



FOUNDATION FOR AUDIT QUALITY

Enhancing professional excellence

Toolkit for assessing compliances pertaining to Related Party Transactions- *Enhanced disclosures*

Foundation for Audit Quality

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Checklist for compliance with Regulations pertaining to related parties

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 1: Key disclosures required by different regulations



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

Practical considerations in implementation

1 Disclosure of transactions with KMP

S. No.	Questions	Note	Response
1	<p><i>Base transactions</i></p> <p>Have the senior management of the company communicated the requirement of the LODR Regulations to their foreign subsidiaries?</p>	1.1	

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Checklist for compliance with regulations pertaining to related parties- Enhanced disclosures

S. No.	Questions	Note	Response
2	Have the companies obtained details of remuneration paid by the foreign subsidiaries to their directors/KMP?	1.2	
3	<i>Management diligence procedures</i> Has the management established appropriate controls to ensure that: <ul style="list-style-type: none">- All pecuniary transactions with directors, including fees paid to a director, consultancy charges paid to a director or 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?		
4	<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?		
5	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 1.1

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 1.2

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.

2 Other RPT disclosures

S. No.	Questions	Note	Response
6	<i>Base procedures</i> Has the listed company submitted the RPT disclosures to SEBI in the prescribed format?		
7	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?	2.1	
8	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?	2.2	
9	<i>Monitoring procedures</i> Has an external or internal agency validated the completeness of RPT disclosures made to SEBI?		
10	Have the results of the validation been considered by the company?		

Note 2.1

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 2.2

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).

3 Timelines for RPT disclosures

S. No.	Questions	Note	Response
11	<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>	3.1	
12	<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>		
13	<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)? 		
14	<p>Have the results of the validation been considered by the company?</p>		

Note 3.1

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.

4 Transacting with government companies

S. No.	Questions	Note	Response
15	<i>Base procedure</i> 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?		
16	While obtaining such approvals have appropriate communication to the audit committee and shareholders been made?		

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