

“RELATED PARTIES AND RELATED PARTY TRANSACTIONS : IDENTIFICATION, APPROVAL AND MONITORING FOR LISTED ENTITIES”

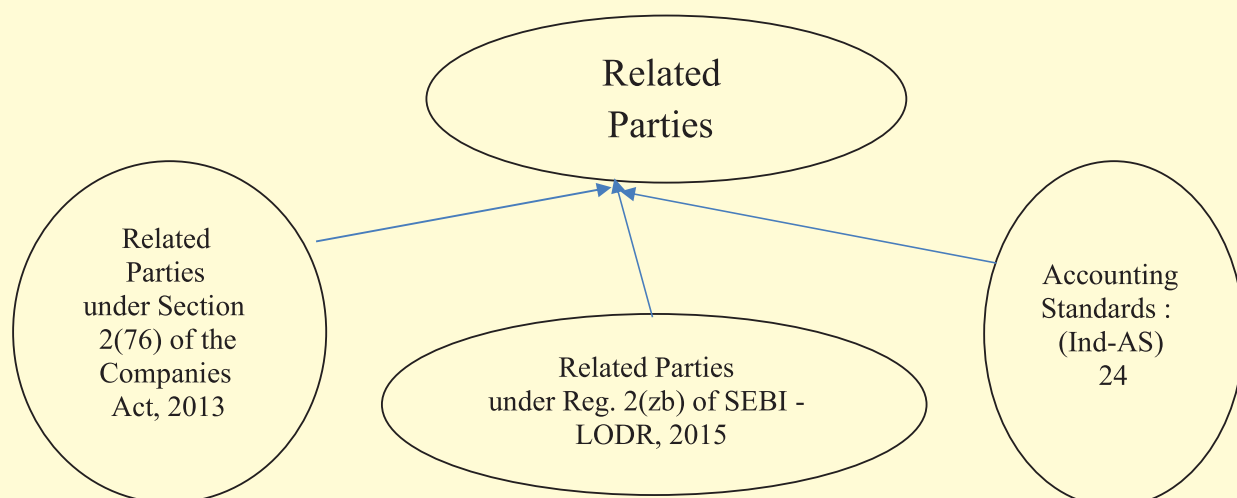
CS Atul Kumar Labh

1. Related Party and Related Party Transactions : Basics

Securities and Exchange Board of India vide its Notification dated 09.11.2021 has expanded the base of identification of Related Parties and the transactions to be entered with such Related Parties vide Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Sixth Amendment) Regulations, 2021 and the same has become effective from 01.04.2022 for the listed companies. With this modification, the listed companies are not only required to monitor the Related Party Transactions where the Company itself is a party but also to that of the transactions of their subsidiaries with their related parties or otherwise. The process of identification, approval and monitoring of such related parties vis-à-vis related party transactions for the listed companies, in brief, in a diagrammatically manner is illustrated below.

2. Identification of Related Parties

(A) Related Parties are defined under different provisions :



(B) Related Parties under the Companies Act, 2013 :

Related Parties
under Section
2(76) of the
Companies
Act, 2013

“Related Party”, with reference to a company, means—

- (i) a director or his relative;
- (ii) a key managerial personnel or his relative;
- (iii) a firm, in which a director, manager or his relative is a partner;
- (iv) a private company in which a director or manager or his relative is a member or director;
- (v) a public company in which a director or manager is a director and holds along with his relatives, more than two per cent of its paid-up share capital;
- (vi) any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;
- (vii) any person on whose advice, directions or instructions a director or manager is accustomed to act: Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;
- (viii) 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 : “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.
- (ix) a director other than an independent director or KMP of the holding Company or his relative with reference to the Company.

(C) Related Parties under SEBI - LODR, 2015 :

Related Parties under Reg. 2(zb) of SEBI - LODR Regulations, 2015

“Related party” means a related party as defined “

- (a) under sub-section (76) of section 2 of the Companies Act, 2013; or
- (b) under the applicable accounting standards;

Provided that :

- (a) any person or entity forming a part of the promoter or promoter group of the listed entity; or
- (b) any person or any entity, holding equity shares:
 - (i) of twenty per cent or more; or
 - (ii) of ten per cent or more, with effect from April 1, 2023; in the listed entity either directly or on a beneficial interest basis as provided under section 89 of the Companies Act, 2013, at any time, during the immediate preceding financial year; shall be deemed to be a related party.”

(D) Related Parties under Accounting Standards :

Related Parties under Accounting Standards : (Ind-AS) 24

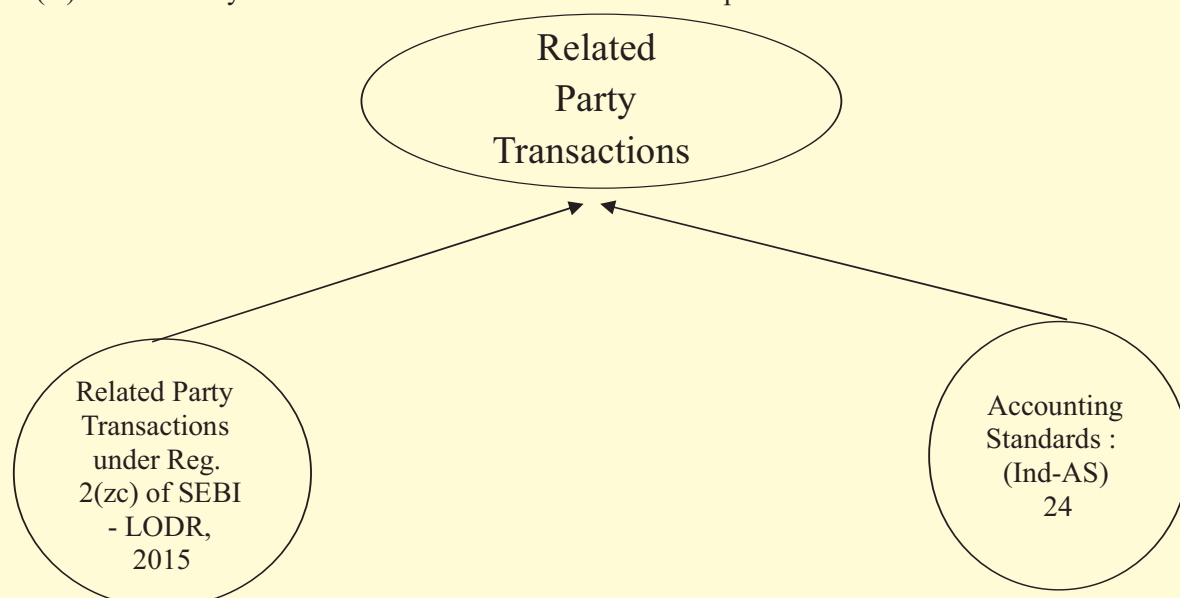
A related party is a person or entity that is related to the entity that is preparing its financial statements :

- (a) A person or a close member of that person’s family is related to a reporting entity if that person :
 - (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. Identification of Related Party Transactions

(A) Related Party Transactions are defined under different provisions :



(B) Related Party Transactions under SEBI-LODR, 2015 :

Related Party Transactions under Reg. 2(zc) of SEBI-LODR, 2015

“Related Party Transaction” means a transaction involving a transfer of resources, services or obligations between:

- (i) a listed entity or any of its subsidiaries on one hand and a related party of the listed entity or any of its subsidiaries on the other hand; or
- (ii) a listed entity or any of its subsidiaries on one hand, and any other person or entity on the other hand, the purpose and effect of which is to benefit a related party of the listed entity or any of its subsidiaries, with effect from April 1, 2023;

regardless of whether a price is charged and a “transaction” with a related party shall be construed to include a single transaction or a group of transactions in a contract.

(C) Related Party Transactions under Accounting Standards :

Related Party Transactions under Accounting Standards : (Ind -AS) 24

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Note :

- (i) "Related Party Transaction" has not been defined under the Companies Act, 2013 and hence all transactions with Related Parties with respect to the transactions mentioned vide Section 188 of the said Act will be governed by the applicability of the said provisions read with rules related thereto.
- (ii) Each Director and Key Managerial Personnel is responsible for providing notice to the Board/Audit Committee of any potential Related Party Transaction involving him or her or his

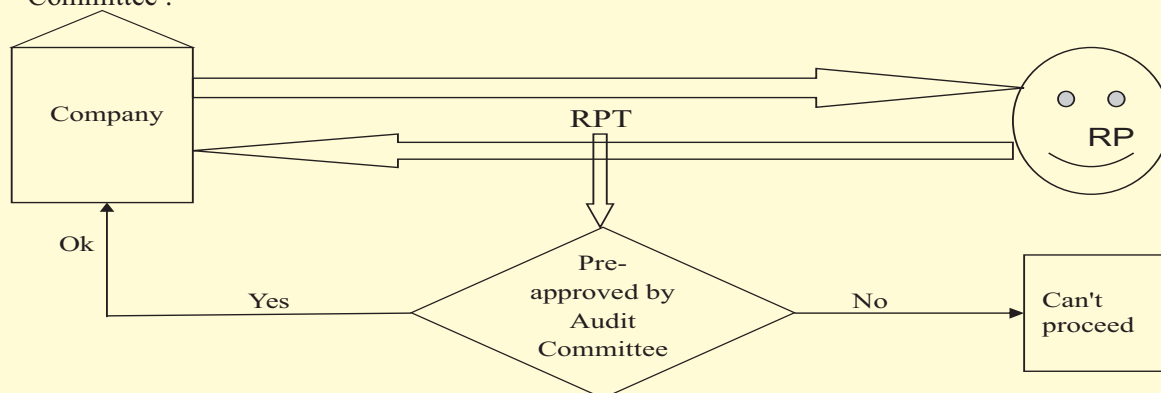
or her Relative, including any additional information about the transaction that the Board/Audit Committee may reasonably request. The Board/Audit Committee will determine whether the transaction does, in fact, constitute a Related Party Transaction requiring compliance with this policy statement. The Board/Audit Committee may delegate such powers to the officer(s) of the Company as it deems fit.

(iii) The Compliance Officer or Chief Financial Officer shall at all times:

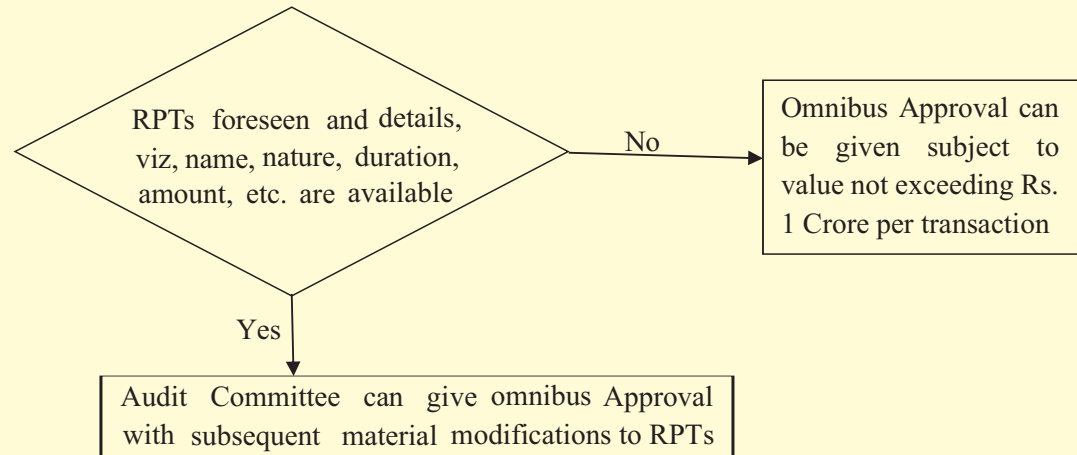
- a. Identify and keep on record Company's Related Parties, along with their personal/company details.
- b. The Compliance Officer or Chief Financial Officer shall identify such managers, departmental heads and such other employees (Designated Employees) who are responsible for entering into contracts/ arrangements/ agreements with entities for and on behalf of the Company and circulate the list of Related Parties to all such Designated Employees of the Company along with the approval thresholds for entering into transactions with such listed Related Parties.
- c. The Compliance Officer or Chief Financial Officer shall also set down the mechanism for reporting of such transactions proposed to be entered or entered with related parties by such Designated Employees as specified in (b) above.
- d. The record of Related Parties shall be updated whenever necessary and shall be reviewed at least once a year, as on 1st April every year.
- e. Ensure that Senior Management Personnel discloses to the Audit Committee relating to all material, financial and commercial transactions with Related Parties, where they have personal interest that may have a potential conflict with the interest of the listed entity at large.

4. Procedure for review and approval of Related Party Transactions

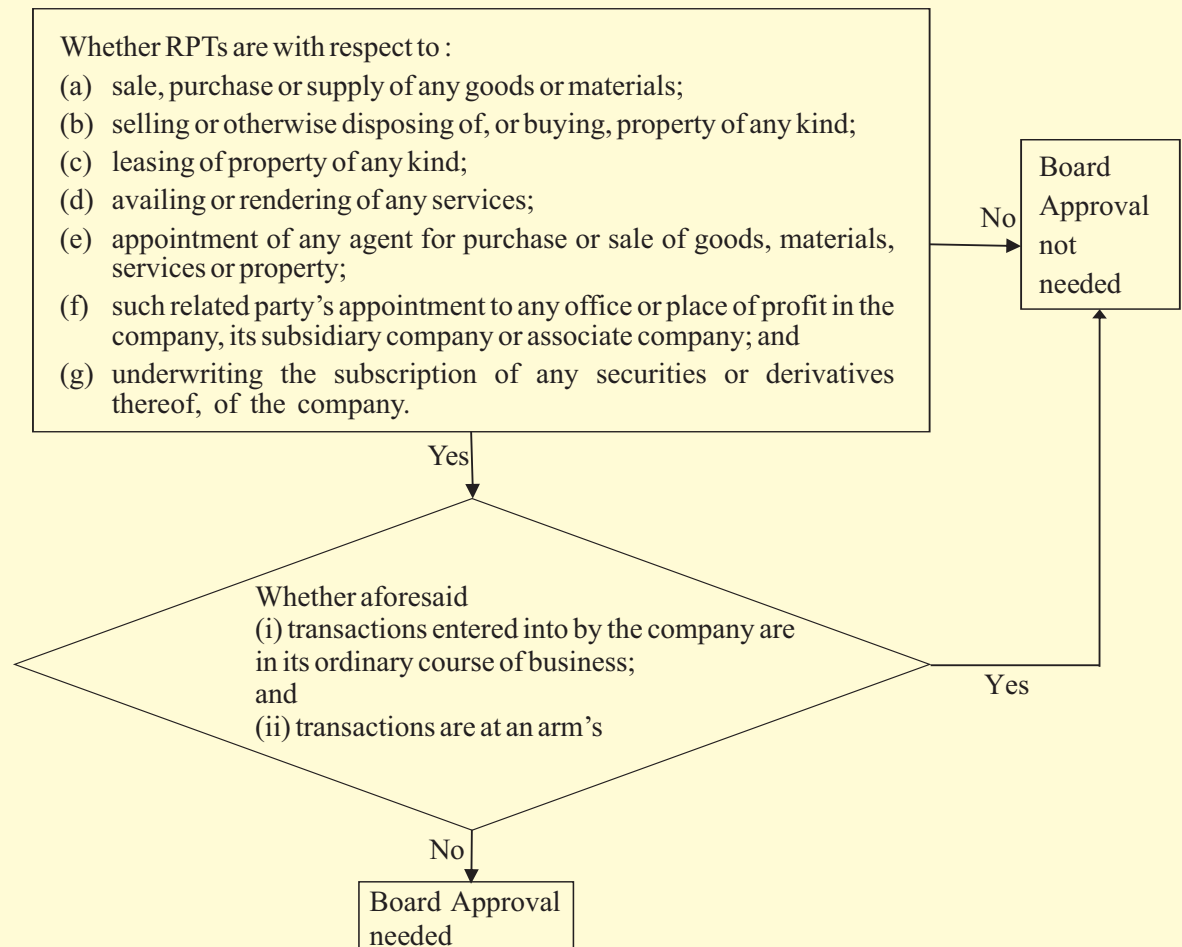
(A) All RPTs and subsequent material modifications thereto must be pre-approved by the Audit Committee :



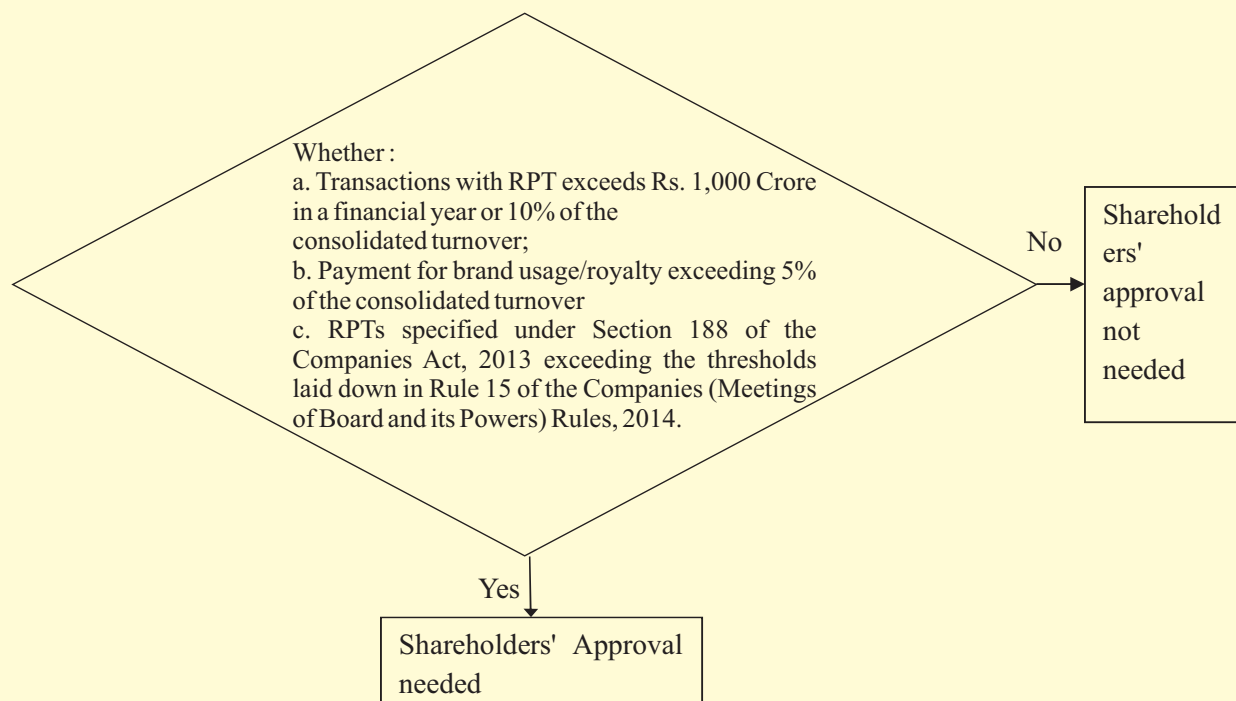
(B) Audit Committee may grant Omnibus Approval for a financial year :



(C) Post Audit Committee approval, certain RPTs need to be approved by the Board too:



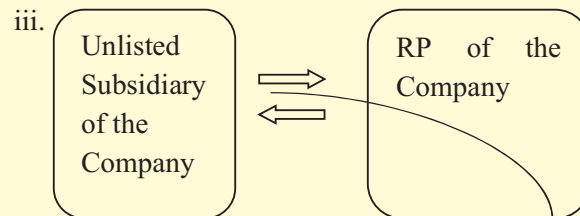
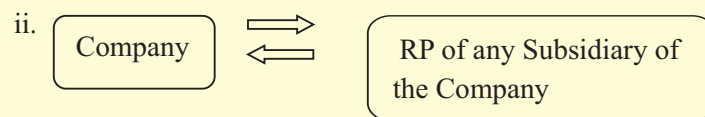
(D) All RPTs exceeding materiality thresholds would need shareholders prior approval too :



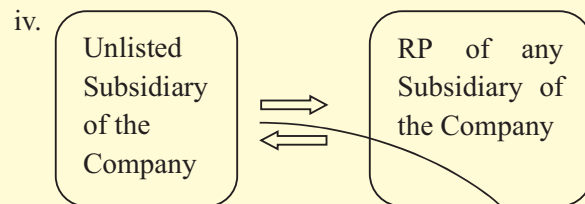
- (a) Related Party Transactions other than transactions referred to in Section 188, and where Audit Committee does not approve the transaction, it shall make its recommendations to the Board.
- (b) The Audit Committee shall mandatorily review on quarterly basis the statement of related party transactions entered by the Company during the quarter.
- (c) If prior approval of the Board /general meeting for entering into a Related Party Transactions in terms of the provisions of Section 188 read with rules related thereto, is not feasible, then the Related Party Transaction shall be ratified by the Board/ general meeting, as the case may be, within 3 months of entering in the Related Party Transaction.
- (d) All entities falling under the definition of related parties shall not vote to approve the relevant transaction irrespective of whether the entity is a party to the particular transaction or not

5. Related Party Transactions' requiring prior approval of the Audit Committee

Following type of transactions with subsequent material modifications thereto will fall within the ambit of Related Party Transactions' for which prior approval of the Audit Committee would be

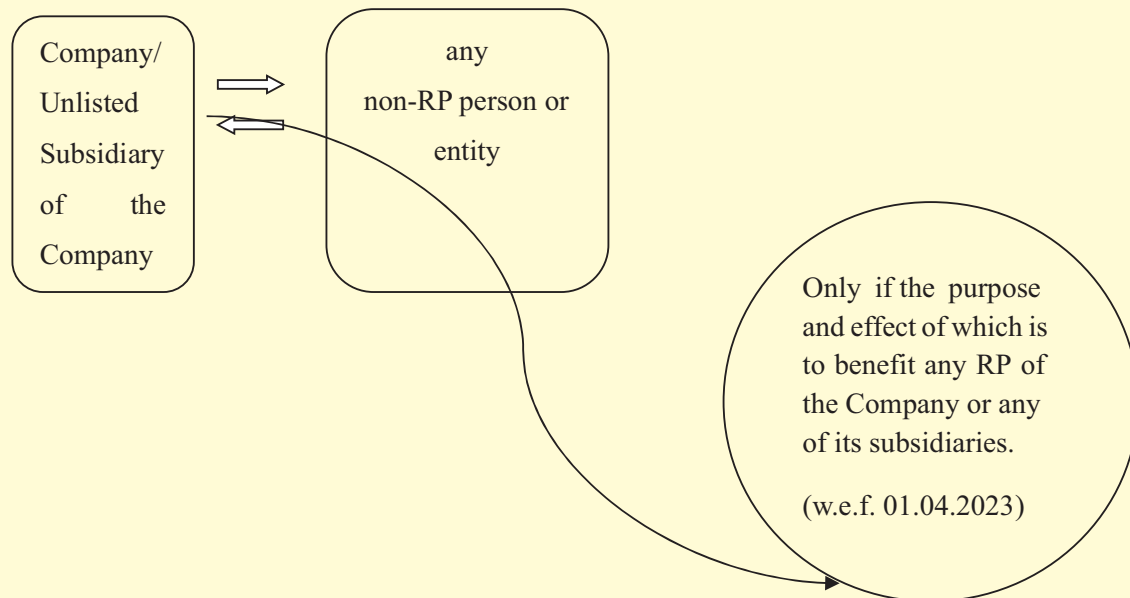


Only if the transaction value exceeds 10% of consolidated turnover of the Company (w.e.f. 01.04.2023 : 10% of the standalone turnover of the Subsidiary Company) in a financial year



Only if the transaction value exceeds 10% of consolidated turnover of the Company (w.e.f. 01.04.2023 : 10% of the standalone turnover of the Subsidiary Company) in a financial year

v.



Note :

- (a) Prior approval of the audit committee of the Company will not be required for a related party transaction to which the listed subsidiary of the Company is a party but the Company is not a party, if the listed subsidiary company complies with the requirements of prior approval of their audit committee for such transactions.
- (b) No approval is required in the following cases :
- (i) transactions entered into between the Company and its wholly owned subsidiary whose accounts are consolidated with the Company and placed before the shareholders at the general meeting for approval.
 - (ii) transactions entered into between two wholly-owned subsidiaries of the Company, whose accounts are consolidated with the Company and placed before the shareholders at the general meeting for approval.

----- ***-----