

25 August 2025

The Securities and Exchange Board of India (SEBI)
SEBI Bhavan, Plot No. C4-A,
G-Block, Bandra Kurla Complex,
Bandra (East), Mumbai – 400051, India

Subject: Response from ACGA on SEBI Consultation Paper – AMENDMENTS TO PROVISIONS RELATING TO RELATED PARTY TRANSACTIONS UNDER SEBI (LODR) REGULATIONS, 2015

Dear Sir/Madam,

We, the Asian Corporate Governance Association (ACGA), welcome the opportunity to respond to the Security and Exchange Board of India (SEBI) August 2025 Consultation Paper concerning proposed amendments to the framework regulating related party transactions (RPTs) under the SEBI Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015. ACGA has closely followed SEBI's efforts to enhance transparency, governance and investor protections in the area of RPTs, recognising the complex challenges posed by India's concentrated ownership structures, promoter dominance, and diverse corporate group arrangements.

We have reviewed the consultation paper in detail and set out our views and proposed amendments on behalf of ACGA members. Our comments aim to contribute to the ongoing evolution of a balanced RPT regime that promotes ease of doing business while safeguarding minority shareholders and market integrity.

1. Materiality thresholds: Advocating for a more contextual and nuanced approach

The proposal to introduce tiered, scale-based materiality thresholds keyed to consolidated turnover represents a significant business-conducive shift away from the earlier one-size-fits-all absolute financial threshold of Rs 1,000 crores. The back-testing referenced in the consultation paper, which indicates a potential 60% reduction in the number of RPT approvals requiring shareholder consent, reflects a pragmatic recognition that rigid thresholds may unduly burden large, listed entities and clutter approval agendas with non-material transactions.

However, while turnover is a convenient normalisation proxy, reliance on turnover as a single metric for materiality risks oversimplification, particularly in India's diverse corporate landscape where asset-heavy firms, financial companies, or other entities may have extensive RPTs which are not adequately captured by turnover alone. Although international practice regarding materiality thresholds for related party transactions varies, we note that a number of jurisdictions apply multiple quantitative metrics, such as total assets, annual turnover and market capitalisation to set materiality thresholds for RPTs, thereby ensuring relevant proportionality.^{1 2} By way of example, Hong Kong Exchange Listing Rule

¹ [OECD Corporate Governance Factbook 2023 \(EN\)](#)

² [Flexibility and Proportionality in Corporate Governance \(EN\)](#)

14A.76,³ follows a similar multi-metric approach, taking into account a number of financial ratios in determining the materiality of related party transactions for shareholder approval and disclosure, including assets, revenues, consideration and equity capital.

We note that Regulation 30 of the SEBI LODR and Section 180 of Companies Act already applies a principles-based multi-metric approach, taking into account various elements including net worth and turnover in determining materiality of transactions in listed companies. In addition, in 2020, a working group set up by SEBI to address RPTs proposed a more nuanced multi-metric approach for determining materiality thresholds for related party transactions contrary to the single metric turnover-based materiality approach set out in the present consultation.⁴

We therefore recommend that SEBI define an RPT to be material where the quantum is more than 10% of either of consolidated revenues, assets, or net worth; or Rs 5,000 crores, whichever is lower. The addition of assets and net worth alongside turnover will meet SEBI's dual objectives of providing administrative relief to larger organizations potentially overburdened by the current Rs 1,000 crore threshold, whilst at the same time focusing shareholder attention on relevant transactions which merit further scrutiny.

Further, we suggest that this approach would result in a significantly simpler regulatory framework that scales with company size and would not require frequent recalibration. As indicated above, the proposed approach is consistent with the existing assessment of materiality under the LODR whilst providing protection for minority shareholders on a proportionate, risk-adjusted basis.

2. Dual thresholds for subsidiary transactions: Closing oversight gaps

The proposed amendment to make prior audit committee approval mandatory for subsidiary RPTs above Rs 1 crore, exceeding the lower of 10% of the subsidiary's standalone turnover or where the value of the RPT crosses the listed holding company's materiality threshold is a positive step which fills an existing regulatory gap where significant subsidiary transactions escape oversight based on just standalone subsidiary thresholds.

For newly incorporated subsidiaries lacking audited financials, the use of standalone net worth as a threshold base, with certification requirements, may impose potentially high administrative costs relative to commercial benefit. SEBI may consider exemptions permitting annual or semi-annual rather than quarterly certifications.

3. Tiered disclosure regime: striking a balance between transparency and compliance burden

The introduction of a differentiated disclosure regime that exempts low-value RPTs from the stringent Industry Standards Note (ISN) requirements through a moderate-value slab (aggregating to the lower of 1% of turnover or Rs 10 crores) represents a well-intended effort to reduce administrative overload.

³ <https://en-rules.hkex.com.hk/rulebook/14a76>

⁴ https://www.sebi.gov.in/reports-and-statistics/reports/jan-2020/report-of-the-working-group-on-related-party-transactions_45805.html

It provides an appropriate middle ground between compliance and ensuring the provision of essential information to shareholders and audit committees for effective risk assessment.

It is essential, however, that this tiered disclosure regime be implemented with sufficient flexibility for audit committees to seek expanded contextual information beyond prescribed templates. Given the inherently fact-specific and complex nature of RPTs, an overly rigid or formulaic disclosure approach may obscure vital nuances. SEBI's evolving framework should thus continue to emphasize audit committee discretion in requesting supplementary data where required.

To safeguard investor trust, the audit committee should also monitor the cumulative impact of exempted transactions, especially recurring small-value RPTs, that in aggregate could pose governance risks. Periodic reviews of the thresholds and disclosure of the total value of exempted RPTs are recommended.

4. Clarifications on omnibus approval validity and scope of exemptions

Embedding provisions concerning the validity of omnibus approvals for RPTs into Regulation 23(4) and clarifying the upper limit of fifteen months for approvals granted in AGMs aligns well with company law and provides much-needed regulatory clarity. This will reduce interpretational ambiguities concerning the temporal scope of omnibus approvals.

The proposed tightening of the exemption scope clarifying that “holding company” in Regulation 23(5)(b) refers specifically to a “listed holding company” is a logical alignment that reinforces the intention behind these exemptions. This will help prevent potential misuse of exemptions related to unlisted holding companies.

Regarding retail purchases by directors, key managerial personnel, and their relatives: we agree that the exemption should be explicitly limited to those transactions made on uniform, non-preferential terms consistent with those applicable to employees generally, thereby closing any loopholes that might allow privileged purchases.

Other issues relevant to RPT regulations

ACGA would like to take this opportunity to highlight two additional points which we believe should be addressed adjacent to the proposed changes to SEBI's RPT regulations:

1. The role and independence of audit committees and independent directors

The prevalence of promoter ownership in India necessitates particular care in ensuring the independence and effectiveness of audit committees and boards in overseeing RPTs. We reiterate a concern widely held by investors that independent directors frequently recruited within business groups may face conflicts of interest or lack incentives to robustly challenge controlling shareholders. We thus support SEBI's ongoing emphasis on strengthening independent director roles, mandating disclosure of company policies on RPTs, and augmenting audit committee authority to seek independent valuations and advice where required.

2. Strengthening protections related to royalty payments

In an open letter⁵ to Indian regulators dated 22 April 2025, ACGA members advocated for the introduction of double materiality thresholds (covering both value and counterparty significance) for royalty payments. This continues to be a significant issue especially where the cumulative value of royalties and fees to related group companies may cross but where individually they fall within threshold levels. We urge SEBI to review the issue of royalty payments and fees to group companies in greater detail upon completion of the current consultation on RPTs.

Conclusion

ACGA welcomes SEBI's pragmatic reforms to India's RPT regime and summarise below our key recommendations regarding their implementation and areas for further review:

- A multi-metric materiality framework incorporating the lower of 10% of turnover, net assets and net worth or Rs 5,000 crore, as a proportionate approach to shareholder oversight and transparency.
- Ensure audit committee discretion to seek fuller contextual information where required including for transactions that do not require shareholder approval.
- Strengthen measures to uphold the independence and accountability of directors overseeing RPTs to enable them to effectively represent minority interests in assessing transactions.
- Address loopholes in royalty payments and fees to related group companies.

While SEBI's 2025 consultation paper proposes significant and thoughtful refinements to India's RPT regulatory landscape, achieving a sustainable balance between facilitation and investor protection requires continued regulatory vigilance, nuanced calibration of thresholds and exemptions, and genuine independence on corporate boards to support broad-based corporate governance reforms.

ACGA welcomes the opportunity to support SEBI's efforts in this regard. We look forward to engaging further on governance and regulatory matters and are available for further discussion and any clarification required on the points above. Thank you.

Yours faithfully,

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⁵ [ACGA letter 22.04.2025](#)