its paid-up share capital;</p> <p>(vi) any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;</p> <p>(vii) any person on whose advice, directions or instructions a director or manager is accustomed to act: <i>Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;</i></p> <p><i>(viii) any company which is—</i></p> <p><i>(A) a holding, subsidiary or an associate company of such company; or</i></p> <p><i>(B) a subsidiary of a holding company to which it is also a subsidiary;</i></p> <p>(ix) such other person as may be prescribed;</p> <p>Note that clauses (iv) and (v) were subsequently amended by two separate Removal of Difficulties Orders, in July 2014, dealt with below.</p>	<p>No change</p>

<p>In response to Clause (iv), Rule 3 of the Companies (Specification of Definitions details) Rules, 2014 provided:</p> <p>For the purposes of sub-clause (ix) of clause (76) of section 2 of the Act, a director or key managerial personnel of the holding company or his relative with reference to a company, shall be deemed to be a related party.</p>	
<p>Meaning of related party transactions</p>	
<p><u>Companies Act, 2013</u></p>	<p><u>Listing Agreement</u></p>
<p>Companies Act 2013 does not define “related party transactions”. However, section 188 of the Companies Act 2013 provides a list of specified related party transactions for which approval of the board of directors of the company and the shareholders of the company, subject to certain conditions, is required.</p> <p>Section 188 of the Companies Act 2013:</p> <p>(1) Except with the consent of the Board of Directors given by a resolution at a meeting of the Board and subject to such conditions as may be prescribed, no company shall enter into any contract or arrangement with a related party with respect to—</p> <p>(a) sale, purchase or supply of any goods or materials;</p> <p>(b) selling or otherwise disposing of, or buying, property of any kind;</p> <p>(c) leasing of property of any kind;</p> <p>(d) availing or rendering of any services;</p> <p>(e) appointment of any agent for purchase or sale of goods, materials, services or property;</p> <p>(f) such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and</p> <p>(g) underwriting the subscription of any securities or derivatives thereof, of the company:</p>	<p>No change</p>

<p>Provided that no contract or arrangement, in the case of a company having a paid-up share capital of not less than such amount, or transactions not exceeding such sums, as may be prescribed, shall be entered into except with the prior approval of the company by a special resolution:</p> <p>Provided further that no member of the company shall vote on such special resolution, to approve any contract or arrangement which may be entered into by the company, if such member is a related party:</p> <p>Provided also that nothing in this sub-section shall apply to any transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm's length basis.</p> <p>[Note that the provisos have subsequently been amended, as dealt with below]</p>	
Audit committee approval	
<u>Companies Act, 2013</u>	<u>Listing Agreement</u>
Section 177 (4) (iv) laying down the statutory terms of reference of the audit committee includes "approval or any subsequent modifications of the transactions by the company with related parties"	No change
Board approval	
<u>Companies Act, 2013</u>	<u>Listing Agreement</u>
<p>Section 188, in case of transactions of the types listed therein, requires approval of the board, at a meeting of the board, subject to conditions as may be prescribed [Rule 15 of the Meetings of the Board and Its Powers Rules] in case such transaction does not satisfy either of the following:</p> <ul style="list-style-type: none"> (a) the transaction is not in the ordinary course of business, or (b) the terms of the transaction are not on an arm's length basis 	Nothing prescribed

Shareholders' approval	
<u>Companies Act, 2013</u>	<u>Listing Agreement</u>
<p>Approval by way of Special Resolution of unrelated parties for Material Related Party Transactions, only if the same requires board resolution u/s 188 (that is, transaction not satisfying ordinary course of business and arm's length test).</p> <p>Materiality thresholds</p> <p>For the purposes of first proviso to sub-section (1) of section 188, except with the prior approval of the company by a special resolution-</p> <p>(i) a company having a paid-up share capital of ten crore rupees or more shall not enter into a contract or arrangement with any related party; or</p> <p>(ii) a company shall not enter into a transaction or transactions, where the transaction or transactions to be entered into—</p> <p>(a) as contracts or arrangements with respect to clauses (a) to (e) of sub-section (1) of section 188 with criteria, as mentioned below—</p> <p>(i) sale, purchase or supply of any goods or materials directly or through appointment of agents exceeding twenty five percent of the annual turnover as mentioned in clause (a) and clause (e) respectively of sub-section (1) of section 188;</p> <p>(ii) selling or otherwise disposing of, or buying, property of any kind directly or through appointment of agents exceeding ten percent of net worth as mentioned in clause (b) and clause (e) respectively of sub-section (1) of section 188;</p> <p>(iii) leasing of property of any kind exceeding ten percent of the net worth or exceeding ten percent of turnover as mentioned in clause (c) of sub-section (1) of section 188;</p>	<p>Nothing prescribed</p>

<p>(iv) availing or rendering of any services directly or through appointment of agents exceeding ten percent of the net worth as mentioned in clause (d) and clause (e) of sub-section (1) of section 188;</p> <p>(b) appointment to any office or place of profit in the company, its subsidiary company or associate company at a monthly remuneration exceeding two and half lakh rupees as mentioned in clause (f) of sub-section (1) of section 188; or</p> <p>(c) remuneration for underwriting the subscription of any securities or derivatives thereof of the company exceeding one percent of the net worth as mentioned in clause (g) of sub-section (1) of section 188.</p> <p>Explanation- (1) The Turnover or Net Worth referred in the above sub-rules shall be on the basis of the Audited Financial Statement of the preceding Financial year.</p>	
Disclosure with stock exchange or MCA	
<u>Companies Act, 2013</u>	<u>Listing Agreement</u>
<p>e-form MGT-14 required to be filed on MCA only in case of special resolution of shareholders.</p> <p><i>W.e.f. April 1, 2014-</i> Form No. AOC-2 required to be filed as per Section 134(1)(h) for disclosure of particulars of contracts/arrangements entered into by the Company with related parties referred to in sub section (1) of section 188 of the Companies Act, 2013 including certain arms length transactions under third proviso thereto.</p>	No change

July, 2014- May, 2015	
Meaning of related parties	
<u>Companies Act, 2013</u>	<u>Listing Agreement</u>
<p>The definition of “related party” was amended by two separate Removal of Difficulties Orders. The first one had the effect that in case of public companies, mere common directorship will not result in related party relationship, unless the director also holds at least 2% capital of such public company.</p> <p>The second one expanded the scope of clause (iv) to relatives of directors too.</p> <p>Hence, clauses (iv) and (v) of sec. 2 (76) stood amended as follows:</p> <p>(iv) a private company in which a director or manager or <i>his relative</i>⁵ is a member or director;</p> <p>(v) a public company in which a director or manager is a director <i>and</i> holds⁶ along with his relatives, more than two per cent of its paid-up share capital;</p>	<p>Revised Clause 49 w.r.t. corporate governance w.e.f. October 1, 2014⁷</p> <p>Clause 49(VII)(B)- For the purpose of Clause 49 (VII), an entity shall be considered as related to the company if:</p> <p>(i) such entity is a related party under Section 2(76) of the Companies Act, 2013; or</p> <p>(ii) such entity is a related party under the applicable accounting standards."</p>
Audit committee approval	
<u>Companies Act, 2013</u>	<u>Listing Agreement</u>
No change	Revised Clause 49 w.e.f. Oct 1, 2014

⁵ Inserted by Companies (Removal of Difficulties) Sixth Order Dated 24th July, 2014.

⁶ Substituted by Companies (Removal of Difficulties) fifth Order Dated 09th July 2014.

⁷ Amendment in Clause 49 made *vide* [SEBI circular dated Sep 14, 2015](#) and [circular dated Apr 17, 2014](#) to be effective from Oct 1, 2014

	<p>Clause 49(III)(D) : Role of Audit Committee</p> <p>xxx</p> <p>8. Approval or any subsequent modification of transactions of the company with related parties;</p> <p>Clause 49(VII)(D): Mandated prior approval of audit committee and that audit committee may provide omnibus approval for related party transactions subject to conditions as prescribed therein:</p>
Board approval	
<u>Companies Act, 2013</u>	<u>Listing Agreement</u>
No change	No change
Shareholders' approval	
<u>Companies Act, 2013</u>	<u>Listing Agreement</u>
<p>No change⁸</p> <p>W.r.t. materiality threshold, the Rules were amended as follows:</p> <p>⁹For the purposes of first proviso to sub-section (1) of section 188, except with the prior approval of the company by a special resolution, a company shall not enter into a transaction or transactions, where the transaction or transactions to be entered into,—</p>	<p>Revised Clause 49</p> <p>w.e.f. Oct 1, 2014</p> <p>Clause 49 VII (E)- <i>All material Related Party Transactions shall require approval of the shareholders through special resolution and the related parties shall abstain from voting on such resolutions</i></p>

⁸ [MCA circular dated July 17, 2014 clarified that 'related party' referred to in the second proviso has to be construed with reference only to the contract or arrangement for which the said special resolution is being passed.](#)

⁹ Substituted by the Companies (Meeting of Board and its Power) Second Amendment Rules, 2014 Dated 14th August 2014.

(a) as contracts or arrangements with respect to clauses (a) to (e) of sub-section (1) of section 188, with criteria as mentioned below -

(i) sale, purchase or supply of any goods or materials, directly or through appointment of agent, exceeding ten per cent. of the turnover of the company or rupees one hundred crore, whichever is lower, as mentioned in clause (a) and clause (e) respectively of sub-section (1) of section 188;

(ii) selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent, exceeding ten per cent. of net worth of the company or rupees one hundred crore, whichever is lower, as mentioned in clause (b) and clause (e) respectively of sub-section (1) of section 188;

(iii) leasing of property of any kind exceeding ten per cent. of the net worth of the company or ten per cent. of turnover of the company or rupees one hundred crore, whichever is lower, as mentioned in clause (c) of sub-section (1) of section 188;

(iv) availing or rendering of any services, directly or through appointment of agent, exceeding ten per cent. of the turnover of the company or rupees fifty crore, whichever is lower, as mentioned in clause (d) and clause (e) respectively of sub-section (1) of section 188:

Explanation.—It is hereby clarified that the limits specified in sub-clauses (i) to (iv) shall apply for transactions or transactions to be entered into either individually or taken together with the previous transactions during a financial year.

(b) is for appointment to any office or place of profit in the company, its subsidiary company or associate company at a monthly remuneration exceeding two and half lakh rupees as mentioned in clause (f) of subsection (1) of section 188; or

(c) is for remuneration for underwriting the subscription of any securities or derivatives thereof, of the company exceeding one per cent. of the net worth as mentioned in clause (g) of sub-section (1) of section 188.

W.r.t. materiality threshold
proviso to Clause 49(VII)(C)

A transaction with a related party shall be considered material if the transaction/ transactions to be entered into individually or taken together with previous transactions during a financial year, exceeds five percent of the annual turnover or twenty percent of the net worth of the company as per the last audited financial statements of the company, whichever is higher

Explanation- (1) The Turnover or Net Worth referred in the above sub-rules shall be computed on the basis of the Audited Financial Statement of the preceding Financial year.	
Disclosure with stock exchange or MCA	
<u>Companies Act, 2013</u>	<u>Listing Agreement</u>
No change	Clause 49(VIII) Disclosure in the corporate governance report: Details of all material transactions with related parties shall be disclosed quarterly along with the compliance report on corporate governance Disclosure of Policy: The company shall disclose the policy on dealing with Related Party Transactions on its website and also in the Annual Report

May, 2015 – 2018

Meaning of related party

<p><u>Companies Act, 2013</u></p>	<p><u>Listing Regulations¹⁰</u></p>
<p>No change in the definition. However, <i>vide</i> Exemption Notification dated 5th June, 2015, in case of private companies, clause (viii) was exempted. Hence, holding, subsidiaries, fellow subsidiaries, associates, and investor entity will not be regarded as related party.</p>	<p>LODR Regulations replaced the erstwhile text of standard listing agreement, effective 1st Dec., 2015. Definition of “related party” was introduced in reg 2 (1) (zb):</p> <p>Reg. 2(1)(zb) “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 this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s).</p>
<p>Related party transaction</p>	
<p><u>Companies Act, 2013</u></p>	<p><u>Listing Regulations</u></p>
<p>Section 188 was amended <i>vide</i> Companies (Amendment) Act, 2015, effective 29th May, 2015, with the following major changes:</p> <p>(a) The requirement of “special resolution” in first proviso to sec. 188 (1) was replaced by ordinary resolution.</p> <p>(b) A carve out was given for transactions between the company and its wholly-owned subsidiaries, by adding the 5th proviso to sec. 188 (1).</p> <p>Hence, the result of the above amendment was insertion of the “majority of minority” rule. A circular no 30/2014, dated 17th July, 2014, leading to the interpretation that only parties to the contract shall refrain from voting was objected to by the Company Law Committee report, 2016 [para 12.22] and accordingly became redundant.</p> <p>.</p>	<p>Reg. 2(1)(zc) of LODR Regulations: “Related party transaction” means a transfer of resources, services or obligations between a listed entity and a related party, regardless of whether a price is charged and a "transaction" with a related party shall be construed to include a single transaction or a group of transactions in a contract:</p> <p>Provided that this definition shall not be applicable for the units issued by mutual funds which are listed on a recognised stock exchange(s);</p>

¹⁰ Listing Regulations introduced on Sep 2, 2015, Reg. 23(4), dealing with approval of shareholders became effective from Sep 2, 2015 and rest of the provisions came into force on the ninetieth day from date of publication in official gazette.

Audit committee approval	
<u>Companies Act, 2013</u>	<u>Listing Regulations</u>
<p>Concept of omnibus approval of Audit Committee for related party transactions was Companies (Amendment) Act, 2015, effective 14th December, 2015. Relevant rule 6A of Companies (Meetings of Board and its Powers) Rules was inserted.</p> <p>Rule 6A provides for factors and criteria that the audit committee shall refer for granting omnibus approval.</p>	<p>Reg. 23(2)</p> <p><i>(2)All related party transactions shall require prior approval of the audit committee</i></p>
Shareholders' approval	
<u>Companies Act, 2013</u>	<u>Listing Regulations</u>
<p>Ordinary Resolution of majority of minority, subject to requirement of board resolution u/s 188</p> <p>No change in materiality threshold</p>	<p>Reg. 23(4) Ordinary Resolution for material Related Party Transactions and the related parties <i>shall abstain from voting on such resolutions whether the entity is a related party to the particular transaction or not.</i></p> <p>Materiality threshold</p> <p>A transaction with a related party shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceeds ten percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity</p>
Disclosure with stock exchange or MCA	
<u>Companies Act, 2013</u>	<u>Listing Regulations</u>

<p>e-Form MGT-14 not required to be filed since special resolution replaced by ordinary resolution rest no change</p>	<p>Disclosure in annual report: Related party disclosures as specified in Para A Sch. IV of Listing Regulations</p> <p>Disclosure in corporate governance report: Schedule V para C clause 10 Disclosures on materially significant related party transactions that may have potential conflict with the interests of listed entity at large</p> <p>Quarterly report on corporate governance: Reg. 27(2)(b): Details of all material transactions with related parties shall be disclosed along with the report mentioned in clause (a) of sub-regulation (2) Reg</p>
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<p style="text-align: center;">May, 2018-2019</p>	
<p style="text-align: center;">Meaning of related party</p>	
<p><u>Companies Act, 2013</u></p>	<p><u>Listing Regulations</u></p>
<p>Section 2(76) of the Companies Act 2013 A clarificatory amendment was made by Companies (Amendment) Act, 2017, effective 7th May, 2018, to add the following in respect of Clause (vii) of sec. 2 (76):</p> <p><i>*(viii) any body corporate which is—</i> <i>(A) a holding, subsidiary or an associate company of such company;</i> <i>(B) a subsidiary of a holding company to which it is also a subsidiary; or</i> <i>(C) an investing company or the venturer of the company;"</i></p>	<p>Reg. 2(1)(zb); With effect from April 1, 2019¹² An additional inclusion was made in the definition of "related party" to include person or entities being a promoter, or belonging to promoter group, subject to a shareholding threshold:</p> <p>Provided that any person or entity belonging to the promoter or promoter group of the listed entity and holding</p>

¹² Substituted vide SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018, w.e.f. 1.4.2019

<p><i>Explanation: For the purpose of this clause, “the investing company or the venturer of a company” means a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate¹¹;</i></p> <p>Thus, clause (vii) will include “bodies corporate” and not merely “companies”, and will include associates and investors.</p> <p><i>*Amendment made under Companies (Amendment) Act, 2017 effective from 7th May, 2018</i></p>	<p>20% or more of shareholding in the listed entity shall be deemed to be a related party</p>
<p>Related party transaction</p>	
<p><u>Companies Act, 2013</u></p>	<p><u>Listing Regulations</u></p>
<p>An simplification was made in sec. 188 to enable shareholders’ voting in general meetings, if an overwhelming majority of the shareholders were related parties. Thus, 3rd proviso was inserted as follows:</p> <p><i>Provided also that nothing contained in the second proviso shall apply to a company in which ninety per cent. or more members, in number, are relatives of promoters or are related parties¹³.</i></p>	<p>No change</p>
<p>Audit committee approval</p>	
<p><u>Companies Act, 2013</u></p>	<p><u>Listing Regulations</u></p>
<p>Prior approval of Audit Committee</p>	<p>No change</p>

¹¹ Substituted vide the Companies (Amendment) Act, 2017 effective from 7th May, 2018

¹³ Inserted by The Companies (Amendment)Act,2017 :- Amendment effective from 9th february 2018

Shareholders' approval	
<u>Companies Act, 2013</u>	<u>Listing Regulations</u>
<p>No change</p> <p>The following changes were made in the materiality threshold for seeking shareholders' approval, vide notification dated</p> <p>¹⁴For the purposes of first proviso to sub-section (1) of section 188, except with the prior approval of the company by a special resolution, a company shall not enter into a transaction or transactions, where the transaction or transactions to be entered into,—</p> <p>(a) as contracts or arrangements with respect to clauses (a) to (e) of sub-section (1) of section 188, with criteria as mentioned below -</p> <p>(i) sale, purchase or supply of any goods or materials, directly or through appointment of agent, amounting to ten per cent or more of the turnover of the company or rupees one hundred crore, whichever is lower, as mentioned in clause (a) and clause (e) respectively of sub-section (1) of section 188;</p> <p>(ii) selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent, amounting to ten per cent. or more of net worth of the company or rupees one hundred crore, whichever is lower, as mentioned in clause (b) and clause (e) respectively of sub-section (1) of section 188;</p> <p>(iii) leasing of property of any kind amounting to ten per cent. or more of the turnover of the company or amounting to ten per cent. of turnover of the company or rupees one hundred crore, whichever is lower, as mentioned in clause (c) of sub-section (1) of section 188;</p>	<p>Reg. 23(4) regarding majority of minority vote was amended to enable related parties to object to the resolution seeking to approve RPTs. Hence, the amended text reads: Ordinary Resolution for material Related Party Transactions and no related party shall vote to approve such resolutions¹⁵ whether the entity is a related party to the particular transaction or not</p> <p>Further, the materiality threshold was amended to lay a threshold in case of brand usage and royalty, as under:</p> <p>a transaction involving payments made to a related party with respect to brand usage or royalty shall be considered material if the value of transaction exceeds five percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.¹⁶</p>

¹⁴ Substituted by the Companies (Meeting of Board and its Power) Amendment Rules, 2017 Dated 30th March, 2017.

¹⁵ the words 'the related parties shall abstain from voting on' was substituted *vide* SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018.

¹⁶ [This was inserted vide SEBI \(LODR\) \(Amendment\) Regulations, 2018. The threshold introduced was 2% of the annual consolidated turnover. This was further amended to replace 2% with 5% vide SEBI \(LODR\) \(Third Amendment\) Regulations, 2019](#)

<p>(iv) availing or rendering of any services, directly or through appointment of agent, amounting to ten per cent. of the turnover of the company or rupees fifty crore, whichever is lower, as mentioned in clause (d) and clause (e) respectively of sub-section (1) of section 188:</p> <p>Explanation.—It is hereby clarified that the limits specified in sub-clauses (i) to (iv) shall apply for transactions or transactions to be entered into either individually or taken together with the previous transactions during a financial year.</p> <p>(b) is for appointment to any office or place of profit in the company, its subsidiary company or associate company at a monthly remuneration exceeding two and half lakh rupees as mentioned in clause (f) of subsection (1) of section 188; or</p> <p>(c) is for remuneration for underwriting the subscription of any securities or derivatives thereof, of the company exceeding one per cent. of the net worth as mentioned in clause (g) of sub-section (1) of section 188.</p> <p>Explanation.- (1) The Turnover or Net Worth referred in the above sub-rules shall be computed on the basis of the Audited Financial Statement of the preceding Financial year.</p>	
Disclosure with stock exchange or MCA	
<u>Companies Act, 2013</u>	<u>Listing Regulations</u>
e-form MGT-14 not required to be filed as special resolution replaced by ordinary resolution rest no change	Reg. 23(9) was inserted w.e.f. April 1, 2019 ¹⁷ Half yearly disclosure of RPTs on a consolidated basis as per Ind AS format within 30 days from the date of publication of its standalone and consolidated financial results for the half year, the same is also required to be published on the website.

¹⁷ SEBI (LODR) Amendment Regulations, 2018

	Rest disclosures remain same.
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November 2019-31st March, 2022	
Meaning of related party	
<u>Companies Act, 2013</u>	<u>Listing Regulations</u>
No change	No change
Related party transaction	
<u>Companies Act, 2013</u>	<u>Listing Regulations</u>
No change	No change
Audit committee approval	
<u>Companies Act, 2013</u>	<u>Listing Regulations</u>
No change	No change

Board approval	
<u>Companies Act, 2013</u>	<u>Listing Regulations</u>
No change	No change
Shareholders' approval	
<u>Companies Act, 2013</u>	<u>Listing Regulations</u>
<p>No change</p> <p>Materiality threshold was amended, vide Notification dated November 18, 2019¹⁸ to remove absolute thresholds and replace the same with a relative threshold. The amended thresholds read as follows:</p> <p>(i) sale, purchase or supply of any goods or materials, directly or through appointment of agent, amounting to ten per cent or more of the turnover of the company, as mentioned in clause (a) and clause (e) respectively of sub-section (1) of section 188;</p> <p>(ii) selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent, amounting to ten per cent. or more of net worth of the company, as mentioned in clause (b) and clause (e) respectively of sub-section (1) of section 188;</p> <p>(iii) leasing of property of any kind amounting to ten per cent. or more of the turnover of the company, as mentioned in clause (c) of sub-section (1) of section 188;</p> <p>(iv) availing or rendering of any services, directly or through appointment of agent, amounting to ten per cent. of the turnover of the company, as mentioned in clause (d) and clause (e) respectively of sub-section (1) of section 188:</p>	No change

¹⁸ Substituted by Companies (Meetings of Board and its Powers) Second Amendment Rules, 2019 dated November 18, 2019

Disclosure with stock exchange or MCA	
<u>Companies Act, 2013</u>	<u>Listing Regulations</u>
e-form MGT-14 not required to be filed as special resolution replaced by ordinary resolution rest no change	No change

1st April, 2022 - 31st March, 2023	
Meaning of related party	
<u>Companies Act, 2013</u>	<u>Listing Regulations</u>
No change	<p>Major changes were introduced in relation to RPTs by LODR (6th Amendment) Regulations. The meaning of “related parties” was expanded to include all entities forming part of promoter/promoter group, and significant shareholders. Amended definition stands as follows:</p> <p>Reg. 2(1)(zb)¹⁹ As defined under sub-section (76) of section 2 of the Companies Act, 2013 or under the applicable accounting standards; Provided that:</p>

¹⁹ Amended *vide* SEBI (LODR) (Sixth Amendment) Regulations, 2021 to be effective from April 1, 2022

	<p>(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: (i) of twenty per cent or more; or</p> <p>in the listed entity either directly or on a beneficial interest basis as provided under Section 89 of the Companies Act, 2013, at any time, during the immediate preceding FY shall be deemed to be a related party.</p> <p>Provided further that this definition shall not be applicable for the units issued by the Mutual funds which are listed on a recognized stock exchange(s)</p>
Related party transaction	
<u>Companies Act, 2013</u>	<u>Listing Regulations</u>
No change	<p>In line with the major amendments introduced by LODR (6th Amendment) Regulations, the scope of RPTs was expanded. The amended definition stands as follows: Reg 2 (1) (zc) a transaction involving a transfer of resources, services or obligations between: (i) a listed entity or any of its subsidiaries on one hand and a related party of the listed entity or any of its subsidiaries on the other hand; regardless of whether a price is charged and a “transaction” with a related party shall be construed to include a single transaction or a group of transactions in a contract.</p>
Audit committee approval	
<u>Companies Act, 2013</u>	<u>Listing Regulations</u>

No change	<p>With effect from January 01st, 2022²⁰ only IDs of the audit committee shall approve RPTsWith effect from April 1st, 2022 prior approval of the audit committee for all RPTs and subsequent material modifications, where only IDs can vote to approve.Audit committee shall define material modifications and disclose it as part of the policy on materiality of related party transactions and on dealing with related party transactions RPTs of subsidiary of listed entity, where listed entity is not a party</p> <p>a. <u>where Reg. 23 is applicable on the subsidiary (i.e. subsidiary has listed its specified securities / is a HVDLE)</u> <u>prior approval of the audit committee of the listed entity is not required.</u></p> <p>b. <u>where Reg. 23 is not applicable on the subsidiary</u> prior approval of the audit committee of the listed entity subject to threshold ten per cent of the annual consolidated turnover of the listed entity (w.e.f. April 1, 2022) and annual standalone turnover of the subsidiary (w.e.f. April 1, 2023), as per the last audited financial statements.</p>
Board approval	
<u>Companies Act, 2013</u>	<u>Listing Regulations</u>
No change	No change
Shareholder' approval	

²⁰ Inserted by the SEBI (Listing Obligations and Disclosure Requirements) (Third Amendment) Regulations, 2021

<u>Companies Act, 2013</u>	<u>Listing Regulations</u>
No change	With effect from April 01 st , 2022 all material RPTs and subsequent material modifications shall require prior approval of the shareholders through resolution and no related party shall vote to approve such resolutions whether the entity is a related party to the particular transaction or not. Thus, shareholders' approval became a prerequisite, and extended to include material modifications too.
Disclosure with stock exchange or MCA	
<u>Companies Act, 2013</u>	<u>Listing Regulations</u>
No change	Half yearly disclosure of RPTs on a consolidated basis as per SEBI specified format, the same is also required to be disclosed on the website. The listed entity shall make such disclosures every six months within 15 days from the date of publication of its standalone and consolidated financial results. Rest no change

April 2023 onwards

Meaning of related party

<u>Companies Act, 2013</u>	<u>Listing Regulations</u>
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<p>No change</p>	<p>As defined under sub-section (76) of section 2 of the Companies Act, 2013 or under the applicable accounting standards; Provided that: (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: (i) of ten per cent or more; or in the listed entity either directly or on a beneficial interest basis as provided under Section 89 of the Companies Act, 2013, at any time, during the immediate preceding FY shall be deemed to be a related party. Provided further that this definition shall not be applicable for the units issued by the Mutual funds which are listed on a recognized stock exchange(s)</p>
<p>Related party transaction</p>	
<p><u>Companies Act, 2013</u></p>	<p><u>Listing Regulations</u></p>
<p>No change</p>	<p>a transaction involving a transfer of resources, services or obligations between: (i) a listed entity or any of its subsidiaries on one hand and a related party of the listed entity or any of its subsidiaries on the other hand; or (ii) a listed entity or any of its subsidiaries on one hand, and any other person or entity on the other hand, the purpose and effect of which is to benefit a related party of the listed entity or any of its subsidiaries, with effect from April 1st, 2023;. regardless of whether a price is charged and a “transaction” with a related party shall be construed to include a single transaction or a group of transactions in a contract.</p>
<p>Audit committee approval</p>	
<p><u>Companies Act, 2013</u></p>	<p><u>Listing Regulations</u></p>

<p>No change</p>	<p>With effect from January 01st, 2022 only IDs of the audit committee shall approve RPTs.</p> <p>With effect from April 1st, 2022 prior approval of the audit committee for all RPTs and subsequent material modifications, where only IDs can vote to approve. Audit committee shall define material modifications and disclose it as part of the policy on materiality of related party transactions and on dealing with related party transactions RPTs of subsidiary of listed entity, where listed entity is not a party</p> <ol style="list-style-type: none"> a. <u>where Reg. 23 is applicable on the subsidiary (i.e. subsidiary has listed its specified securities / is a HVDLE)</u> <u>prior approval of the audit committee of the listed entity is not required.</u> b. <u>where Reg. 23 is not applicable on the subsidiary</u> prior approval of the audit committee of the listed entity subject to threshold ten per cent of the annual standalone turnover of the subsidiary (w.e.f. April 1, 2023), as per the last audited financial statements.
<p>Board approval</p>	
<p><u>Companies Act, 2013</u></p>	<p><u>Listing Regulations</u></p>
<p>No change</p>	<p>No change</p>
<p>Shareholders' approval</p>	
<p><u>Companies Act, 2013</u></p>	<p><u>Listing Regulations</u></p>
<p>No change</p>	<p>No change</p>
<p>Disclosure with stock exchange or MCA</p>	

<u>Companies Act, 2013</u>	<u>Listing Regulations</u>
No change	The listed entity shall make such disclosures every six months on the date of publication of its standalone and consolidated financial results (with effect from April 1, 2023).