

**SEBI Consultation paper - Proposals for ease of doing business - amendments to provisions relating to Related Party Transactions under SEBI (LODR) Regulations, 2015 and circulars thereunder – 4<sup>th</sup> August 2025**

SEBI vide its consultation paper dated 4<sup>th</sup> August, 2025 has proposed significant changes to the SEBI LODR Regulations, 2015, regarding Related Party Transactions (RPTs). The key objective is to simplify compliance for listed entities, especially those with high turnovers, while enhancing corporate governance and minority shareholder protection.

The proposed amendments can be categorized into following main areas:

- **Threshold for determining material Related Party Transactions (“RPTs”) undertaken by listed entities.**
- **Threshold for determining material RPTs undertaken by subsidiaries of a listed entity.**
- **Relaxation in the minimum information to be furnished to the Audit Committee and shareholders for the approval of RPTs.**
- **Inclusion of provision in Regulation with respect to validity of omnibus approval for RPTs granted by the shareholders.**
- **Clarifications pertaining to applicability of RPT provisions.**

**1. Threshold for determining material Related Party Transactions (“RPTs”) undertaken by listed entities**

**Current Threshold Mechanism – One-Size-Fits-All Approach**

- As per existing Regulation 23(1), a related party transaction is considered “material” if it exceeds ₹1,000 crore or 10% of the annual consolidated turnover as per the last audited financial statements of the listed entity, whichever is lower.
- As a result of absolute threshold of Rs. 1000 Crore, RPTs of Rs. 1,000 Crore which may not be substantive in comparison to turnover and scale of operations are also being categorized as material transactions for listed entities with high turnover.

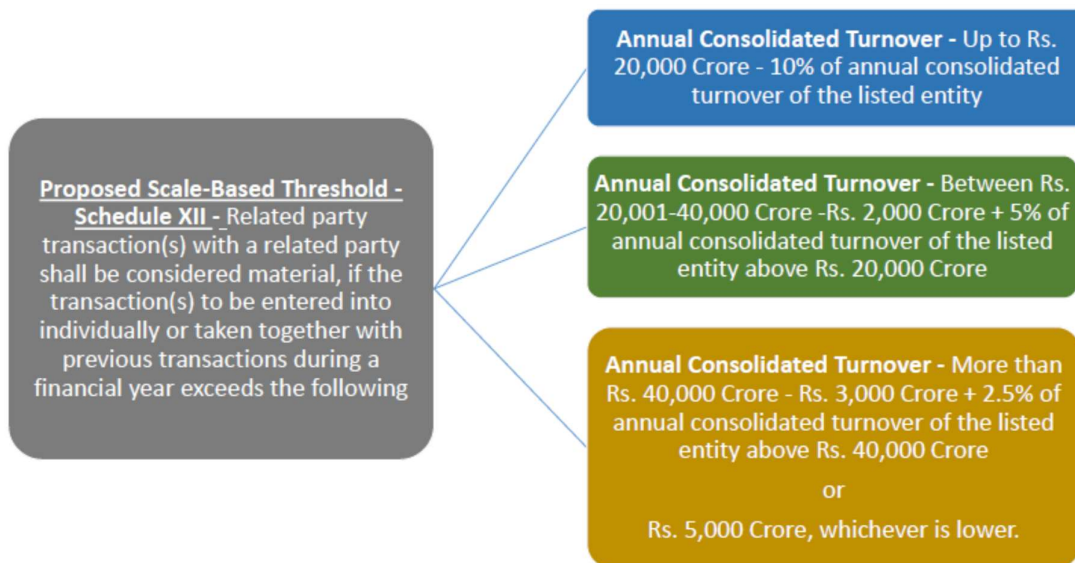
**Challenges with Current Regime**

- This “one-size-fits-all” approach fails to differentiate companies based on scale, business model, or operational footprint.
- High-volume companies are forced to seek shareholder approvals for transactions which may not be genuinely material in financial or governance terms.

**Proposed – Scale-Based Thresholds**

- SEBI has proposed to introduce a scale-based threshold mechanism for material RPT based on the turnover of listed entities for ease of doing business.
- The approach of scale-based threshold would ensure that materiality threshold increases with the increase in the turnover of the company leading to an appropriate number of related party transactions being categorized as material thereby reducing the compliance burden of listed entities.

**Proposed Scale-Based Threshold - Schedule XII** - Related party transaction(s) with a related party shall be considered material, if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year exceeds the following:

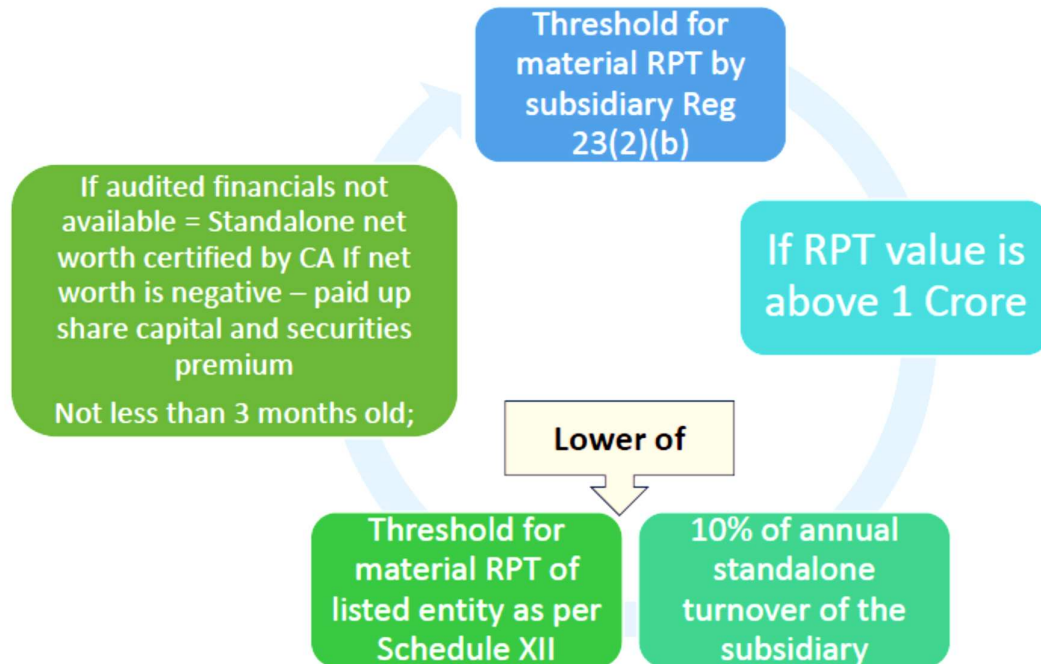


**Upper Cap:** An absolute ceiling of Rs. 5,000 Crore is proposed to ensure even large companies have a limit for shareholder approval.

**Examples / Illustrations**

- **Turnover Rs. 30,000 Crore:**  
Threshold = Rs. 2,000 Cr + 5% of Rs. 10,000 Cr = **Rs. 2,500 Cr**
- **Turnover Rs. 50,000 Crore:**  
Threshold = Rs. 3,000 Cr + 2.5% of Rs. 10,000 Cr = **Rs. 3,250 Cr**
- **Turnover Rs. 1,50,000 Crore:**  
Calculated threshold = Rs. 5,750 Cr  
But capped at **Rs. 5,000 Cr** (upper ceiling applies)

2. Threshold for determining material RPTs undertaken by subsidiaries of a listed entity



- As per Regulation 23(2), a RPT entered into by an unlisted subsidiary but the listed entity is not a party requires prior approval of the Audit Committee of the listed entity if the transaction value exceeds 10% of the standalone turnover of the subsidiary, as per the last audited financial statements of the subsidiary.
  - No materiality linkage is made to the listed entity's size/threshold.
  - There is currently no separate framework for newly incorporated subsidiaries without one-year financials.

**Need for Review**

**Issue 1 – Regulatory gap:**

- There are instances where the transaction value exceeds the materiality threshold (as proposed under Regulation 23(1)) but does not exceed 10% of the subsidiary's standalone turnover.
- Hence, shareholder approval is triggered but audit Committee approval is not, creating an inconsistency.

**Example:**

- Consolidated turnover of listed entity = Rs. 30,000 Cr
- Subsidiary's standalone turnover = Rs. 28,000 Cr
- Subsidiary transaction = Rs. 2,600 Cr
- Proposed material RPT threshold = Rs. 2,500 Cr (thus, shareholder approval required)

But 10% of subsidiary turnover = Rs. 2,800 Cr (thus, no Audit Committee approval required)

→ Creates inconsistencies.

**Issue 2 – New subsidiaries:**

- The threshold limit for approval by audit committee is based on standalone turnover of the subsidiary of the previous financial year. In case of subsidiaries which do not have a financial track record, i.e., published financial statements for at least one year, such a threshold limit cannot be determined.

**Proposal 1 –**

- For RPTs undertaken by a subsidiary (where the listed entity is not a party), prior approval of the listed entity's audit committee will be required if the transaction value exceeds rupees one crore and crosses the lower of:
  - (i) 10% of the subsidiary's annual standalone turnover as per last audited financials, or
  - (ii) The material RPT threshold applicable to the listed entity under proposed Regulation 23(1).
- **Applicability Limited to Subsidiaries with Financial Track Record:** This proposal applies only to subsidiaries that have audited financial statements for at least one year, ensuring the threshold is measurable.
- **Objective:** The amendment seeks to harmonize audit committee approval under Regulation 23(2) with the materiality framework under Regulation 23(1), thereby addressing oversight gaps and aligning governance standards.

**Proposal 2 – Threshold for Subsidiaries without Financial Track Record**

- For RPTs exceeding ₹1 crore involving a subsidiary (but not the listed entity) without audited financials for at least one year, prior approval of the listed entity's audit committee shall be required if the transaction value exceeds the lower of:
  - (i) 10% of the standalone net worth of the subsidiary certified by a CA, not older than 3 months, or
  - (ii) The material RPT threshold applicable to the listed entity under proposed Regulation 23(1).
- **Treatment of Negative Net Worth:** If the subsidiary has negative net worth, it shall be replaced with the aggregate of paid-up share capital and securities premium, certified by a practicing CA on a date not older than 3 months.

- Rationale: This ensures consistency in governance across subsidiaries with and without financial track record and avoids regulatory gaps by using a net worth-based benchmark in place of turnover, thus enabling effective oversight even for newly incorporated or early-stage subsidiaries.

**3. Relaxation in minimum information to be furnished to the Audit Committee and Shareholders for the approval of related party transactions**

- SEBI, vide its circular dated 26<sup>th</sup> June, 2025, introduced Industry Standards specifying minimum information to be provided to the Audit Committee and shareholders for approval of RPTs. Para 3(c) of the said standards exempts transactions up to Rupees one crore with a related party to be entered into individually or taken together with previous transactions during a financial year (including which are approved by way of ratification) from the applicability of these standards.
- The Industry Standard Forum (ISF), represented that the limit of rupees one crore exemption threshold is inadequate, especially for high-turnover listed entities. They requested a review to enhance this limit and promote ease of doing business.

**Proposal and Rationale for Change**

- To ease compliance for relatively small but material RPTs (i.e., above rupees one crore), SEBI has proposed that if the cumulative value of RPTs with a related party during a financial year (including those ratified) **does not exceed 1% of the annual consolidated turnover of the listed entity or rupees ten crore, whichever is lower**, then the information required to be provided to the Audit Committee and Shareholders can be limited to a revised and simplified format as provided by SEBI in the consultation paper. This format requires less disclosure than the original RPT Industry Standards. However, the rupees one crore exemption will still continue to apply in addition to this.

Illustration:		
If the annual consolidated turnover of a listed entity is Rs. 1200 Crore	1% of Rs. 1200 Crores = 12 Crores. Threshold would be Rs. 10 Crore as it is lower than Rs. 12 Crore.	
Listed Entity is proposing to undertake RPT(s):		
Related Party	Amount of RPT	Information to be placed to Audit Committee and Shareholders by listed entity
A	₹75 lakhs	RPT Disclosure Standards and Information specified in the proposed draft circular shall not apply.
B	₹5 crore	Information specified in the proposed draft circular shall be required to be placed before Audit Committee
C	₹15 crore	Follow RPT Disclosure Standards.

**4. Inclusion of Provision in LODR with respect to validity of omnibus approval for RPTs granted by the Shareholders**

- Regulation 23(3) of LODR allows the audit committee to grant omnibus approval for related party transactions, valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year. Separately, Regulation 23(4) mandates prior shareholder approval for all material RPTs.
- Further clarity is provided in Para (C)11 of Section III of the SEBI Master Circular (dated 11 November 2024), which states that shareholder omnibus approvals obtained in an AGM shall be valid up to the date of the next AGM for a period not exceeding fifteen months.
- In case, omnibus approvals granted by shareholders in general meetings other than AGMs shall be valid for a maximum of one year. Similarly, Section 96(1) of the Companies Act, 2013 specifies that the time gap between two Annual General Meetings (AGMs) cannot be more than fifteen months.
- Currently, the validity of shareholder omnibus approvals is not embedded in the body of LODR Regulation 23(4) itself but is mentioned only in the Master Circular. To ensure legal clarity, consistency, and enforceability, it is proposed that these provisions be incorporated directly in the Regulation 23(4).

**Proposal and Rationale:**

- To align the LODR Regulations with the Master Circular and the Companies Act, 2013 it is proposed to amend Regulation 23(4) to explicitly include the validity timeline for shareholder omnibus approvals. Specifically:

*In case, the omnibus approval is given by the shareholder, such approval of omnibus RPTs approved in an AGM shall be valid up to the date of the next AGM for a period not exceeding fifteen months. In case of omnibus approvals for material RPTs, obtained from shareholders in general meetings other than AGMs, the validity of such omnibus approvals shall not exceed one year.*

**5. Clarifications pertaining to applicability of RPT provisions**

- Issue (i): Currently, the proviso (e) of Regulation 2(1)(zc) of SEBI LODR currently exempts retail purchases from listed entity or subsidiary by directors or employees from being treated as Related Party Transactions (RPT), provided these purchases are made without establishing a business relationship and on terms uniformly applicable to all employees and directors.
- ACLOD has proposed extending this exemption to relatives of directors and employees as well which may be included under the said proviso.
- However, under the definition of "related party" in both Section 2(76) of the Companies Act, 2013 and Regulation 2(1)(zb) of the LODR, (i) a director or his relative; and (ii) a key managerial personnel or his relative; are considered as related party.
- Accordingly, "employees or their relative" do not fall under the definition of related party, hence there is no need to specifically provide an exemption for them from RPT norms under LODR Regulations.

- Hence, there is need to remove the term 'employees' from the proviso (e) of regulation 2(1)(zc) of the LODR and to include relatives of directors as well as 'key managerial personnel' and their relatives in the exemption.
- Issue (ii): Regulation 23(5) of LODR provides exemptions from RPT approval requirements. Clause (c), introduced in 2021, specifically exempts transactions between two wholly-owned subsidiaries of a listed holding company.
- However, there is ambiguity about whether clause (b), which exempts transactions between a holding company and its wholly owned subsidiary, applies only when the holding company is listed, or also when it is unlisted.
- Given that Regulation 23 deals with obligations of listed entities, and clause (c) only applies where the holding company is listed, the intent was always to limit this exemption to listed holding companies only. A clarification is thus required to this effect.

**Proposals and Rationale:**

- Proposal (i): To harmonize the exemption it is proposed that the proviso (e) of Regulations 2(1)(zc) of the LODR Regulations may be amended to provide that the exemption under the said proviso shall be applicable to **directors or key managerial personnel(s) of listed entity or its subsidiary or their relatives**.
- Proposal (ii): To clarify the scope of exemption under Regulation 23(5)(b), it is proposed to insert an **explanatory clause** stating that the term "holding company" shall mean and be deemed to have always meant a "listed holding company". Additionally, the exemptions in clauses (b) and (c) shall apply only where the accounts of the relevant subsidiaries are consolidated with those of the listed holding company and presented to shareholders in the general meeting.
- Same may be clarified by adding the following explanation to this effect in Regulation 23(5) of LODR:

*Explanation: For the removal of doubt, it is clarified that the term "holding company" used in clause (b) refers to and shall be deemed to have always referred to "listed holding company".*

**Link:** [https://www.sebi.gov.in/reports-and-statistics/reports/aug-2025/consultation-paper-on-amendments-to-provisions-relating-to-related-party-transactions-under-sebi-lodr-regulations-2015-and-circulars-thereunder\\_95824.html](https://www.sebi.gov.in/reports-and-statistics/reports/aug-2025/consultation-paper-on-amendments-to-provisions-relating-to-related-party-transactions-under-sebi-lodr-regulations-2015-and-circulars-thereunder_95824.html)