

# SEBI may put on hold move to amend Related Party Transactions rules as corporates are in no mood to do so now

Market regulator also likely to postpone a decision on the move to include key management personnel and promoters while passing special resolutions granting loans above a certain limit

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The Securities and Exchange Board of India (SEBI) may hold its plan to change the rules on Related Party Transactions (RPT) at least for some time. Opposition by corporate groups is said to be (one of) the reason, sources said.

SEBI had issued a discussion paper on expanding the spectrum of RPT in January this year after a working group it constituted in November 2019 submitted its report.

The group was constituted under the chairmanship of Ramesh Srinivasan, Managing Director, Kotak Mahindra Capital Market Company Ltd.

Deals by individuals related to the promoters of a listed company could be treated as RPT whether they individuals have shareholding influence on the company or not, the report had recommended.

Currently, the threshold for a case to be treated as RPT stands at 20 percent shareholding.

In the case of deals between a subsidiary of a listed company and a related company of the promoter, the Audit Committee of the company has to be informed, and the RPT threshold should come down from the current 10 percent to 5 percent, the report suggested.

Recently, stock exchanges had called a meeting with compliance officers of corporates houses. A source who attended the meeting told Moneycontrol: "Most corporates had reservations on increasing the spectrum of RPT definition. They think it would be difficult to maintain such clauses and it will increase the compliance burden on the company".

"By including subsidiaries in the RPT definition, the committee is seeking to prevent misuse of such transactions through unlisted subsidiaries. If the recommendation is accepted, shareholder votes would be required at the listed company level, even in cases where the listed company is not a party to the transaction," Anand Lakra, Partner, J Sagar Associates, explained.

He said this is a good development and "follows the principle stated by the Kotak committee on corporate governance that while a shareholder only buys direct listed securities, the value is derived from the entire/consolidated group as a whole."

According to Sonam Chandwani, Managing Partner at KS Legal & Associates, "the existing regime leaves room for abuse without adequate mechanisms to oversee transactions and penalise violators."

One source told Moneycontrol that "COVID days are not the right time. Now, corporates need hand-holding for sailing through smoothly".

However, Amit Tandon, Co-founder and MD of IIAS Proxy Advisory, presented a counter-point. "Tightening RPT has been on SEBI's wish list since 2011. They have made progress on it and need to see this through. This is not linked to the pandemic in any way," he said.

SEBI is also likely to postpone a decision on the move to include key management personnel and promoters of a company while passing special resolutions granting loans or guarantee/security above a certain limit.

Currently, companies can grant loans or guarantee / security to any person, including a promoter, key management personnel, or even corporate houses up to 60 per cent of its paid-up share capital, free reserves and securities premium account. A special resolution at a general meeting is required for anything beyond that.