

Highlights- Industry Standards on RPT Disclosures

SEBI vide Circular dated February 14, 2025 has announced the Industry Standards for minimum information to be provided for review of the audit committee and shareholders for approval with respect to Related Party Transactions (RPTs). These Standards formulated by the Industry Standards Forum, aims to critically analyze the adequacy and clarity of the information provided, ensuring that it meets the legal and regulatory requirements set forth under the LODR Regulations and the SEBI Master Circular. Applicability, Definitions, Standards for Minimum Information to be provided and the Format of providing the same for review of AC and Shareholders are the main aspects covered in the Standards. This note briefly touches upon the said aspects of the Standards as follows:

➤ **Applicability of Standards**

- For material RPT as defined under Regulation 23(1) & (1A) of the LODR Regulations.
- Transaction(s) with a related party, where the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed lower of the following:
 - 2% of turnover, as per the last audited consolidated financial statements of the listed entity;
 - 2% of net worth, as per the last audited consolidated financial statements of the listed entity, except in case the arithmetic value of the net worth is negative;
 - 5% of the average of absolute value of profit or loss after tax, as per the last three audited consolidated financial statements of the listed entity.
- These Standards shall be applicable in respect of RPTs entered into by the Listed Entity on or after April 01, 2025, as per the applicability matrix which includes below disclosures for material RPTs, other RPTs (promoter/promoter group/ other entity where promoter/promoter group has concern / interest) and residual RPTs for both Balance Sheet and P&L items:
 - Comprehensive disclosures
 - Limited disclosures
 - Minimum disclosures

➤ **Standards for Minimum information to be provided to the Audit Committee for review and approval (including ratification)**

- Management should provide comments for each information in the format. NA / Nil to be mentioned as the case may be.
- Certificate should be obtained from CEO/CFO/any other KMP and from every Promoter Director stating that RPTs are not prejudicial to the interest of public shareholders and the terms and conditions of the RPT are not unfavourable to the listed entity compared to transactions with unrelated party.
- Audit Committee to provide its comments on the line items, if any

Following information to be provided as per the format provided under Para 4 of the Standards:

- Details of the Related Party (RP) and transactions with RP
 - Basic details
 - Relationship & ownership
 - Financial performance
 - Details of previous transactions
 - Amount of proposed transaction
- Basic details of the proposed transaction
- Additional details for proposed transactions relating to:
 - sale, purchase, or supply of goods or services or any other similar business transactions
 - any loans, inter-corporate deposits or advances given by the listed entity or its subsidiary
 - any investment made by the listed entity or its subsidiary
 - any guarantee (excluding performance guarantee), surety, indemnity or comfort letter, by whatever name called, made or given by the listed entity or its subsidiary
 - borrowings by the listed entity or its subsidiary
 - sale, lease or disposal of assets of subsidiary or of unit, division or undertaking of the listed entity, or disposal of shares of subsidiary or associate.
 - payment of royalty

➤ **Standards for Minimum information to be provided to the shareholders for consideration of RPTs**

- Explanatory statement for any RPT shall provide minimum information
- Notice for any material RPT shall contain:
 - the information as per Para 4 of the Standards
 - Approval of the Audit Committee for redaction of commercial secrets and such other information that would affect competitive position of listed entity from disclosures to shareholders.
 - Disclosure about the review by Audit Committee the certificate given by CEO/CFO/KMP & Promoter Director
 - Comments of the Board / Audit Committee
 - Other disclosures as per the Standards

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Compiled by CS Ratnamala Hegde, Principal Associate

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405, 7th Cross, IV Block, Koramangala, Bangalore – 560 034

☎: 080-25534374 / 25536618

✉: info@sharadasc.com

www.sharadasc.com