



FOUNDATION FOR AUDIT QUALITY

Enhancing professional excellence

Toolkit for assessing compliances pertaining to Related Party Transactions

Foundation for Audit Quality

July 2024

www.faqonline.org

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Introduction

Effective corporate governance is essential to cultivate a company's culture of integrity and growth, and to gain investor confidence. One of the key elements of good corporate governance is a robust evaluation of transactions with related entities (Related Party Transactions or RPTs).

Global context and the G20/OECD Principles of Corporate Governance¹

Recognising that the purpose of corporate governance is to improve the legal, regulatory and institutional framework for corporate governance, with a view to supporting market confidence and integrity, economic efficiency, sustainable growth and financial stability, the OECD, working with the G20, has developed "The G20/OECD Principles of Corporate Governance" ("G20/OECD Principles").

The G20/OECD Principles are the main international benchmark for good corporate governance. Partnering with the G20 also means that the G20/OECD Principles have a global reach and reflect the experiences and ambitions of a wide variety of jurisdictions with varying legal systems and at different stages of development. They are also one of the Financial Stability Board's Key Standards for Sound Financial Systems.

The G20/OECD Principles also specifically deal with related party transactions.

Principle II-F and II-G, forming part of Chapter II – "The rights and equitable treatment of shareholders and key ownership functions" state:

F. Related party transactions should be approved and conducted in a manner that ensures proper management of conflict of interest and protects the interest of a company and its shareholders.

- 1. Conflicts of interest inherent in related party transactions should be addressed.*
- 2. Members of the board and key executives should be required to disclose to the board whether they, directly, indirectly or on behalf of third parties, have a material interest in any transaction or matter directly affecting the corporation.*

G. Minority shareholders should be protected from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and should have effective means of redress. Abusive self-dealing should be prohibited.

Further, Sub-principle 7 of Principle V-D, forming part of Chapter V - "The responsibilities of the board" states:

D. The board should fulfil certain key functions, including

- 7. Monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions.*

¹ OECD (2023), G20/OECD Principles of Corporate Governance 2023, OECD Publishing, Paris, <https://doi.org/10.1787/ed750b30-en>.

The G20/OECD Principles are accompanied by a commentary to help understand their rationale and also include descriptions of dominant or emerging trends and offer alternative implementation methods and examples that may be useful in making the G20/OECD Principles operational.

Regulatory environment in India around RPTs

Most of the G20/OECD Principles relating to related party transactions have been enshrined in the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('SEBI LODR') in Chapter II - Principles Governing Disclosures and Obligations of Listed Entity. These core principles in the SEBI LODR have been supplemented by detailed regulations.

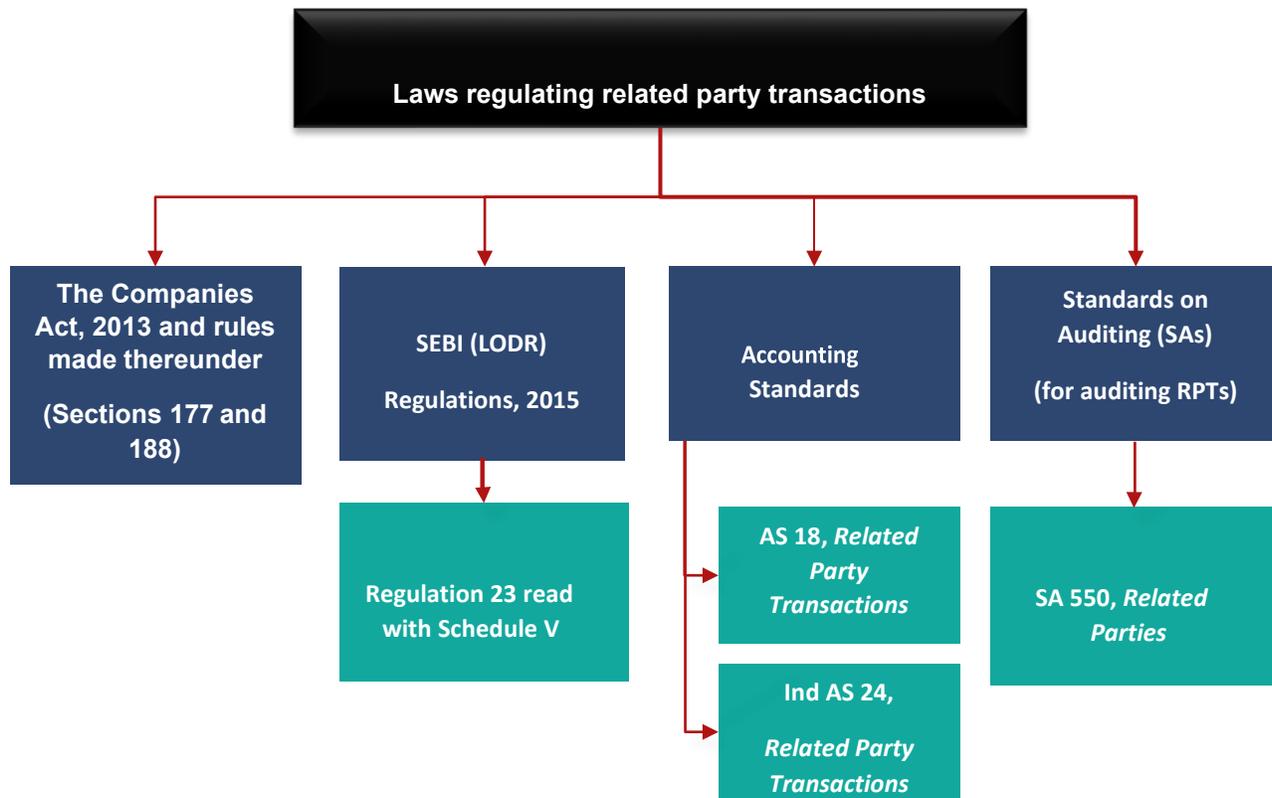
The G20/OECD Principles recognise that the potential abuse of related party transactions is an important policy issue in all markets, but particularly in those where corporate ownership is concentrated, and corporate groups prevail. Further, it also acknowledges that banning these transactions is normally not a solution as there is nothing wrong *per se* with entering into transactions with related parties, provided that the conflicts of interest inherent in those transactions are adequately addressed, including through proper monitoring and disclosure.

It is in this context that the report of the working group on RPT highlighted that while it is recognised that RPTs can *per se* have sound economic rationale and can be value enhancing, there have been concerns about certain transactions being questionable or against the interest of minority shareholders or even bordering on fraud or ill-intent. There have also been cases observed where an entity has complied with the letter of the law, while ignoring its spirit. The prevalent use of complex group structures and subsidiaries for RPTs, particularly with unlisted entities, has increased concerns such as siphoning of funds, money laundering and round tripping.

RPTs have thus been a focus area for all regulators and policy makers, and there are various regulations governing the same. The Companies Act, 2013 and the Securities and Exchange Board of India (SEBI) have stipulated detailed procedures for approval of RPTs (as defined by the respective laws and regulations) - this includes obtaining the approval of the audit committee for all RPTs and of the shareholders in certain cases. The Accounting Standards (AS) and Indian Accounting Standards (Ind AS) have defined related parties and RPTs and require companies to disclose prescribed relationships and transactions with related parties in their financial statements to enhance transparency in this area. The Standards on Auditing (SA)² require auditors to perform stipulated procedures, such as adjusting the risk of material misstatement for components of financial statements which involve related party transactions, and include procedures, such as considering fraud risks, etc.

² SA 550, *Related Party Transactions*, deals with the audit procedures for transactions entered into by an entity with its related parties

Figure 1: Laws regulating transactions with related parties



(Source: Foundation for Audit Quality’s analysis, 2022 read with Guidance Note on Related Party Transactions issued by the Institute of Company Secretaries of India (ICSI), in March 2019)

Aligning the principles with practice

For a large number of companies, many transactions with related parties are undertaken as they are essential or prudent from a business perspective.

Therefore, a framework that provides sufficient ease in entering into transactions with related parties that constructively augment the business should be encouraged, while having enough checks and balances to deter any abusive transactions. To ensure that the conflicts of interest inherent in those transactions are adequately addressed, including through proper monitoring and disclosure, both, the Board of Directors as well as management in a company would need to step up their procedures and practices, for example:

- Advance planning of the RPTs would help achieving the compliance requirements of the LODR Regulations
- Procedures and practices relating to establishing the arm’s length pricing or market terms for the transactions
- Accounting manuals at a group and components level need to be updated at regular intervals to provide clear guidelines regarding RPTs and document a mechanism for identification of related parties along with an approval process for RPTs

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- The business rationale for the transactions and putting it through the necessary approval processes
- Sufficient information being made available to the approvers to make an informed decision, and
- Adequate and timely disclosures being made available to the relevant stakeholders.
- Automation of the related parties' information for the entire group.

Adopting a code of best practices for conducting RPTs

In order to drive the Indian capital markets into a leadership position at a global level, the responsibility also lies with the companies, who are members of the capital markets. Companies would need to adopt the best corporate governance practices, and ensure good administration throughout the organisation, by adhering to ethical principles. With this broad objective, it would be ideal for companies to develop a code of best practices for conduct of RPTs, adoption of which would enhance investor confidence and protect stakeholders' interests.

Key tenets for developing a code of best practices for conducting RPTs³

Ethical business practices pertaining to RPTs

Ethics is the essence of good governance and is exceptionally relevant when it relates to RPTs. Companies should adopt policies and procedures intended to ensure effective governance and achieve confidence of the investors in their business practices. Considering this objective, the code of best practices for conduct of RPTs should be built and following are key tenets:

- **Interests of all relevant parties:** Undertake transactions that are fair and protect the interests of all shareholders and stakeholders. Conversely, do not undertake any transactions that favour or benefit one set of shareholders / stakeholders to the detriment of other shareholders / stakeholders
- **Genuine business purposes:** Undertake transactions for genuine business purposes only.
- **Fair and equitable terms:** Undertake transactions on market terms (arm's length pricing and other commercial considerations). Transactions with related parties and with third parties should be treated on par in terms of assessments, approvals, pricing, payment terms, security, etc.
- **Transparency:** Ensure transparency on pricing, quantum, rationale, beneficiaries, etc.
- **Simplicity in transaction:** Undertake transactions using simple structures and terms. Conversely, avoid opaque transactions or structures.
- **Robust assessment and documentation:** Ensure assessment of RPTs is robust, holistic, and well documented, to enable key decision makers, including Audit Committee, Board of Directors or shareholders to take a well-informed decision.
- **Compliance with laws and regulations:** Comply with the approval mechanism stipulated by various regulations governing RPTs.
- **Adequate disclosure reporting:** All RPTs should be adequately disclosed as per the requirements of applicable regulatory and financial reporting frameworks.
- **Alignment of longer-term interests:** Engage with a related party, if there is a longer-term alignment on mutual value creation.

³ This section should be part of the 'Governance Charter' of the Board of Directors and related practice manuals including accounting manual of a company at a group and component level.

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Guiding principles for evaluating an RPT

The OECD, in its 'Guide on Fighting Abusive Related Party Transactions in Asia' has recommended a six-step guide for analysing a RPT, the essence of which is reflected below. The audit committees and Board of Directors (BoD) may consider using relevant elements of this to augment their processes for evaluating RPTs:

WHO are the parties on either side of the transaction?	In few cases, two parties may initially appear unrelated. However, it is essential to unravel the complexities in the holding structure of the entities to understand how the transacting entities are related.
WHAT RESOURCE is being transferred?	The resource being transferred could be a capital asset, raw materials, services, loans, guarantees, etc. BoDs should seek a full understanding of the resources being transferred and their parameters, and the ownership interest of the related parties within the same.
HOW is the transaction priced?	BoDs should study the valuation report pertaining to the transaction and determine the methods adopted for valuation, or if the offer price meets the valuation. It should also be determined whether some discussion on how the price was agreed upon has been included in the related party agreement.
WHAT COMPENSATION is involved?	BoDs should determine the compensation involved in the transaction- i.e. would it be cash or an asset swap, such as a transfer of shares in a third party. The reason for transfer of an asset should be inquired and determined.
ARE any of the parties conflicted?	Whilst the scope of conflicts of interest is broad, areas which may lead a party (generally directors or advisers to the transaction) to be conflicted include when the pecuniary interest of the party are in conflict with those of the company or when the professional judgement to act in the best interest of the company and its shareholders is compromised.
WHY is the resource being transferred or transaction being undertaken? Why now?	In many cases, timing of a transaction influences RPTs, for example, related parties have incurred losses on a separate entity or business venture, or at a personal level and may be keen to 'inject' assets into that entity to prevent a breach of debt covenants or to make good the loss.

(Source: Guide on Fighting Abusive Related Party Transactions in Asia, issued by OECD in September 2009)

Foundational framework for implementation of RPT requirements

An ideal regulatory framework should provide a construct to deter undesirable RPTs while providing ease to genuine transactions. This will contribute to the growth of the business and the economy at large. As mentioned earlier, the Companies Act, 2013, the LODR Regulations and the accounting standards highlight various requirements with regard to identification of related parties, transactions with related parties, and disclosures thereof. The Companies Act, 2013 and the LODR Regulations also prescribe robust approval mechanisms for RPTs. In a nutshell, all these regulations lay down the principles for an enhanced corporate governance environment around RPTs.

Considering the disparate requirements in all these regulations, corporates need to incorporate appropriate systems and processes to ensure that these regulations are embraced in both the letter and spirit.

The SEBI revised the LODR Regulations with regard to related party norms, by including:

- A wider net of entities as related parties and a broader set of transactions as related party transactions;
- Enhanced the approval requirements of audit committee and shareholders; and,
- Enhanced the disclosure requirements to the audit committee, shareholders and to the regulators.

These amendments require companies to revisit their existing procedures on related parties and make amendments, wherever necessary.

This implementation toolkit, which is in the form of a checklist captures the RPT and compliances prescribed in all corporate reporting regulations which are applicable to corporates currently. We will update this checklist if the regulations undergo changes. The checklist aims to cover some practical considerations that would help overcome certain potential challenges that companies could face complying with the RPT norms (including the revised SEBI norms).

Foundational framework for implementation of RPT requirements

Every company that is required to comply with the RPT requirements should lay down a foundational framework for the company and its subsidiaries (the group), which comprises of certain essential elements to enable an effective implementation of these new requirements. It is essential that the pre-requisites for identifying related parties and for entering into related party transactions are communicated by the listed entity to its entire group - in India and overseas. Accordingly, an RPT policy and framework for identification of related parties and RPTs and the compliance process (for example, the group related party policy and process manual, group accounting policy manual) should be defined at a group level and applied by all subsidiaries.

Essential elements of this foundational framework

There are certain key elements to implement the foundational framework for RPTs and include the following:

- 1. Periodic declarations from directors, promoters and KMP:** Companies should obtain a declaration at the start of the financial year and periodically from directors, promoters and KMP of the listed entity, its holding company and its subsidiaries, specifically for compliance with the SEBI LODR requirements. This will help to identify related entities of directors, promoters and KMP and members of the promoter group, who would also be considered as related parties of the group.
- 2. Approach for identifying indirect transactions (that benefit related parties):** The board of directors of companies should define certain criteria to identify indirect transactions, i.e., transactions with a third party, the purpose and effect of which is to benefit related parties. Management should lay down processes to identify transactions in line with the Board / Audit Committee determined criteria. This could be disclosed on the website of the listed company as part of the RPT policy of the company and its group. Certain confirmations from third parties with whom transactions are being entered into may also be obtained.
- 3. Management's compliance processes:** Companies should implement additional procedures to corroborate the information provided by the promoters/directors by performing additional processes, such as by evaluating the relationships of promoters, through directorships, investments, and so on, by accessing relevant portals / databases. Certain individuals, such as the Chief Financial Officer (CFO) or the Company Secretary (CS) of the company may be given responsibility to ensure compliance with all RPT regulations. For this purpose, the CFO or the CS may appoint internal or external agencies who could test transactions on a sample basis to check controls for compliance. Where non-compliances are observed, the compliance officers could point these out to the management and to the audit committee so that corrective actions are taken on a timely basis.

Companies should also set up a second line of defense by either empowering an independent team or engaging with external agencies, which would help management ensure compliance with regulations and help companies to take corrective actions in case of any non-compliances.

- 4. Technology-enabled database of related parties (including automation for all sub-systems):** Related parties of the entire group should be maintained in a database of related parties, which should be updated on a periodic basis. A cost-effective solution should be adopted by companies, by performing a cost-benefit analysis. An example of a technology solution that may be adopted is, maintaining the related party database on a technology enabled platform which could provide trigger-based alerts every time a related party transaction is proposed to be entered into. Apart from obtaining declarations from directors, KMP and promoters providing details of their related parties which may be maintained on a technology enabled platform, this related party database may be linked to other database of the company, such as the customer or vendor master data, etc. so that trigger-based alerts are issued to the company when a transaction is planned or entered into with a related party.¹
- 5. Advanced planning of RPTs:** RPTs may be required to be entered into for various purposes,

¹ **Database of connected parties:** Regulators may consider preparing and sharing with companies a list of connected parties (i.e. a list of related parties and potential related parties) by identifying related parties as per the various regulations applicable to a company and its group and identifying certain individuals or entities with certain common linkages. This common linkage could include entities with common directors (current and past), entities having the same address, entities with same phone numbers, entities the directors/KMPs of which share the same residential address, etc. Maintenance of such a list could deter relevant people or entities from not making appropriate disclosures of their related parties.

including procurement, sale, services, leasing, etc. While planning for RPTs at the beginning of the year, a company will need to co-ordinate with all functions to determine which transactions would need to be entered into. Considering that a prior approval of the audit committee and shareholders is required for related parties of a listed entity and its unlisted subsidiaries, it is essential to have a cross-functional co-ordination and communication. This will help companies plan for the process of compliance for RPTs at a group level at the beginning of the year.

- 6. Audit committee's approvals:** With the independent directors on the Audit Committee being responsible for approval of all related party transactions, this becomes more challenging with the new requirements, including the wider net of related parties, and the broader set of related party transactions and indirect transactions. In order to effectively play their role in implementing these changes, an Audit Committee should seek to lay down the policy framework as well as criteria and guidelines to be used by management in implementing these requirements. They should also define the checks and balances they would seek to have in place across the organization, including the information that they will seek to review periodically to get comfort that the requirements are being implemented appropriately. They should also lay down a suitable approach for management to present information to the Audit Committee, such as through logical bucketing of parties and transactions based on certain attributes (such as nature of transactions, materiality of transactions, pricing approach, etc.), shared for an Audit Committee's approval. This way information would help an audit committee provide appropriate level of attention.
- 7. Role of the subsidiaries:** Unlisted subsidiaries of listed holding companies also need to table certain RPTs² for the approval of the audit committee and/or shareholders of the listed companies and submit disclosure of their RPTs on a six-monthly basis³. Accordingly, it is essential there is a close co-ordination between the relevant teams of these subsidiaries and listed companies so that RPTs and their approval may be planned in an efficient manner. Subsidiaries should also collate and submit to the listed holding company all disclosures in a timely manner, so that the listed company can make their six-monthly disclosures to SEBI within the prescribed timelines.

Companies should also plan for effective communication of the LODR regulations and their requirements with their overseas subsidiaries including Key Managerial Persons of these subsidiaries to ensure compliance with the regulations.

² As per the Listing Regulation, a prior audit committee approval is required for RPTs to which the subsidiary of a listed entity is a party, but the listed entity is not a party, if the value of such transactions whether entered into individually or taken together with previous transactions during a financial year exceeds 10 per cent of the annual standalone turnover in accordance with the last audited financial statements of the subsidiary.

³ This is because the listed company has to submit to SEBI on a six-monthly basis, a consolidated list of RPTs entered into during that period

Structure of this toolkit

The regulatory requirements and practical considerations have been classified within the four main areas, namely:

- A: Identification of related parties;**
- B: Identification of related party transactions;**
- C: RPT approval mechanism; and**
- D: Disclosure requirements of RPTs.**

Category of procedures

Within each topic, the checkpoints have been bifurcated into three sets of procedures - the base procedures, the management diligence procedures, and the monitoring procedures. These are further explained below.

- **Base procedures:** These include the basic procedures that each company may consider adopting in order to comply with the related party regulations.
- **Management diligence procedures:** The base procedures should be supplemented with management diligence procedures, which will enable management to have a maker checker control. Where the base controls will work as 'maker' controls and the management diligence procedures will work as 'checker' procedures.
- **Monitoring procedures:** For the monitoring procedures, the management may consider appointing an external or internal department (for example, an external agency that will oversee the implementation of the RPT framework, or an internal audit department) to oversee the functioning of the controls of the company.

Phased approach to implementation

We have strived to provide an exhaustive list of procedures that can be adopted by companies while they comply with the RPT framework (specifically the revised RPT framework prescribed by SEBI). Companies may consider adopting these procedures in a phased manner, by first adopting the procedures that are essential and then adopt other best practices⁴.

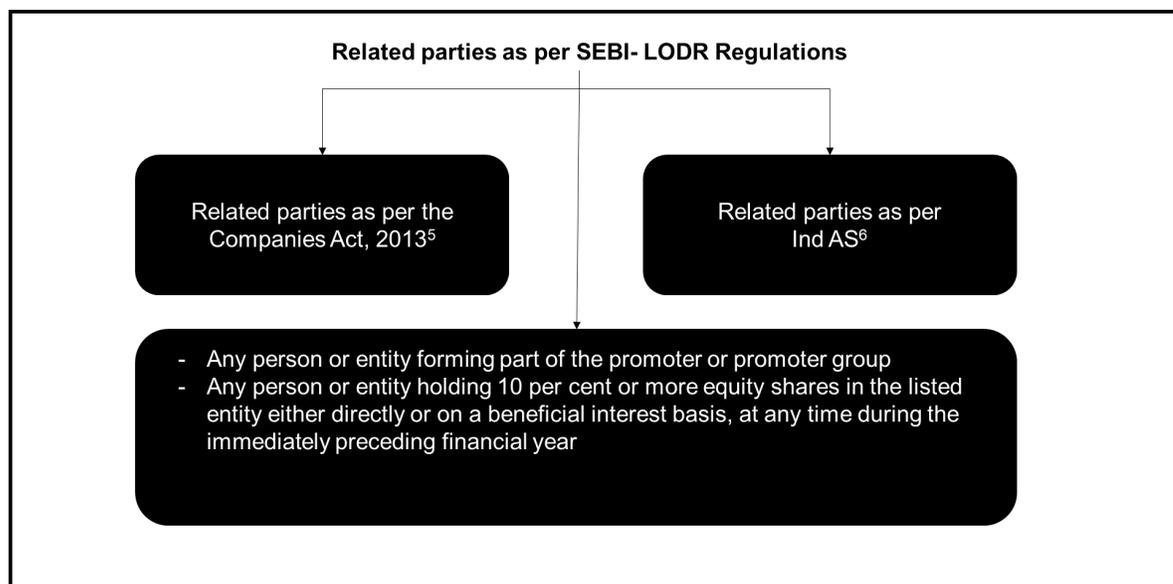
⁴ Other best practices have been written in turquoise font colour.

Checklist for compliance with Regulations pertaining to related parties

A. Identifying related parties

Related parties are defined under the Companies Act, 2013, the accounting standards and under the SEBI regulations. While identifying related parties for the purpose of obtaining requisite approvals and making disclosures to stakeholders, entities would need to comply with all three regulations⁵.

Figure 1: Related parties under the Companies Act, 2013, LODR Regulations and Ind AS



⁵ If a company is governed by any other regulation, for example, the RBI or IRDAI regulations, then it should take such regulations into account while planning compliance procedures for related parties and RPTs.

⁶ Related parties as per Section 2(76) of the Companies Act, 2013 include the following:

- Director or his relative
 - Key managerial personnel or his relative;
 - A firm, in which a director, manager or his relative is a partner;
 - A private company in which a director or manager or his relative is a member or director;
 - 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;
 - 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;
 - Any person on whose advice, directions or instructions a director or manager is accustomed to act;
 - Any company which is—
 - (A) a holding, subsidiary or an associate company of such company; or
 - (B) a subsidiary of a holding company to which it is also a subsidiary;
 - (C) an investing company or the venturer of the company;"
- 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 corporate.
- Such other person as may be prescribed;

1 Declaration of related entities by directors, managers and key managerial personnel

S. No.	Questions	Note	Response
1	<p><i>Base procedures</i></p> <p>Has the company obtained periodical confirmations from the directors, managers and Key Managerial Personnel of the company and its holding company (together termed as KMP) at the beginning of each financial year to identify their relatives⁷, related entities and their interests?</p> <p>Have the directors, managers and KMP notified to companies whenever there is a change in interest in the related entities?</p>	1.1	
2	<p><i>Management diligence procedures</i></p> <p>Has the company performed procedures to validate the information declared by directors, for example, the company could identify if directors have other directorships, evaluate their investments, by accessing certain websites, such as the MCA website, etc.?</p>	1.2	
3	<p><i>Monitoring procedures</i></p> <ul style="list-style-type: none"> - Has this information been subject to validation by an internal or an external agency? - Have the results of the validation been considered by the company? 		

Note 1.1

As per Section 2(76) of the Companies Act, 2013, related entities of directors include partnership firms in which a director, manager or his/her relative is a partner, a private company in which a director or manager or his/her relative is a member or director, a public company in which a director or manager is a director or a member (with a holding exceeding two per cent on an individual or joint basis, with relatives), bodies corporate which are accustomed to act in accordance with the advice of the directors or

⁷ A person or close family member is related to a reporting entity if that individual:

- Has control or joint control over the reporting entity.
 - Has significant influence over the reporting entity.
 - Is a member of the key personnel of the reporting entity or of the parent of the reporting entity.
- An entity is related to a reporting entity if the following conditions are met:
- Both the reporting entity and the entity belong to the same group.
 - An associate or joint venture of the other entity or of the same third party.
 - The entity is a post-employment benefit plan for the reporting entity or any entity related to the reporting entity.
 - The entity is controlled or jointly controlled by the person mentioned above or the person mentioned has significant influence over the entity.
 - The entity or any member of the group provides key management personnel service to the reporting entity or parent of reporting entity.
- Ind AS specifically excludes certain entities from being recognised as related parties- these include:**
- Entities that have a common director or KMP or because KMP of one entity has significant influence on the other
 - Two joint venturers simply because they share joint control of a joint venture
 - Providers of finance, trade unions, public utilities and departments and agencies of the government that do not control or have significant influence on the entity
 - A customer, supplier, franchisor, distributor or general agent with whom the entity has significant volume of transactions, simply by virtue of the resulting economic dependence

managers, or any person on whose advice, direction or instruction the directors or managers are accustomed to act.

Note 1.2

As per the Companies Act, 2013, the interest of the directors needs to be mentioned in the register of contracts in form MBP-1. One of the validation checks that may be adopted by the company is comparing the declaration of directors of the company with form MBP-1 filed with other companies in which the director/KMP/manager is a director.

2 Identifying and keeping track of group companies

S. No.	Questions	Note	Response
4	<p><i>Base procedures</i></p> <p>Has the company obtained a legal structure of the entire group - which at the minimum includes:</p> <ol style="list-style-type: none"> The holding company, the ultimate holding company and their investments (subsidiaries, associates and Joint Ventures (JVs)) Investors in the company Fellow subsidiaries and their investments Subsidiaries and their investments Associates and JVs and their investments Other companies forming part of the promoter's group (apart from a-e above and their investments)? 	2.1	
5	Does the company keep track of all changes that are taking place at a group level (this includes investments, disinvestments, mergers, acquisitions, demergers, etc.) and update the group structure on a periodic basis?		
6	<p><i>Management diligence procedures</i></p> <p>Has it been ensured that appropriate internal control processes have been established to verify the group structure (for any changes therein) on a periodic basis?</p>		
7	<p><i>Monitoring procedures</i></p> <ul style="list-style-type: none"> - Has this information been subject to validation by an internal or an external agency? - Have the results of the validation been considered by the company? 		

Note 2.1

The group structure should include all relationships of the company that are covered in the related party definition prescribed in the Companies Act, 2023 and in the accounting standards. This includes relationships where control exists without shareholding.

3 Determining control

S. No.	Questions	Note	Response
8	<i>Base procedures</i> When determining whether an entity or an individual has control over the company, or vice versa, have all regulations which explain the concept of control been considered?	3.1	
9	<i>Management diligence procedures</i> Have companies reviewed all shareholders' agreements and relevant contracts to identify entities that it has control on?		
	Have companies reviewed all shareholders' agreements and relevant contracts to identify entities that control the entity?		
10	<i>Monitoring procedures</i> <ul style="list-style-type: none"> - Has this information been subject to validation by an internal or an external agency? - Have the results of the validation been considered by the company? 		

Note 3.1

On a combined reading of the Companies Act, 2013 and Ind AS 110, *Consolidated Financial Statements*, control over an entity is established when:

- An entity has the right to appoint majority of the directors (Section 2(27) of the Companies Act, 2013)
- An entity can control the management or policy decisions exercisable by a person or persons acting individually or in concert, directly or indirectly, including by virtue of their shareholding or management rights or shareholders' agreements or voting agreements (Section 2(27) of the Companies Act, 2013)
- An entity has power over the other entity (Ind AS 110)
- An entity has exposure or rights to variable returns from its involvement with the investee (Ind AS 110)
- An entity has the ability to use its power over the investee to affect the amount of the investor's returns (Ind AS 110)

4 Identification of the promoter group

S. No.	Questions	Note	Response
11	<p><i>Base procedures</i></p> <p>Have companies obtained periodical confirmations from the promoters at the beginning of each financial year to identify their related entities?</p> <p>Have the promoters notified to companies whenever there is a change in interest in the related parties?</p> <p>(Note: These related entities would be considered as members of the promoter group)</p>	4.1	
12	Has the company evaluated whether a promoter related trust or any other trust holds shares in a company or in its group companies?	4.2	
13	Has the company evaluated whether such trusts would be considered as part of related parties?		
14	<p><i>Management diligence procedures</i></p> <p>Have companies performed additional procedures to validate the information, for example, the company could identify if promoters have other directorships, evaluate their investments, by accessing certain websites, such as the MCA website?</p>	4.3	
	<i>Procedures when promoters have applied for reclassification as public shareholders</i>		
	Where a promoter, being an individual or an entity, has applied for reclassification of the promoter to a public shareholder, has the management performed the following procedures:	4.4	
	<ul style="list-style-type: none"> Checked the status of the reclassification application of the promoter as on date a shareholders' approval for RPTs is sought Ensured that the promoter does not cast a vote as public shareholder on a related party transaction till the time the approval for reclassification of the promoter to a public shareholder has been obtained? 		
15	<p><i>Monitoring procedures</i></p> <p>– Has this information been subject to validation by an internal or an external agency?</p>		

	<ul style="list-style-type: none"> - Have the results of the validation been considered by the company? 	4.5	
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Note 4.1

The declarations provided by the promoters (be it an individual or an entity) would be similar to the annual disclosures of interest which is presently provided by directors (in form MBP-1), and should include details of their relationships and interest with the related entities. Additionally, the PAN, Company Registration Number (CRN), or any other identifier should be provided for easy tracking of such entities/individuals.

The format and periodicity of such disclosures should be determined by the board of directors, in such a manner that it captures changes in interest of the promoters in the related parties on a continuous basis (and not at a point in time).

The declarations should include direct and indirect holdings (indirect holdings include holdings through layers of subsidiaries) of the promoters - this is because it is important to identify the ultimate beneficial owner of an entity, i.e. there is no shell company involved.

Note 4.2

Any other trust could include trusts that are controlled by a promoter of the company or a trust where the promoter of the company or his/her relatives are the beneficiary.

Note 4.3

As part of the Standard Operating Procedures (SOP) of a company for determining related parties and RPTs and validating the same, the company should include certain procedures that should be adopted by the company, including the information it should seek from directors, promoters, etc. The SOP should also include additional procedures that would be adopted by the company, such as procedures to independently validate the information declared by directors or promoters, etc.

Note 4.4

Regulation 31A of the LODR Regulations empowers the stock exchanges to permit the reclassification of the status of any person as a promoter to a public shareholder subject to the compliance of certain prescribed conditions.

Note 4.5

The internal auditors of the company or a third-party entity may be appointed to validate the information submitted by the promoters, by performing a thorough review of directorships, relationships, etc. for a sample of selected promoters.

5 Determining and monitoring shareholding of investors with a prescribed shareholding

S. No.	Questions	Note	Response
16A	<i>Base procedures</i>		
	Is the investors' shareholding provided by share transfer agents reviewed by the company on a periodical basis?	5.1	
	Have investors whose shareholding (direct and indirect with their connected entities) exceeds a certain percentage (say, 9 per cent) been placed on an 'alert list' so as to actively track when their shareholding may cross the threshold of 10 per cent (threshold for qualifying as a related party)?	5.2	
	Have the investors whose shareholding has crossed the 10 per cent threshold been added to the 'related parties' digital database maintained by the company?	5.3	
	Does the company track all transactions entered into with entities that are included in its 'alert list'?	5.4	
16B	<p>While disclosing their related party transactions to investors and regulators, have companies categorised the list of related party transactions into a logical grouping such as, routine, non-routine transactions and transactions at off-market rates so as to enable a more effective review/use of the information?</p> <p>To illustrate, routine transactions could include transactions with institutional investors, which are in the normal course of business (such as opening of a bank account, obtaining an insurance policy, etc.) and are at market rates or based on an arm's length pricing</p>	5.5	
17	<p><i>Management diligence procedures</i></p> <p>Does the company cross check the investor information obtained from share transfer agents/registrars with other information, such as tracking of shareholding by the investor relations department or declarations on beneficial ownership, etc.?</p>	5.6	
18	<p><i>Monitoring procedures</i></p> <p>– Has the information pertaining to shareholding of investors been validated on a sample basis by internal or external agencies (such as secretarial auditors) with reports obtained from share transfer agents?</p>		

	<ul style="list-style-type: none"> - Has the internal or external agency also tested management’s independent validation of transactions entered into with entities in the alert list? - Has the result of the validation been considered by the company? 		
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Note 5.1

As per Regulation 31 of the LODR Regulations, a listed entity should, inter alia disclose a statement showing holding of securities and shareholding pattern separately for each class of securities in a prescribed format.

Note 5.2

Companies should monitor shareholding of investors on a regular basis and classify the shareholders with a shareholding exceeding a certain percentage (e.g. nine per cent) in an ‘alert list’ as it will help track if any such investor would fall in the related party definition and may require application of these regulations.

Note 5.3

The digital database should be accessible to auditors and regulators. The database should also be technology enabled, and linked to relevant systems, so as to generate an alert for audit committees’ approvals for all RPTs and shareholders’ approvals when the transaction with a related party crosses a particular threshold which is lower than the regulatory threshold for obtaining shareholders’ approvals (say for example, INR900 crore or eight per cent of the annual consolidated turnover of the company). With regard to the transactions of the company’s subsidiaries, similar alerts should be enabled for transactions with related parties - which is below the threshold for obtaining the listed company’s audit committee approval (say, for example, if the transaction crosses eight per cent of the annual standalone turnover of the subsidiary (for transactions post 1 April 2023).)

Investors that cross the 10 per cent threshold shareholding should immediately be added to the related parties database to facilitate pre-approval of previous year’s transactions.

Note 5.4

Alert list should include shareholders with the same beneficial owner where the aggregate shareholding exceeds nine per cent. Management’s procedures to review transactions with entities in the alert list should be included as a part of the SOP for RPTs. Appropriate documentation should be maintained by management with regard to their validation of transactions with entities in the alert list.

Note 5.5

While an institutional investor as a major shareholder may not be a related party in the traditional sense, companies would need to ensure compliance with SEBI regulations for transactions, after taking into consideration the pricing, the nature of transaction and other criteria for obtaining omnibus approval is met.

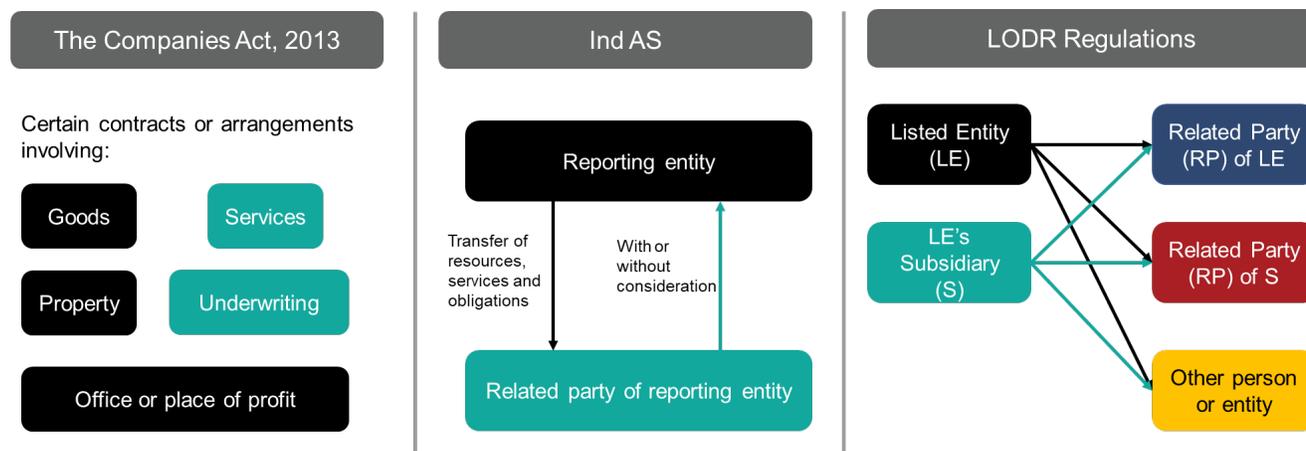
Note 5.6

In order to comply with the enhanced requirements on RPTs, the information on shareholding should be sought to cover holdings throughout the period, rather than at a point in time.

B. Identifying related party transactions

When determining which transactions would be a Related Party Transaction (RPT), companies would need to refer to the three regulations- the Companies Act, 2013, Ind AS and the LODR Regulations. The definition of RPT under the three regulations is not same. The RPT definitions under the three regulations are given in the table below and depicted in figure 2.

Figure 2: Related party transactions under the Companies Act, 2013, LODR Regulations and Ind AS



As per Companies Act, 2013	As per Ind AS	As per Listing Regulations
<p>While a definition of RPT is not specifically provided in the Companies Act, 2013, Section 188 of the Companies Act, 2013 enlists certain contracts or arrangements that would constitute an RPT as given below:</p> <ul style="list-style-type: none"> • Sale, purchase or supply of any goods or materials • Selling or otherwise disposing of, or buying, property of any kind • Leasing of property of any kind • Availing or rendering of any services • Appointment of any agent for purchase or sale of goods, materials, services or property • Such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company and • Underwriting the subscription of any securities or derivatives thereof, of the company. 	<p>An RPT is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.</p>	<p>An RPT means a transaction involving a transfer of resources, services or obligations between:</p> <ul style="list-style-type: none"> • 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 (effective 1 April 2022) • 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, (effective 1 April 2023) <p>regardless of whether a price is charged.</p> <p>Please note, certain transactions are specifically excluded from the purview of RPT, these include:</p> <ul style="list-style-type: none"> • Issue of specified securities on a preferential basis • Corporate actions by a listed entity which are uniformly applicable to all shareholders • Acceptance of fixed deposits by banks/NBFCs at uniform terms • Units issued by mutual funds which are listed

6 Identifying transactions with members of the promoter group

S. No.	Questions	Note	Response
19	<i>Base procedures</i> Have companies prepared a database of related parties, and do the companies update this database on a periodical basis?	6.1	
	- Has the database been maintained on a technology enabled platform and integrated with other databases of the company (for example, the vendor master, customer master, etc.)	6.2	
	- Has the company enabled trigger-based alerts while entering into transactions to ensure that all related party transactions are identified?		
20	<i>Management diligence procedures</i> In order to ensure that transactions with all related parties have been identified, does the finance, legal and secretarial team perform a post-facto compliance of all transactions entered into during the year?	6.3	
	Has the company taken steps to rectify the errors that were identified while performing the post-facto compliance check?		
21	<i>Monitoring procedures</i> Has the company appointed an internal or external agency to test the following: - Validate on a sample basis that transactions entered into during the year have been assessed for involvement of a related party? - Whether appropriate approvals for RPTs have been obtained?		

Note 6.1

The Companies Act, 2013 requires companies to maintain a register of contracts with related parties and contracts and bodies, etc. in which directors are concerned or interested. For the purpose of compliance with the related party regulations, companies may extend the format to transactions with the promoters/promoter group.

Note 6.2

Companies should perform a thorough cost-benefit analysis based on the quantum of its related parties. Based on such analysis and evaluation, it should ascertain the digital platform on which it should maintain its list of related parties, and the features the database should have.

Note 6.3

Where the database of RPTs is maintained on a technology enabled platform, companies may link them to the database of contracts or arrangements, so that contracts or arrangements with RPTs are identified.

7 Identifying connected parties of the company

S. No.	Questions	Note	Response
22	<i>Base procedures</i> Has the company identified individuals or entities that would be classified as 'connected parties' for the purpose of identifying transactions the purpose and effect of which is to benefit a related party (indirect transaction)?	7.1	
	Has the list of connected parties been updated on a regular basis and included in the 'related parties' (digital) database maintained by the company?		
23	<i>Management diligence procedures</i> Has the company reviewed all material transactions entered into by the company, and identified related parties or connected parties from that list?		
24	<i>Monitoring procedures</i> – Have the material transactions entered into by the company (say, for example, where the aggregate amount of transactions entered into with an entity or its related entities in the entire year, exceeds INR900 crore or eight per cent of the annual consolidated turnover) been subject to review on a sample basis by an internal or external agency?		
	– Have the results of the validation/review been considered by the company?		

Note 7.1

Identification of connected parties would be a complex and judgemental area, as none of the regulations provide a definition of connected parties.

Connected parties would include related parties and potentially other parties that may not be within the definition of related parties as per any of the regulations, i.e. the Companies Act, 2013, the accounting standards or the LODR Regulations, However, these parties would be considered connected with the entity or its related parties. As this will be a judgemental area, management and audit committees may consider the checklist prepared by the Foundation for Audit Quality on 'connected parties' while identifying such transactions- please refer Annexure A for the checklist.

Identification and tracing of transactions with such parties maybe essential for ensuring compliance with the requirements relating to indirect transactions.

8 Transactions the purpose and effect of which is to benefit related parties (indirect transactions)

S. No.	Questions	Note	Response
25	<p><i>Base procedures</i></p> <p>Has the entity obtained periodic confirmations from the directors, promoter group, large shareholders⁸ and other related parties that there are no transactions that have been undertaken indirectly with the listed company or its subsidiaries or its related parties?</p>		
26A	<p>Have the board of directors prescribed any additional procedures or set out certain criteria for various classes of transactions, to ensure all transactions the purpose and effect of which is to benefit related parties have been captured?</p>	8.1	
26B	<p>Has the company defined the criteria to validate which transactions undertaken by a related party with the entity through an intermediary which could benefit the listed entity or its subsidiary? Has this been communicated with all related parties?</p>		
27	<p>Have the confirmations from directors, managers, promoters and KMP of the company and holding company, been augmented by additional processes mandated by the board of directors?</p>		
28	<p>Has the company updated its related party policies to include the criteria for identifying 'transactions, the purpose and effect of which is to benefit a related party'?</p>	8.2	
29	<p>Has the company obtained confirmations from the counterparty with whom a routine/non-routine transaction is entered into, to the extent that the transaction has not been undertaken in a manner that the purpose and effect of which is to benefit a related party?</p>	8.3	

⁸ Large shareholders include investors with a holding exceeding 10 per cent (these are specifically identified by SEBI as related parties)

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S. No.	Questions	Note	Response
30	<p><i>Management diligence procedures</i></p> <p>For non-routine transactions or those that aren't undertaken at market rates, has the company reviewed all transactions with third parties to determine if there are any side agreements, any built-in incentives, commissions, contra transactions, etc. which would in any manner benefit the related parties, to determine if these transactions are for the benefit of related parties?</p>		
31	<p>Have the audit committee members ensured the following:</p> <ul style="list-style-type: none"> - The company has identified the connected parties - The company has identified which transactions have been entered into with any of the connected parties - Studied the details of the transaction to determine whether the transactions have benefited the company's related parties - If the transactions have benefited the related parties, have appropriate approvals under the Companies Act, 2013 and the LODR Regulations been obtained? 	8.4	
32	<p><i>Monitoring procedures</i></p> <p>Has an external or internal agency validated on a sample basis that:</p> <ul style="list-style-type: none"> - Confirmations have been obtained from third parties with whom routine and non-routine transactions are entered into? - Confirmations have been obtained from the promoter group, large shareholders and other related parties that there are no transactions that have been undertaken indirectly with the listed company or its subsidiaries? - Have the board of directors prescribed any additional procedures or a basis to identify transactions by setting out certain criteria for various classes of transactions, to ensure all transactions the purpose and effect of which is to benefit related parties have been captured? - Reviewed whether the additional procedures as prescribed by the board of directors for identifying transactions the purpose and effect of which is to benefit related parties have been adopted by the company? 		

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S. No.	Questions	Note	Response
33	Has an external or internal agency performed an independent validation that transactions entered into with third parties are not for the benefit of a related party?		
34	Have the results of such a validation been considered by the company?		

Note 8.1

The board of directors should develop certain guidelines or attributes on the basis of which management identifies and analyses transactions in detail. In addition to this, the board of directors should also prescribe materiality thresholds for certain transactions, such as one-off transactions, non-routine transactions, and similar transactions which may not be in the normal course of business, which may require specific attention of the audit committee.

Given below are certain categories of transactions that may be considered by the board of directors for setting policies/guidelines, with a focus on when entities are essentially acting as intermediaries, and the purpose and effect of the transaction is to ultimately benefit a related party:

- Sale of goods or materials or assets (movable or immovable)
- Purchase or supply of goods or materials or assets (movable or immovable)
- Leasing of property of any kind
- Availing or rendering of services
- Appointment of any agent for:
 - Purchase of goods, services, materials or property
 - Sale of goods, services, materials or property
- Appointment of the relative, employee or officer of a related party to any place of profit
- Underwriting the subscription of any securities or derivatives
- Investments made in a third party, with the intent of passing funds to a related party
- Guarantees or security provided to a third party, with the intent of benefiting related parties
- Loans or advances in the nature of loans granted to a third party, with the intent of benefiting the related parties
- Where funds have been advanced, loaned, or invested (either from borrowed funds or share premium or any other sources or kind of funds) to any person, including foreign entities, with the understanding that the intermediary would directly or indirectly lend or invest in other persons or entities identified in any manner (ultimate beneficiary) or provide any guarantee, security or the like on behalf of the ultimate beneficiary
- Where funds have been received by an entity from any person or entity (including foreign

entities) (funding parties) with the understanding that the company should directly or indirectly invest, lend in other persons or entities identified by or on behalf of the funding parties (ultimate beneficiary) or provide any guarantee or security or the like on behalf of the ultimate beneficiary

- Funds taken to meet obligations of subsidiaries, associates or joint ventures
- Any other transactions involving transfer of goods, services, or resources between parties, irrespective of whether a price is charged or not.

Note 8.2

The revised RPT policies of a company should be placed on the website of the company.

Note 8.3

Standard wordings of the confirmation are given hereunder. Also, a link to the list of related parties of the company may be provided by the company to the counterparty.

Illustrative format of confirmation on routine transactions

For routine purchases and sales, a legal clause may be included in the purchase or sales order issued by a company (say Z Ltd.), stating that the transactions entered into by the third parties with Z Ltd. are not undertaken for the purpose of or have the effect of benefiting the related parties of Z Ltd. An example of a clause that may be included in the purchase or sales order is given hereunder:

Illustrative clause included in a purchase order

By accepting this purchase order, I/we hereby confirm that this transaction has not been undertaken for the purpose of or have the effect of benefiting any related party of the purchasing company or related parties of its subsidiaries. For the list of related parties, please refer [the latest RPT filing of the purchasing company with the stock exchanges or please click here]. We further confirm that any change in the declaration provided above shall be notified to the company immediately.

Illustrative format of confirmation on non-routine transactions

For one-off transactions, for example, where there is sale of an asset, a specific confirmation can be obtained from the third party as part of the sale contract.

Illustrative text of the confirmation obtained

I/we hereby confirm that I/we have purchased the asset from Z Ltd. (i.e. the listed company) for my/our own use, and that I/we am/are not acting as an intermediary, and the transaction is not being undertaken for the purpose or does not have the effect of ultimately benefiting any other party, being a related party of Z Ltd. or its subsidiaries as on [insert date of contract]. Accordingly, the asset or its related benefits are not intended to be transferred onward ultimately to a related party of Z Ltd. or a related party of its subsidiaries.

Note 8.4

Members of the audit committee may use the connected parties checklist prepared by the Foundation for Audit Quality which includes a comprehensive list of individuals and entities that may be considered as 'connected parties'?

9 Management diligence procedures on identifying indirect transactions

S. No.	Questions	Note	Response
35	<i>Base procedures</i> Routine transactions Has the entity performed background verification and due diligence on counterparties as part of the onboarding process (customer onboarding, vendor onboarding, etc.), covering the following procedures:		
	- Is this a connected party (see connected party checklist)? If so, is there any evidence of this being a related party transaction (indirect transaction)?		
	- Confirm there are no side agreements or arrangements for back-to-back transactions with the company's related parties		
	- For any connected parties and a selected sample of other parties, has the entity performed a more detailed assessment covering the following:		
	a. Does this party have commercial substance (i.e. it is not a shell company, etc.)		
	b. Does the party have other reasonable sized counterparties (i.e. customers, suppliers, service providers, providers of capital, etc.) or is the entity and the entity's group companies its dominant counterparties	9.1	
	c. If the party under question has other counterparties, are the transactions with such counterparties substantive or in the nature of 'high seas trading' or pass-through transactions		
	d. Does the party appear to be predominantly a 'captive unit' of the entity		
	e. Does this transaction appear to be a routine transaction in the context of both the Company's and the counterparty's business?	9.2	
	36	Non-routine transactions Has the entity performed background verification and due diligence on counterparties as part of onboarding process (customer onboarding, vendor onboarding, etc.), covering the following procedures:	

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S. No.	Questions	Note	Response
	- Is this a connected party (see connected party checklist)? If so, is there any evidence of this being a related party transaction (indirect transaction)?		
	- Does this counterparty have commercial substance (i.e. it is not a shell company, etc.)		
	- Does the party have other reasonable sized counterparties (i.e. customers, suppliers, service providers, providers of capital, etc.) or is the entity and the entity's group companies its dominant counterparties	9.1	
	- If the party under question has other counterparties, are the transactions with such counterparties substantive or in the nature of 'high seas trading' or pass-through transactions		
	- Does the party appear to be predominantly a 'captive unit' of the entity		
	- Does this transaction appear to be a routine transaction in the context of both the Company's and the counter party's business?	9.2	
	- Confirm there are no side agreements or arrangements for back-to-back transactions with the company's related parties		
37	<i>Unusual patterns in transactions</i> Has the entity identified any unusual patterns in transactions with related or other parties, for instance:		
	- Has the entity identified related parties where there is:		
	a. A drop in the level of transactions		
	b. Stagnation in the level of transactions		
	c. Increase in the level of transactions which is not in line with the growth in business/expectations		
	- Identified any corresponding increase in transactions with any other parties/new parties		
	- For such other parties/new parties identified, has the entity performed the following procedures:		

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S. No.	Questions	Note	Response
	a. Is this a connected party (see connected party checklist)		
	b. Does this counterparty have commercial substance (i.e. it is not a shell company, etc.)		
	c. Does the party have other reasonable sized counterparties (i.e. customers, suppliers, service providers, providers of capital, etc.) or is the entity and the entity's group companies its dominant counterparties	9.1	
	d. If the party under question has other counterparties, are the transactions with such counterparties substantive or in the nature of 'high seas trading' or pass-through transactions		
	e. Does the party appear to be predominantly a 'captive unit' of the entity		
	f. Does this transaction appear to be a routine transaction in the context of both the Company's and the counter party's business	9.2	
	g. Confirm there are no side agreements or arrangements for back to back transactions with the company's related parties?		
38	Transactions exceeding a certain threshold Has the entity identified parties (other than related parties) with whom transactions exceed a certain threshold (e.g., exceeding 20% of SEBI prescribed threshold), and determined if transactions with that party are an indirect transaction by performing the following procedures:		
	- Is this a connected party (see connected party checklist)? If so, is there any evidence of this being a related party transaction (indirect transaction)?		
	- Does this counterparty have commercial substance (i.e. it is not a shell company etc.)		
	- Does the party have other reasonable sized counterparties (i.e. customers, suppliers, service providers, providers of capital, etc.) or is the entity and the entity's group companies its dominant counterparties	9.1	
	- If the party under question has other counterparties, are the transactions with such counterparties substantive or in the nature of 'high seas trading' or pass-through transactions		
	- Does the party appear to be predominantly a 'captive unit' of the entity		

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S. No.	Questions	Note	Response
	- Does this transaction appear to be a routine transaction in the context of both the Company's and the counter party's business	9.2	
	- Confirm there are no side agreements or arrangements for back-to-back transactions with the company's related parties?		

Note 9.1

Where the entity and its group are the dominant counterparties of the party under question, then its an indicator of high concentration of business and hence dependence on such dominant counterparties. This may require further evaluation as a related party/related party transaction.

Note 9.2

This can be determined by:

- Examining whether the transaction is relevant to the line of business and nature of operations
- Whether the transaction size is commensurate with the counterparty's level of operations (i.e. revenues, net worth, etc)

10 Identifying related parties while entering into schemes of arrangement/strategic transactions including mergers and acquisitions

S. No.	Questions	Note	Response
39	<p><i>Base procedures</i></p> <p>While entering into schemes of arrangement (such as mergers, acquisitions, strategic investments, strategic partnerships, etc.) have the investor and investee companies exchanged a list of their related parties and identified RPTs?</p>		
	<p>Has the list of related parties received as per the above question been updated in the 'related parties' (digital) database maintained by the company?</p>		
40	<p><i>Management diligence procedures</i></p> <p>Have companies performed additional procedures to validate the information obtained, for example, the company could identify the directorships of the promoters of the investor or investee company, as the case may be, evaluate their investments, by accessing certain websites, such as MCA website.</p>		
41	<p><i>Monitoring procedures</i></p> <ul style="list-style-type: none"> - Has the information submitted by the investor or investee company, as the case may be, been subject to validation on a sample basis by internal or external agencies? 		
	<ul style="list-style-type: none"> - Have the results of the validation been considered by the company? 		

11 RPT approvals for transactions governed by regulations

S. No.	Questions	Note	Response
42	<i>Base procedures</i>		
	Have companies drawn up a plan at the beginning of the year for undertaking certain transactions governed by specific provisions of the Companies Act, 2013 or LODR Regulations during the year?	11.1	
	Have the underlying processes to seek approvals been planned in a manner that approvals under all regulations have been obtained in a timely and a systematic basis?	11.2	
	Where transactions are in the ordinary course of business and are repetitive in nature, has the company obtained omnibus approvals of both, the audit committee and shareholders?		
	Have reimbursements been considered as a related party transaction and undergone an approval process as prescribed by the LODR regulations?		
43	<p><i>Management diligence procedures</i></p> <p>Has an appropriate department or committee, as appointed by the company, reviewed whether the annual budgets drawn at the beginning of each year include a separate plan for the following:</p> <ul style="list-style-type: none"> - RPTs planned to be entered into during the year - Timing of the RPTs - Are other approvals required on the same RPT - Have meetings of relevant committees (such as the audit committees, board of directors and other committees of the board of directors) called for on a timely basis, and have approvals been obtained in an effective manner? 		
44	<p><i>Monitoring procedures</i></p> <ul style="list-style-type: none"> - Has an internal or external agency reviewed on a test check basis whether all RPTs, including the ones governed under the specific provisions of the Companies Act, 2013 and LODR Regulations have obtained appropriate approvals? 		
	<ul style="list-style-type: none"> - Have the results of the validation been considered by the company to ratify transactions, where a prior approval of 		

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	the required committees/shareholders (if applicable) was not obtained?	
	– Where prior approvals for certain transactions were not obtained, have appropriate communications been made to regulators?	

Note 11.1

Transactions such as granting of Employee Stock Option Plans (ESOP), Stock Appreciation Rights (SARs), Employee Stock Purchase Schemes (ESPS), remuneration to Key Managerial Personnel (KMP), CSR contributions, etc. are governed by specific provisions of the Companies Act, 2013 or specific SEBI regulations.

Note 11.2

For example, as per the Companies Act, 2013, ESOPs, SARs, etc. require an approval of the board of directors and an approval of the shareholders by way of a special resolution. Companies should plan to get a dual-purpose approval on such transactions – i.e. approval under the relevant regulations governed by the Companies Act, 2013 and approval for RPT from the audit committee and shareholders (where applicable) under the SEBI regulations.

12 Approval of related party transactions of the listed holding company and of the subsidiaries

S. No.	Questions	Note	Response
45	<p><i>Base procedures</i></p> <ul style="list-style-type: none"> - Has the listed entity consolidated the RPTs planned to be entered into by its group of companies during the financial year, including RPTs to which the listed entity will not be a party to? - Has the company identified which of the RPTs that are planned at the beginning of the year would require a prior approval of the audit committee and shareholders of the listed parent company? 	12.1	
46	For meeting the above requirement, have the board of directors/audit committees of the subsidiary companies planned their board meetings/audit committee meetings in advance, so that the timelines for holding the meetings are in accordance with the timelines of the meetings of the holding company		
47	Do the secretarial departments of the subsidiary companies closely co-ordinate with the secretarial department of the listed company to ensure that all the agenda items of the subsidiary companies which are to be placed in the audit committee meeting of the listed company, are shared on a timely basis (for example, at least a month in advance).	12.2	
48	Have unlisted subsidiaries first taken the approval of their board of directors, and then submitted their related party transactions for the approval of the audit committee of the listed holding company as per the LODR Regulations?	12.3	
49	For those transactions of the subsidiaries which would be entered into in the normal course of business on an ongoing basis (such as sales, purchases, services, etc.), have omnibus approvals been obtained from the audit committee of the listed holding company?		

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S. No.	Questions	Note	Response
50	<p>At the beginning of each year, has the entity estimated the volume of related party transactions (both routine and non-routine transactions) expected to be entered into by the following during the year?</p> <ul style="list-style-type: none"> - The listed company with its related parties or the related parties of its subsidiaries - The unlisted subsidiaries with the listed company - The unlisted subsidiaries with its related parties or the related parties of the listed company 	12.4	
51	Where the volume of transactions is expected to cross the threshold prescribed by the LODR Regulations (i.e. 10 per cent of the consolidated annual turnover of the listed entity or INR1,000 crore, whichever is lower), has a prior approval been obtained from shareholders in advance?		
52	Where transactions (either of the listed company or of the unlisted subsidiaries) with their related parties are unplanned, have approvals from the audit committee of the listed holding company been obtained by passing a circular resolution and from shareholders by e-voting or through postal ballot?	12.5	
53	<p><i>Management diligence procedures</i></p> <p>Has the company set controls which will enable it to assess whether all planned related party transactions have been undertaken? Where they have been undertaken, is there a post facto review process which checks whether all approvals have been obtained?</p>		
54	<p><i>Monitoring controls</i></p> <p>Has an external or internal agency validated:</p> <ul style="list-style-type: none"> - RPT plans made at the beginning of each year by the group of companies? - Approval process adopted by the subsidiaries and the company for transactions entered into by the subsidiaries with its related parties? - On a sample basis that all RPTs (of the company and its subsidiaries) have obtained the requisite approvals as prescribed by the LODR Regulations? 		
55	Have the external or internal agency provided certain recommendations for improving the process for obtaining approvals for RPTs?		

S. No.	Questions	Note	Response
56	Have the results of such a validation or the recommendations of the external or internal agency been considered by the company?		

Note 12.1

Each company is aware about its business - i.e. its requirements, which includes an estimation of transactions it would need to enter in the normal course of business with its related parties. For example, the materials it would need to source from related parties or services that would need to be availed from related parties, etc. Once these transactions have been identified at the beginning of the year, omnibus approvals may be obtained from the audit committee for such transactions.

Note 12.2

This will ensure that all compliances before conducting a meeting (such as intimations to the stock exchanges, to the independent directors, etc.) as prescribed by the Companies Act, 2013 and SEBI regulations can be obtained.

Note 12.3

Many entities believe that by approving the RPTs of the subsidiaries, the listed entity would be participating in the operating decisions (and thus interfering in the corporate governance process) of the subsidiaries or their related parties. To avoid this, entities may first take the approvals of their board of directors and thereafter take the approval of the audit committee of the listed parent company.

Note 12.4

This activity is done at the beginning of each year, so that companies can obtain approvals for all transactions that were planned for in advance.

Note 12.5

During the year, generally there would be very few unplanned transactions that may be entered into, since most transactions would be budgeted for at the beginning of each year. For such unplanned transactions, companies may either consider aligning the timing of the transaction with that of the audit committee meeting and with the AGM. However, where such timing is not practicable from a business perspective, then companies may conduct a virtual audit committee meeting and an Extraordinary General Meetings (EGMs) (where shareholders' approval is applicable) through video conferencing or through other audio-visual means and enable voting on the proposed resolution using e-voting or seek approval through postal ballot.

13 Related parties of subsidiaries, including foreign subsidiaries

S. No.	Questions	Note	Response
57	<p><i>Base requirements</i></p> <p>Do all companies which are a part of the listed holding company's group, including foreign subsidiaries, comply with the RPT rules as prescribed in the LODR regulations?</p>	13.1	
58	<p><i>Management diligence procedures</i></p> <p>Is there an appropriate communication by senior members of the parent company with their subsidiaries, including foreign subsidiaries, regarding details of the LODR requirements, in terms of RPTs?</p>		
59	<p><i>Monitoring procedures</i></p> <p>Has an external or internal agency validated the compliance of RPT rules by foreign subsidiaries?</p>		
60	<p>Have the results of such a validation or the recommendations of the external or internal agency been considered by the company?</p>		

Note 13.1

Where it is challenging (due to legal constraints or otherwise) for the foreign subsidiary to comply, the company could consider alternate approaches. For example, specific confirmations may be obtained from the KMPs of the foreign subsidiaries to provide a confirmation on a periodical basis (say half-yearly or annual basis), confirming that none of his/her relatives or entities in which he/she is interested has directly or indirectly entered into any transactions with the listed holding company or any of its subsidiaries.

C. Approval mechanism for RPTs

Both the Companies Act, 2013 and the LODR Regulations prescribe an approval mechanism for related party transactions. While both the regulations stipulate approval procedures that aim to enhance governance in this area, however, in certain procedures LODR Regulations in comparison to the Companies Act, 2013 could be stringent.

We believe that where two regulations govern the same procedure/requirement, the stringent of the two should be complied with.

In figure 3 below, we have compared the approval procedures and requirements under both, the Companies Act, 2013 and the LODR Regulations.

Figure 3: RPT approval mechanism under the Companies Act, 2013 and LODR Regulations

Approval procedure	The Companies Act, 2013	LODR Regulations
Step 1: Audit Committee (AC) approval - Transactions requiring prior approval of the AC - Which AC members can vote - Can AC provide omnibus approval	All RPTs and <i>subsequent material modifications</i> All members of the AC Yes, subject to certain conditions	All RPTs and <i>subsequent material modifications</i> Certain RPTs where subsidiary of a listed entity is a party but listed entity is not a party Members of the AC that are independent directors Yes, subject to certain conditions
Step 2: Board of directors (BoD) approval	Prior approval of BoD required for RPT which are not in the ordinary course of business or are not at an arm's length basis	No requirement for BoD approval
Step 3: Shareholder approval - Transactions requiring prior approval of the shareholders - What is a material RPT	All material RPTs which are not in the ordinary course of business or are not at an arm's length basis Contracts or arrangements with related parties that exceed the threshold prescribed in Rule 15 of the Companies (Meetings of Board and its Powers) Rules, 2014 No related party should vote to approve*	All material RPTs and <i>subsequent material modifications</i> Material RPTs where subsidiary of a listed entity is a party but listed entity is not a party Transactions entered into individually or taken together with previous transactions during a financial year, exceeds INR1,000 crore or 10 per cent of consolidated turnover No related party should vote to approve
Exemptions from audit committee, BoD and shareholder approval	Transactions between holding company and wholly-owned subsidiary are exempt from BoD and shareholder approval. No exemption from AC approval for transactions under Section 188 of the Companies Act, 2013	Transactions between: - Holding company and wholly-owned subsidiary - Two companies which are both wholly-owned subsidiaries of the same company - Two government companies

* Companies in which 90 per cent or more of the members (in number) are relatives of the promoters or are related parties should allow related parties to vote on RPT approvals

Both, the Companies Act, 2013 and the LODR Regulations require audit committees to provide a prior approval for RPTs, however, the subsequent approvals (in step 2 and 3 are different). The Companies Act, 2013 requires a prior approval of the BoD and of the shareholders (where transactions exceed a prescribed threshold⁹) where transactions are not in the ordinary course of business or are not at arm's length.

The LODR Regulations, don't need a BoD's approval, however, they would require a prior shareholders' approval for material transactions.

- **Audit committee's approval mechanism**

The Companies Act, 2013

As per the Companies Act, 2013, all companies need to obtain a prior audit committee approval for proposed RPTs and subsequent material modifications. All members of the AC can approve RPTs.

The AC may also provide an omnibus approval. Such an omnibus approval would be valid for one financial year¹⁰.

LODR Regulations

The LODR Regulations require prior approval of an AC of a listed entity in the following circumstances:

- All RPTs and **subsequent material modifications**. The audit committee needs to define what would constitute material modifications and disclose it as part of the policy on materiality of RPTs and on dealing with RPTs (effective from 1 April 2022)
- An RPT to which the subsidiary of a listed entity is a party, but the listed entity is not a party if the value of such a transaction whether entered into individually or taken together with previous transactions during a financial year exceeds threshold of 10 per cent of the annual standalone turnover in accordance with the last audited Financial statements of the subsidiary (effective from 1 April 2023).

Additionally, an audit committee's approval would not be required if a listed subsidiary is subject to compliance with Regulation 23¹¹ and Regulation 15(2)¹² of the LODR Regulations. Furthermore, the amendments clarify that for RPTs of unlisted subsidiaries of a listed subsidiary, prior approval of the audit committee of the listed subsidiary would suffice.

The SEBI, vide its circular dated 22 November 2021 has also stipulated the information that should be placed before the audit committee for approval of a proposed RPT. This circular is applicable from 1 April 2022.

As per Regulation 23 of the LODR Regulations, only those members of the audit committee who are independent directors can approve RPT.

The AC may also provide an omnibus approval. Such an omnibus approval would be valid for one financial year¹³.

⁹ This threshold has been prescribed by Rule 15 of the [Companies \(Meetings of Board and its Powers\) Rules, 2014](#)

¹⁰ Rule 6A of the [Companies \(Meetings of Board and its Powers\) Rules, 2014](#) prescribes the conditions subject to which omnibus approval may be granted by the audit committee

¹¹ Regulations pertaining to related parties

¹² Regulations pertaining to corporate governance

¹³ Regulation 23 of the LODR Regulations lays down the criteria for providing omnibus approvals. The criteria for omnibus approvals in the LODR Regulations are similar to those prescribed in the Companies Act, 2013.

- **Board of Directors' approval**

In addition to the AC approvals, the Companies Act, 2013 requires companies to obtain a prior BoD approval for transactions that are not in the normal course of business or which are not at an arm's length basis.

The LODR Regulations however, do not have a similar approval requirement.

- **Shareholders' approval mechanism and threshold of material transactions**

Under the Companies Act, 2013, a prior approval of the shareholders would be required only when the transactions (that exceed a prescribed threshold) are not in the ordinary course of business or are not at an arm's length.

The LODR Regulations on the other hand requires listed entities to obtain a prior approval of its shareholders for all material RPTs and subsequent material modifications of such transactions.

However, prior approval of the shareholders would not be required if the transaction is entered into by a listed subsidiary of the listed entity, and the subsidiary is subject to compliance with Regulation 23 and Regulation 15(2) of the LODR Regulations. Furthermore, SEBI has clarified that for RPTs of unlisted subsidiaries of a listed subsidiary, prior approval of the shareholders of the listed subsidiary would suffice.

Revision in materiality threshold that mandatorily requires shareholders' approval

As per the LODR Regulations, an RPT would be considered material, if the transaction entered into individually or taken together with previous transactions during a financial year, exceeds INR1,000 crore or 10 per cent of the consolidated annual turnover of the listed entity as per last audited financial statements of the listed entity, whichever is lower (effective from 1 April 2022).

The SEBI, vide its circular dated 22 November 2021 has also stipulated the information to be included in the notice being sent to the shareholders, seeking approval for any proposed RPT, in addition to the existing requirements under the Companies Act, 2013. This circular is applicable from 1 April 2022.

- **Clarification on shareholders’ approval for transactions that have received omnibus approval of the audit committee**

As per Regulation 23(3) of the LODR Regulations, an audit committee of a listed entity may grant omnibus approval for an RPT proposed to be entered into by a listed entity, subject to certain prescribed conditions.

Further, as per Regulation 23(4) of the LODR Regulations, all material RPTs and subsequent material modifications as defined by the audit committee, are required to obtain a prior approval of shareholders through a resolution.

Clarification issued by SEBI

The SEBI reiterated that an RPT for which an audit committee has granted omnibus approval should continue to be placed before the shareholders if it is material in terms of Regulation 23 of the LODR Regulations.

Shareholders’ omnibus approval of material RPTs, approved in an AGM would be valid upto the date of the next AGM for a period not exceeding 15 months. However, where omnibus approvals for material RPTs was obtained from shareholders in general meetings other than AGMs, the validity of such omnibus approvals would not exceed one year.

Prior approval of audit committee

14 Approval of transactions between two subsidiaries

S. No.	Questions	Note	Response
61	<i>Base procedures</i> Has the company and its group of companies prepared a budget at the beginning of the year at a standalone and/or consolidated level? Does the budgeting process include planned RPTs of the subsidiaries, which includes transactions between two subsidiaries (a transaction in which the listed holding company does not form a part)?		
62	Have the unlisted subsidiaries linked the repository of their RPTs with their IT systems in a manner that will generate rule-based triggers, which can highlight all RPTs that it proposes to enter into during a period which exceed 10 per cent of the annual standalone turnover of the subsidiary?	14.1	

S. No.	Questions	Note	Response
63	<p><i>Monitoring procedure</i></p> <p>Has the company defined procedures to ensure there is post facta verification of transactions of subsidiaries by different defined teams (such as legal/compliances/finance teams), that ensure all material RPTs (which are within the prescribed threshold defined by the LODR regulations) of the subsidiaries have obtained relevant approvals of the listed holding companies?</p>	14.1	
64	<p><i>Base procedures</i></p> <p>Have the subsidiaries of the listed holding company first obtained the approvals of their board of directors before submitting those transactions to the audit committees of the listed holding companies for their approval?</p>	14.2	
65	<p>Have the unlisted subsidiaries of the listed holding company planned their board of director/audit committee meetings (where they have an audit committee) in close coordination with the listed holding company at the beginning of the year?</p>		
66	<p>Have the transactions that merit the audit committee's approval been placed before the audit committee in the following manner:</p> <p>- Tranche 1: Transactions that are material to the group, broken into routine and non-routine transactions</p>	14.3	
67	<p>- Tranche 2: Transactions that are not material to the group and include transactions pertaining to both material and immaterial subsidiaries. These transactions could be further bifurcated into:</p> <ul style="list-style-type: none"> • Routine transactions¹⁴ • Funding transactions • Sale of assets • Other non-routine transactions • Other immaterial transactions, whether entered into with material or not-material subsidiaries 		

¹⁴ For example, if the core business of the company is trading in chemicals, transactions involving the sale or purchase of chemicals with a counterparty would tantamount to routine transactions.

S. No.	Questions	Note	Response
68	For transactions that have not been planned in advance, have companies made use of circular resolutions and other means of getting approvals where ACMs cannot be called for on an immediate basis? Have approvals from shareholders been obtained through e-voting or postal ballot system?		
69	<i>Monitoring procedure</i> Does the accounting manual for the group and for the individual subsidiaries have a separate section on RPTs which brings out the fact that approval of RPTs should be obtained from the listed parent entity as per the Indian regulatory norms?	14.4	
70	Has an external or internal agency validated: - RPT plans made at the beginning of each year by the group of companies?		
71	- Approval process adopted by the subsidiaries and the company for transactions entered into by the subsidiaries with its related parties?		
72	- On a test check basis that all RPTs (of the company and its subsidiaries) have obtained the requisite approvals as prescribed by the LODR Regulations?		
73	Have the external or internal agency provided certain recommendations for improving the process for obtaining approvals for RPTs?		
74	Have the results of such a validation or the recommendations of the external or internal agency been considered by the company?		

Note 14.1

Where prior approval for such transactions are not already obtained, they should be forwarded to the listed holding company for ratification

Note 14.2

Many entities believe that by approving the RPTs of the subsidiaries, the listed entity would be participating in the operating decisions (and thus interfering in the corporate governance process) of the subsidiaries or their related parties. To avoid this, entities may first take the approvals of their board of directors and thereafter take the approval of the audit committee of the listed parent company.

Note 14.3

Transactions that are material to the group would include all transactions that exceed the threshold as decided by the board of directors - for example, five per cent of the consolidated turnover (material to the group), etc.

Note 14.4

Companies should ensure there is harmonious application of all laws and regulations (both domestic and international) in the context of related party transactions.

15 Material modification of a contract with related parties

S. No.	Questions	Note	Response
75	<i>Base procedures</i> Has the audit committee defined what would constitute a 'material modification' of contracts with related parties?	15.1	
76	- Has the definition of material modification of contracts been inculcated in the RPT policies of the company? Have the updated RPT policies been placed on the website of the company?		
	- Has the company established a process to ensure that the policy on material modification is reviewed and updated (where necessary) by the board of directors on a periodic basis?	15.2	
77	Have the definition of material modification been based on both a quantitative and qualitative threshold?	15.3	
78	While defining 'material modification', have the board of directors also provided a rationale for such a definition (i.e. why a particular quantitative and qualitative threshold has been defined)?		
79	<i>Management diligence procedures</i> Has the company put in place appropriate controls, such that a particular defined department (say the legal/secretarial/ finance department) monitors changes in contracts, and evaluates the following: <ul style="list-style-type: none"> - Whether the change is a material modification of an existing contract - Whether appropriate approvals of the audit committee and/ or the shareholders have been obtained for a material modification of a contract? 		
80	Have the quantitative and qualitative thresholds that define a 'material modification' of a contract been periodically re-evaluated by the audit committee in order to refine and calibrate them to ensure that they stay relevant by the companies?		

S. No.	Questions	Note	Response
81	<p><i>Monitoring procedures</i></p> <p>Has an external or internal agency validated on a test check basis:</p> <ul style="list-style-type: none"> - Whether modifications of existing contracts are 'material' and would get covered by the RPT regulations in the LODR Regulations? 		
82	<ul style="list-style-type: none"> - Whether appropriate approvals of the audit committee and/ or shareholders is taken for material modification of contracts? 		
83	<p>Have the results of such a validation of the external or internal agency been considered by the company?</p>		

Note 15.1

It is to be noted that there may be contracts for which an audit committee's and/or shareholders' approval (omnibus or specific approval) has been obtained, and the approval is linked to a well-established market benchmark. Fluctuations in the said market benchmark would not be assessed for a 'material modification' of the contract.

Note 15.2

As per Regulation 23(1) of the LODR Regulations, the policy on materiality of related party transactions (materiality policy) should be established by the board of directors, and should be reviewed by them at least once every three years and updated accordingly. The definition of 'material modification' of a contract needs to be established by the audit committee, and will be a part of the materiality policy of the company. Hence, we believe, even the policy on material modification of a contract should be reviewed by the company on a periodic basis, and at least once every three years.

Note 15.3

For determining the quantitative threshold, it could be evaluated whether the value of the contract has changed by a specific percentage (say, for example 10 per cent). For determining the qualitative threshold, it could be evaluated whether there have been any changes in the terms of the contract, for example, the transaction pricing formula, the payment terms, etc. In any case, the quantitative threshold should be reasonable and capped by an absolute amount.

Prior approval of the board of directors

16 Approval of the board of directors

S. No.	Questions	Note	Response
84	<i>Base procedures</i> Has the company identified the transactions which require a prior approval of the board of directors?		
85	Does the agenda to the board meeting include the information required to be disclosed under the Companies Act, 2013?	16.1	
86	<i>Management diligence procedures</i> Where the management comes to the conclusion that a prior approval of the board of directors is not required for entering into the RPT, does the board have appropriate documentation that the transaction is at an arm's length?		
87	<i>Monitoring procedures</i> Has an external or internal agency validated on a test check basis: - Whether appropriate approvals of the board of directors have been obtained?		
88	- Where the company has concluded that approval of the board of directors is not required, is there adequate documentation which is supporting that transactions are at an arm's length?		
89	Have the results of such a validation of the external or internal agency been considered by the company?		

Note 16.1

Section 4 of this checklist, which covers disclosures, includes the disclosures required to be made by the company in the agenda to the board of directors.

Transactions that require a prior approval of the board of directors should not be passed by way of a circular resolution.

Prior approval of shareholders¹⁵

17 Determining materiality threshold for obtaining shareholders' approval for long-term contracts

S. No.	Checklist	Note	Reply
90	<p><i>Base procedures</i></p> <ul style="list-style-type: none"> - Have companies considered the total contract value of an RPT, of a binding long-term contract (which may, for example, span for 20-25 years) when determining the materiality threshold for obtaining shareholders' approvals? - Have companies obtained a prior approval of shareholders where estimated value of the transaction expected to be undertaken during the reporting period meets the approval threshold? 		
91	<p><i>Management diligence procedures</i></p> <p>For a non-binding contract, (i.e. where an entity may exit from a contract during the contract term without any penalties or other consequences), or when an entity is not bound to execute the contract, have companies obtained an opinion from their legal team or from a professional on the value of the transaction for which a shareholders' approval is required to be obtained (for example, approval is required for related party transactions pertaining to that contract entered into during the financial year)?</p>		
92	<p><i>Monitoring procedures</i></p> <p>Has an external or internal agency validated on a test check basis:</p> <ul style="list-style-type: none"> - The material terms of a long-term contract entered into with related parties? 		
93	<ul style="list-style-type: none"> - Based on the terms of the contract, whether the shareholders' approval would be required to be obtained 		

¹⁵ Shareholders are required to approve material RPTs of the listed entity and its subsidiaries. Accordingly, it is essential that they understand the purpose of the transactions and how it would benefit the company from a long-term and short-term perspective. For this purpose, adequate and timely disclosures should be made available by the company to the shareholders. Also, the procedures and practices relating to establishing the arm's length pricing, market terms, etc. for the transactions should be communicated.

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	on the entire value of the long-term contract or on another basis (for example, value of transactions entered into during the year, etc.)?		
94	Have the results of such a validation of the external or internal agency been considered by the company?		

18 Enhanced disclosure requirements for shareholders

S. No.	Questions	Note	Response
95	<i>Base procedures</i> Has the company provided a brief summary of the proposed related party transaction, in the notice sent to shareholders for the general meeting?	18.1	
96	<i>Where a transaction requires a valuation report to be submitted to the shareholders, has the entity shared a report which does not have commercially sensitive information?</i>	18.2	
97	Has the information provided to shareholders been drafted in an easy-to-understand manner, where technical points are explained in a layman's language so that the shareholders discern the business rationale for entering into various RPTs?		
98	If technical jargons have been used in the notice to the shareholders, have they been appropriately explained?		
99	Does the information provided to shareholders explain the rationale of the transaction and what impact the RPTs have on the business of a company on a short-term and long-term basis?	18.3	
100	<i>Management diligence procedures</i> Does the legal team (or any other team provided with such responsibility) ensure on a periodic basis that details of all material RPTs (i.e. RPTs exceeding a prescribed threshold) to be entered into either by the listed company or its unlisted subsidiaries have been appropriately communicated to the shareholders of the listed company?		
101	<i>Monitoring procedures</i> Has an external or internal agency validated on a test check basis whether details of RPTs of the listed entity or its subsidiary, which exceed the prescribed materiality threshold have been communicated to the shareholders before they are entered into, and has also validated the appropriate approvals from minutes of meetings?		
102	Have the results of such a validation of the external or internal agency been considered by the company?		

Note 18.1

Many corporates have represented that by providing details of a proposed related party transaction to shareholders (which would then be available in the public domain), a company's strategy and pricing mechanism would get divulged. This could hamper the business. Accordingly, only a brief summary of the transaction can be provided to the shareholders. Detailed pricing mechanism, or other details which would spell out the trade secrets of a company need not be mentioned in the summary.

Further, considering that the pricing mechanism and the proposed price that an entity aims to propose in a bid cannot be divulged, when obtaining a prior approval from shareholders, approval may be obtained for a higher value or for a price range for the proposed contract.

Note 18.2

Where a valuation report is required for a transaction, the company can obtain two versions of the report from the valuer. One version which is suitable for sharing with external stakeholders, and which does not have any commercially sensitive information. The other version which would be a more detailed version and would include backup documents which could be commercially sensitive and company specific. This report would be solely for internal use by the company.

Most times, the companies provide an email ID in the notice to shareholders for obtaining such a valuation report. There could be chances that a company might not be prompt in responding back to requests made by shareholders. Accordingly, such valuation reports should be made accessible on the company's website, possibly with an additional check asking for shareholders' details.

Note 18.3

RPTs are essential for businesses, however, considering their susceptibility to abuse, it is essential that management provides the rationale for entering into a material transaction with its related party. Along with the rationale, there should be sufficient communication and articulation of the long-term value of an RPT to the investors, as certain investors may hold the shares from a short-term perspective. Such communication would enable shareholders (both short-term and long-term investors) to appreciate why a transaction is undertaken.

19 Revalidation of approvals

S. No.	Questions	Note	Response
103	<p><i>Base procedures</i></p> <p>Have the management made a plan for revalidating ongoing transactions (which may or may not be in the normal course of business) for audit committee's and shareholder's approvals?</p>		
104	<p><i>Management diligence procedures</i></p> <p>Has management validated whether:</p> <ul style="list-style-type: none"> - Audit committee's omnibus approvals have been obtained within 12 months from the date of the last omnibus approval for the said transaction 		
105	<ul style="list-style-type: none"> - Shareholders prior approvals on an ongoing transaction are obtained in a general meeting (within 12 months of the last extra ordinary general meeting or within 15 months of the last annual general meeting)? 		
106	<p><i>Monitoring procedures</i></p> <p>Does an internal or an external agency validate that all transactions that require an omnibus approval, have been revalidated for such approvals within the timelines prescribed by SEBI?</p>		

20 Exemptions from obtaining audit committee and shareholder approvals

S. No.	Questions	Note	Response
107	<p><i>Base procedure</i></p> <p>Has the company availed of the exemption from obtaining audit committee's and shareholder's approvals, where the transaction is in between the following:</p> <ul style="list-style-type: none"> - The holding company and its wholly owned subsidiary - Two wholly owned subsidiaries - Two government companies 	20.1	
108	Has the company documented the rationale for not obtaining audit committee's and shareholders' approvals?	20.2	

Note 20.1

As per the Companies Act, 2013, a subsidiary in relation to any other company inter alia means a company in which the holding company exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies.

Based on this definition, we can say that where a company directly or indirectly (through other subsidiaries) holds 100 per cent of the total voting power of another company (subsidiary), the subsidiary would be considered as a wholly owned subsidiary.

Note 20.2

The documentation may be made in the company's legal or secretarial records where it records approval of related party transactions.

D. Enhanced disclosures

Considering the significance of related party transactions, regulators have focused on good corporate governance practices around this area. This inter alia includes enhancing the disclosures and transparency of RPTs. Accordingly, regulators under different regulations have prescribed various disclosure requirements in financial statements, to stock exchanges, to audit committees, shareholders and in the register of contracts or arrangements.

The disclosure requirements around related parties and RPTs is given in figure 3 below.

Figure 3: Key disclosures required by different regulations



(Source: Foundation for Audit Quality's analysis, 2023)

Practical considerations in implementation

21 Disclosure of transactions with KMP

S. No.	Questions	Note	Response
109	<i>Base transactions</i> Have the senior management of the company communicated the requirement of the LODR Regulations to their foreign subsidiaries?	21.1	
110	Have the companies obtained details of remuneration paid by the foreign subsidiaries to their directors/KMP?	21.2	
111	<i>Management diligence procedures</i> Has the management established appropriate controls to ensure that: - All pecuniary transactions with directors, including fees paid to a director, consultancy charges paid to a director		

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S. No.	Questions	Note	Response
	amounts paid in any other capacity has been appropriately disclosed? - Amounts paid to a director by the entity's holding company, its subsidiary, its associate, JV, etc. has been appropriately captured and disclosed as a related party transaction?		
112	<i>Monitoring procedures</i> Has an external or internal agency validated on a sample basis, whether all details of remuneration paid by an Indian and/or foreign subsidiary to its KMP been reported to SEBI in the prescribed format?		
113	Has an external or internal agency validated the completeness of disclosures pertaining to remuneration made to KMP been made by a listed company to SEBI?		

Note 21.1

Considering the sensitivity of the information, companies may disclose the aggregate amount of remuneration paid in a document that is available to the public and submit a separate document to the regulator which provides individual remuneration to each of the KMP and to directors who receive professional or consultancy fees or compensation for an office or place of profit.

Note 21.2

Given the sensitivity of the information, and the privacy laws prevalent overseas, management may consider establishing systems or software across the groups which will keep the information submitted by foreign subsidiaries regarding the remuneration of the KMP restricted to designated persons in the management of the listed company.

22 Other RPT disclosures

S. No.	Questions	Note	Response
114	<i>Base procedures</i> Has the listed company submitted the RPT disclosures to SEBI in the prescribed format?		
115	Considering the high volume of disclosures required under the LODR Regulations, have the disclosures been: - Bifurcated into routine and non-routine transactions, and - A summary of disclosures been provided as a separate table, followed by a table providing detailed disclosures of RPT?	22.1	
116	Has the listed entity prepared disclosures for the financial statements in accordance with Ind AS 24, <i>Related Party Disclosures</i> ? If no, has the entity shared the disclosures submitted to SEBI under the LODR Regulations in the financial statements as well?	22.2	
117	<i>Monitoring procedures</i> Has an external or internal agency validated the completeness of RPT disclosures made to SEBI?		
118	Have the results of the validation been considered by the company?		

Note 22.1

Considering the high volume of transactions that would now get covered under RPT, companies should strive to make disclosures that would summate the information, and enable the shareholders and stock exchanges to understand the information.

One of the suggested ways is given below:

- **Routine transactions:** within the routine transactions, entities should disclose transaction between:
 - a. listed entity and its parent companies
 - b. listed entity and its subsidiaries
 - c. listed entity and its fellow subsidiaries
 - d. listed entity and its associates
 - e. listed entity and its joint ventures
 - f. listed entity and its KMP

- g. listed entity and related parties of its subsidiaries
- h. subsidiaries of the listed entity and parent of the listed entity, etc. And so on.
- **Non-routine transactions:** Disclosures of non-routine transactions should be made in a similar manner as given within the section of 'routine transactions'.

Additionally, there can be two tables in the disclosures:

- **Table 1:** A summary providing the category of transactions with aggregate amounts for each category (for example, transactions between the listed entity and its parent companies, transactions between listed entity and its subsidiaries, etc.) can be provided in a separate table, which is given on top
- **Table 2:** Details under each of the categories of the transactions can be given in table 2.

Note 22.2

It is to be noted that the definition of related parties and RPT as per the SEBI framework includes the definition of related parties and RPTs as defined under Ind AS. Accordingly, the RPT disclosures under Ind AS are a subset of the more comprehensive RPT disclosures required to be made by the SEBI framework. Accordingly, in order to avoid duplication of efforts by preparing disclosures under both, Ind AS and SEBI, companies can enhance the RPT disclosures in the financial statements- i.e. enhanced disclosures as required under the SEBI framework may be provided in the financial statements (instead of the disclosures under Ind AS only).

23 Timelines for RPT disclosures

S. No.	Questions	Note	Response
119	<p><i>Base procedures</i></p> <p>Has the management of the company communicated a timeline to all its subsidiaries for submission of their RPTs that need to be disclosed to SEBI?</p>	23.1	
120	<p><i>Management diligence procedures</i></p> <p>Has the finance department (or any other department allocated with a similar requirement) determined whether the RPT disclosures from all subsidiaries have been received?</p>		
121	<p><i>Monitoring procedures</i></p> <p>Has an external or internal agency validated the following:</p> <ul style="list-style-type: none"> - Whether the company has submitted the RPT disclosures to SEBI on a timely basis - Whether the subsidiaries have submitted the RPT disclosures to the listed holding company on a timely basis (i.e. within the prescribed timelines)? 		
122	<p>Have the results of the validation been considered by the company?</p>		

Note 23.1

In order to meet the timelines for disclosure of RPTs, entities should start collecting the information in advance (say 10-15 days prior to the date of the announcement of results). These timelines should be communicated to the group companies in advance, so that they can get the information ready and thus, comply with these timelines.

24 Transacting with government companies

S. No.	Questions	Note	Response
123	<p><i>Base procedure</i></p> <p>Where the company has entered into transactions with government undertakings or public sector undertakings, then a wide universe of government undertakings would get covered as related parties. In such a case, have omnibus approvals been taken for routine transactions entered by the company with such government undertakings to ensure compliance with RPT regulations?</p>		
124	<p>While obtaining such approvals have appropriate communication to the audit committee and shareholders been made?</p>		

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Annexure A to the Toolkit for assessing compliances pertaining to RPT: Connected parties checklist

Using this checklist

The checklist specifies the relationships that the reporting entity shares with other entities. Reviewers of RPTs are required to list the names of all entities/persons that are covered within this relationship. Once all details are filled, this list may be used, along with other available information as a comprehensive list for reviewing related parties and RPTs.

This list would specifically be useful when assessing whether transactions undertaken by an entity with a third party are for the purpose of benefitting related parties.

Reviewers of RPT should update this list on a regular basis.

Checklist for identifying connected parties

Connected parties includes both related parties as per the definition in the Companies Act, 2013 and in Ind AS, and other parties which share certain common parameters with the reporting entity. Please note, the term 'entity' used in this checklist will refer to the 'reporting entity'.

The comprehensive list of connected parties is given hereunder:

Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A	B	C	D	E
1	Directors of the reporting entity							
2	Relatives ¹ of directors of the reporting entity							
3	Key Managerial Personnel (KMP) of the reporting entity ²							

¹ Section 2(77) of the Companies Act, 2013 defines a relative, with reference to any person, as anyone who is related to another, if—

- (i) they are members of a Hindu Undivided Family;
- (ii) they are husband and wife; or
- (iii) one person is related to the other in such manner as may be prescribed

² Key managerial personnel, in relation to a company, means:

- (i) the Chief Executive Officer or the managing director or the manager;
- (ii) the company secretary;
- (iii) the whole-time director;
- (iv) the Chief Financial Officer;
- (v) such other officer, not more than one level below the Directors who is in whole-time employment, designated as key managerial personnel by the Board; and
- (vi) such other officer as may be prescribed;

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Annexure A to the Toolkit for assessing compliances pertaining to RPT: Connected parties checklist

Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A	B	C	D	E
				<i>See legend below table on last page</i>				
4	Relatives of KMP of the reporting entity							
5	KMP of the holding company							
6	Relatives of KMP(s) of the holding company							
6	Manager of the reporting entity							
7	A person who is or has, in the past (say past five years) been the: <ul style="list-style-type: none"> (a) Managing director (b) Manager (c) Director (d) KMP of the reporting and/or the holding company (e) Promoter(s) of the reporting entity (f) Had control or joint control over the reporting entity (g) Had significant influence over the entity (h) Invested amounts above a prescribed threshold (i) Partner of a partnership firm which is related to the reporting entity (j) Employees in a senior management role, including senior employees who continue to have certain relation with the company post retirement (for example, as a consultant) Of the reporting entity							
8	Promoters of the reporting entity							
9	Individuals that have in the past been the promoters of the reporting entity							

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Annexure A to the Toolkit for assessing compliances pertaining to RPT: Connected parties checklist

Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A	B	C	D	E
				<i>See legend below table on last page</i>				
10	A person who has control or joint control over the reporting entity Additionally: (a) Close family members of such person (b) Entities that are controlled by such a person or by close family members of such a person (c) Entities that are jointly controlled by such a person or by the close family members of such a person (d) Entities over which such a person, or the close family members of such a person has significant influence							
11	A person who has significant influence over the reporting entity Additionally: (a) Close family members of such person (b) Entities that are controlled by such a person or by close family members of such a person (c) Entities that are jointly controlled by such a person or by the close family members of such a person (d) Entities over which such a person, or the close family members of such a person has significant influence							
12	Any person on whose advice, directions or instructions a (a) director of the reporting entity, or (b) manager of the reporting entity is accustomed to act							

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Annexure A to the Toolkit for assessing compliances pertaining to RPT: Connected parties checklist

Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A	B	C	D	E
				<i>See legend below table on last page</i>				
13	Individuals that have invested above a specific threshold in: (a) shares (b) debentures, or (c) any other instrument of the reporting entity (Where investment constitutes a specific percentage of total sources of funds of target entities)							
14	Investors holding more than 10 per cent equity or debt in a company, on an individual or beneficial interest basis, including investors which held such investments in the past five years							
15	Entities within the definition of promoter group							
16	Reporting entity's parent company Additionally: Associates and joint ventures of such companies							
17	Entity which was in the past the reporting entity's parent company							
18	Reporting entity's subsidiary Additionally: Associates and joint ventures of such companies							
19	Entity which was in the past the reporting entity's subsidiary							
20	Reporting entity's fellow subsidiaries Additionally: Associates and joint ventures of such entities							
21	Associates of the reporting entity							
22	Joint ventures of the reporting entity							

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Annexure A to the Toolkit for assessing compliances pertaining to RPT: Connected parties checklist

Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A	B	C	D	E
				<i>See legend below table on last page</i>				
23	Investor for which the reporting entity is an associate Additionally: (a) Parent company (b) Subsidiary (c) Fellow subsidiary (d) Associates and (e) Joint ventures Of such an investor							
24	Investor for which the reporting entity is a joint venture Additionally: (a) Parent company (b) Subsidiary (c) Fellow subsidiary (d) Associates and (e) Joint ventures Of such an investor							
25	Firm in which a director of the reporting entity is a partner Additionally: (a) Other partners of such a firm (b) Investments made by such a firm							
26	Firm in which a relative of a director of the reporting entity is a partner Additionally: (a) Other partners of such a firm (b) Investments made by such a firm							
27	Firm in which a manager of the reporting entity is a partner Additionally: (a) Other partners of such a firm (b) Investments made by such a firm							

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Annexure A to the Toolkit for assessing compliances pertaining to RPT: Connected parties checklist

Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A	B	C	D	E
				<i>See legend below table on last page</i>				
28	Firm in which a relative of the manager of the reporting entity is a partner Additionally: (a) Other partners of such a firm (b) Investments made by such a firm							
29	Private company in which a director of the reporting entity or his/her relative is: (a) a member, or (b) a director Additionally: (a) Other directors and shareholders of such private companies (b) Investments made by such companies							
30	Private company in which a manager of the reporting entity or his/her relative is: (a) a member, or (b) a director Additionally: (a) Other directors and shareholders of such private companies (b) Investments made by such companies							
31	Public company in which a director of the reporting entity or his/her relative: (a) is a director (b) holds along with his/her relative, more than two per cent of its paid-up share capital Additionally: (a) Other directors and shareholders of such public companies (b) Investments made by such companies							

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Annexure A to the Toolkit for assessing compliances pertaining to RPT: Connected parties checklist

Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A	B	C	D	E
				<i>See legend below table on last page</i>				
32	Public company in which a manager of the reporting entity or his/her relative: <ul style="list-style-type: none"> (a) is a director (b) holds along with his/her relative, more than two per cent of its paid-up share capital Additionally: <ul style="list-style-type: none"> (a) Other directors and shareholders of such public companies (b) Investments made by such companies 							
33	Any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of: <ul style="list-style-type: none"> (a) a director of the reporting entity (b) a manager of the reporting entity (c) a KMP of the reporting entity (d) relative of such director or manager Additionally: <ul style="list-style-type: none"> Investments made by such a body corporate 							
34	Any body corporate whose Board of Directors comprises nominees of the reporting entity <ul style="list-style-type: none"> Additionally: <ul style="list-style-type: none"> Investments made by such a body corporate 							
35	Post-employment benefit plan for: <ul style="list-style-type: none"> (a) the reporting entity (b) entity related to the reporting entity 							
36	An entity that provides KMP service to: <ul style="list-style-type: none"> (a) the reporting entity (b) parent of the reporting entity (c) member of the group of such an entity 							

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Annexure A to the Toolkit for assessing compliances pertaining to RPT: Connected parties checklist

Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A	B	C	D	E
				<i>See legend below table on last page</i>				
37	Any body corporate who was previously managed by a managing director or manager, who is currently: (a) the managing director of the reporting entity (b) the manager of the reporting entity							
38	Any body corporate at a general meeting of which not less than 25 per cent of the total voting power may be exercised or controlled by any director of the reporting entity, or by two or more such directors, together							
39	Entities previously owned by a company's promoters (a) where company's promoters are directors, partners or have significant influence (b) where relatives of the company's promoters are directors, partners or have significant influence							
40	Entities that have invested above a specific threshold in: (a) shares (b) debentures, or (c) any other instrument (Where investment constitutes a specific percentage of total sources of funds of target entities)							
41	Entities in which the past or current director or partner were or are a: (a) director, or (b) partner							

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Annexure A to the Toolkit for assessing compliances pertaining to RPT: Connected parties checklist

Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A	B	C	D	E
<i>See legend below table on last page</i>								
42	Investors (entities) holding more than 10 per cent equity or debt in a company, on an individual or beneficial interest basis							
43	Promoter related trusts or any other trusts that: <ul style="list-style-type: none"> - Holds shares in the reporting entity or its group companies - Which is established for the benefit of the reporting entity or its subsidiaries - Which is established for the benefit of one or more promoters of the reporting entity - Which is established for the benefit of one or more directors of the reporting entity Trustees of such trusts							
44	An Association of Persons (AOP), Body of Individuals (BOI) or any other legal entity (which is not specifically mentioned in the list above) that: <ul style="list-style-type: none"> - Holds shares in the reporting entity - Which is established for the benefit of the reporting entity - Which is established for the benefit of one or more promoters of the reporting entity - Which is established for the benefit of one or more directors of the reporting entity Other members of the AOP, BOI and the other legal entity mentioned in this point							

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Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A	B	C	D	E
Other individuals and entities								
45	Entities that have the following common parameters with the reporting entity or any of its related parties: (a) common registered address (b) common e-mail IDs (c) common non-public e-mail domain (e.g. abccompany.com) (d) common investors (equity/debentures) that hold more than a specific percentage in the entities (typically 20 per cent or more) (e) Share common registered address with directors or partners (f) Share common KYC information with director or partners (g) Loans and advances provided to other entities (typically 20 percent or more of total assets) Additionally, entities which have shared such parameters in the past							
46	Parameters used in combination with (45) are: (a) Entities with common witness signing in MOA/AOA and date of incorporation typically (b) Entities with common statutory auditors of the company or entities in which employees of statutory auditors are directors/ KMP. (c) (i) Directors of companies identified in point 45(g) above, and (ii) Companies where such individuals (referred to in point 46(c)(i)) are directors Additionally, entities which have shared such parameters in the past							

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Sr. No.	Relationship	Name of party	Transaction with reporting entity (Y/N)	A	B	C	D	E
				<i>See legend below table on last page</i>				
47	Entities with which significant/one-off transactions have been entered into- these include: <ul style="list-style-type: none"> - Sole distributors - Significant vendors - Significant customers - Entities to which significant advances and loans have been given - Entities with which peculiar transactions have been entered into- including evergreening of loans, etc. Additionally, entities with whom such transactions were incurred in the past (we may consider transactions incurred in the last 5 years)							

A: Is the connected party a related party under the definition of the Companies Act, 2013, the LODR Regulations or the accounting standards?

B: Has the reporting entity entered into transactions with the connected party during the reporting period

C: Is the entity acting as an intermediary in the transaction, where the benefit of the transaction is flowing to a related party?

D: Whether transaction is in the interest of the company and whether it is at arm's length

E: Whether management has provided a justification for RPT and adequate approvals have been obtained for the same³

³ As per the Companies Act, 2013 read with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, RPTs require a prior approval of the audit committee, material transactions require prior approval of shareholders, and in certain cases, approval of the board of directors is also required.

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