

**THE MADRAS CHAMBER OF COMMERCE  
AND INDUSTRY**

**COMPANY LAW AND CORPORATE MATTERS  
COMMITTEE**

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## **ARE YOU AWARE**

***The Centre on Friday (21.11.25) announced the implementation of the four Labour Codes – the Code on Wages (2019), Industrial Relations Code (2020), Code on Social Security (2020), and Occupational Safety, Health and Working Conditions (OSHWC) Code (2020). The Codes come into effect from November 21, 2025, replacing 29 Central labour laws.***

***The below mentioned write up is taken from the pib.gov.in and presented for the information of the members.***

***COURTESY: pib.gov.in***

Economy

*India's Labour Reforms: Simplification, Security, and Sustainable Growth*

Posted On: 21 NOV 2025 4:40PM

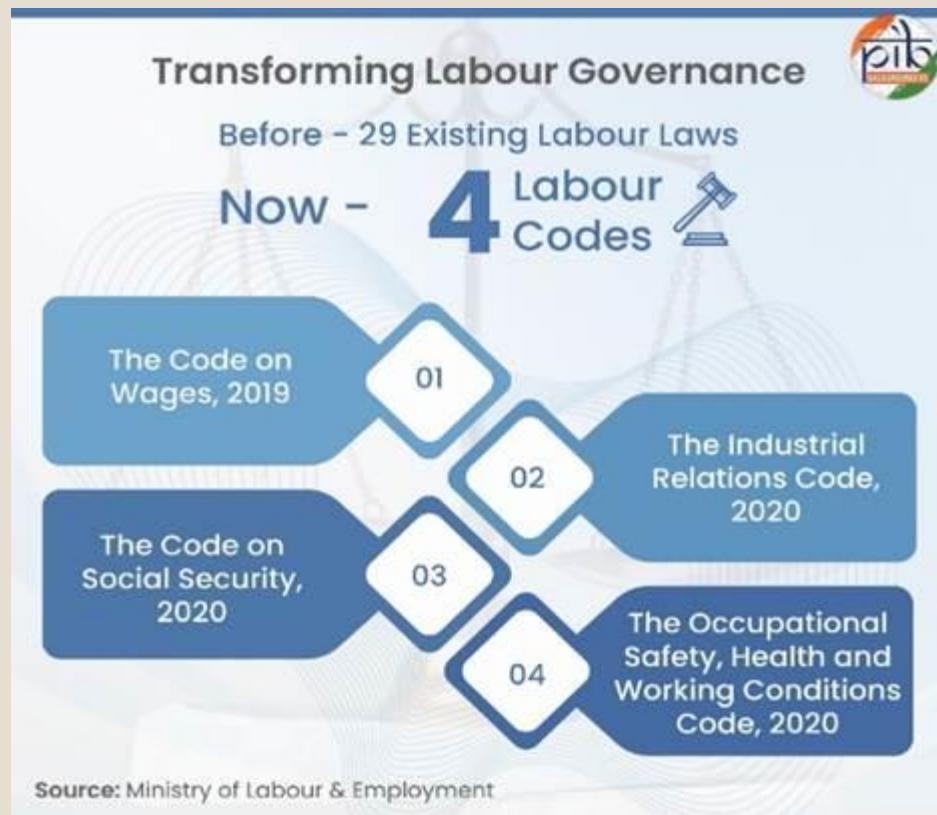
### **Key Takeaways**

- The Government has consolidated 29 labour laws into four comprehensive Labour Codes.
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- The four Labour Codes include the Code on Wages, 2019, the Industrial Relations Code, 2020, the Code on Social Security, 2020 and the Occupational Safety, Health and Working Conditions Code, 2020.
- The historic reform streamlines compliance, modernizes outdated provisions, and creates a simplified, efficient framework that promotes ease of doing business while safeguarding workers' rights and welfare.

## Labour at the Core of India's Growth

The empowerment of labour forms the cornerstone of an empowered, prosperous, and Aatmanirbhar India. Reflecting this vision, employment in India has shown remarkable growth—rising from 47.5 crore in 2017–18 to 64.33 crore in 2023–24, a net addition of 16.83 crore jobs in just six years. During the same period, the unemployment rate declined sharply from 6.0% to 3.2%, and 1.56 crore women entered the formal workforce, underscoring the Government's emphasis on inclusive and sustained labour empowerment. The positive outlook of the labour market has also led to a broader socio-economic transformation, mirrored by declining proportion of people below the international poverty line. Additionally, India's social protection system has expanded rapidly to become one of the largest globally.

Labour is a key driver of economic growth and development. In order to simplify and strengthen the framework governing workers' rights, the Government consolidated 29 labour laws into four comprehensive Labour Codes—namely, **the Code on Wages, 2019, the Industrial Relations Code, 2020, the Code on Social Security, 2020 and the Occupational Safety, Health and Working Conditions Code, 2020**. This historic reform ensures that workers gain easier access to security, dignity, health, and welfare measures, reinforcing **India's commitment to a fair and future-ready labour ecosystem**.



## Rationale Behind Codification of Existing 29 Labour Laws

Reforms in labour laws are an ongoing process. The Government continuously works to modernize and streamline the legislative framework in line with the evolving economic and industrial landscape of the country. **The codification of 29 existing labour laws into four Labour Codes was undertaken to address long-standing challenges and make the system more efficient and contemporary.** The codification aims to enhance ease of doing business, promote employment generation, ensure safety, health, social & wage security for every worker.

*The key reasons behind this reform include:*

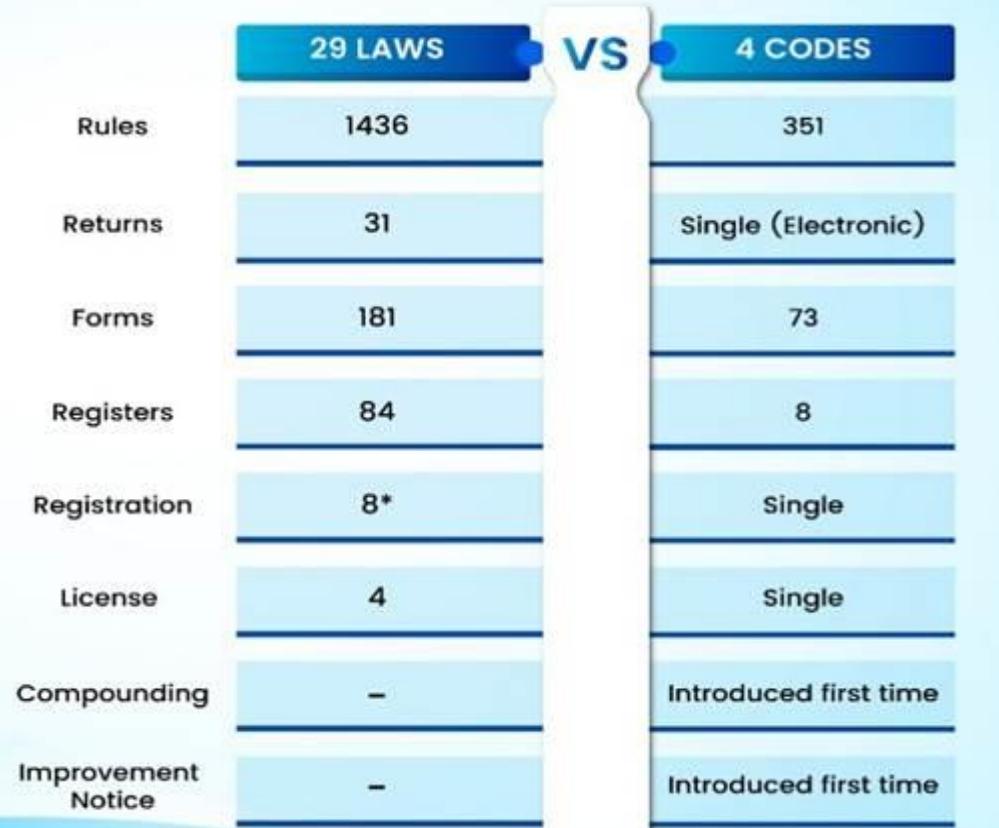
- **Simplifying compliance:** Multiplicity of laws leads to difficulty in compliance.
- **Streamlining enforcement:** Multiplicity of authorities in different labour laws led to complexity and difficulty in enforcement.
- **Modernizing outdated laws:** Most labour legislations were framed during the pre-Independence era, necessitating alignment with today's economic realities and technological advancements.

## Formulation of 4 Labour Codes

An important reason of rationalizing labour laws via codification was to simplify the registration, licensing framework by introducing the concept of a **Single Registration, Single License, and Single Return**, thereby reducing the overall compliance burden to spur employment.

The second National Commission on Labour had recommended that the existing Labour Laws should be broadly grouped into four/ five Labour Codes on functional basis. Accordingly, the Ministry of Labour & Employment started the exercise to rationalize, simplify and amalgamate the relevant provisions of the labour laws in four codes. The four Labour Codes were enacted after the deliberations held in the **tripartite meeting of the Government, employers', industry representatives and various trade unions** during 2015 to 2019. The Code on Wages, 2019 was notified on 8th August, 2019 and the remaining three Codes were notified on 29th September, 2020.

## Result of Rationalizing Labour Laws



\* Factories, BoCW, Contract Labour, Plantation, Motor Transport, ISMW, ESI & EPF

Source: Ministry of Labour & Employment

### Code 1: The Code of Wages, 2019

The Code on Wages, 2019 seeks to simplify, consolidate, and rationalize the provisions of four existing laws- *The Payment of Wages Act, 1936*; *The Minimum Wages Act, 1948*; *The Payment of Bonus Act, 1965*; and *The Equal Remuneration Act, 1976*. It aims to strengthen workers' rights while promoting simplicity and uniformity in wage-related compliance for employers.

## MAJOR HIGHLIGHTS

**Universal Minimum Wages:** The Code establishes a statutory right to minimum wages for all employees across both organized and unorganized sectors. Earlier, the Minimum Wages Act applied only to scheduled employments covering ~30% of workers.

**Introduction of Floor Wage:** A statutory floor wage shall be set by the Government based on minimum living standards, with scope for regional variation. No state can fix minimum wages below this level, ensuring uniformity and adequacy nationwide.

**Criteria for Wage Fixation:** Appropriate Governments will determine minimum wages considering workers' skill levels (unskilled, skilled, semi-skilled and highly skilled), geographic areas, and job conditions such as temperature, humidity, or hazardous environments.

**Gender Equality in Employment:** Employers shall not discriminate on the basis of gender, including transgender identity, in recruitment, wages, and employment conditions for similar work.

**Universal Coverage for Wage Payment:** Provisions ensuring timely payment and preventing un-authorized deductions will apply to all employees, irrespective of wage limits (currently applicable only to employees earning up to ₹24,000/month).

**Overtime Compensation:** Employers must pay all employees overtime wages at least twice the normal rate for any work done beyond the regular working hours.

**Responsibility for Wage Payment:** Employers, including companies, firms, or associations, shall pay wages to employees employed by them. Failure to do so makes the proprietor/ entity liable for unpaid wages.

**Inspector-cum-Facilitator:** The traditional role of "Inspector" is replaced with "Inspector-cum-Facilitator," emphasizing guidance, awareness, and advisory roles alongside enforcement to improve compliance.

**Compounding of Offences:** First-time, non-imprisonable offences can be compounded by paying a penalty. Repeat offences within five years, however, cannot be compounded.

**Decriminalization of Offences:** The Code replaces imprisonment for certain first-time offences with monetary fines (up to 50% of the maximum fine), making the framework less punitive and more compliance-oriented.

## **Code 2: The Industrial Relations Code, 2020**

The Industrial Relations Code (IR Code) has been prepared after amalgamating, simplifying and rationalizing the relevant provisions of the *Trade Unions Act, 1926*, *the Industrial Employment (Standing Orders) Act, 1946* and *the Industrial Disputes Act, 1947*. The Code acknowledges the fact that survival of worker depends upon survival of industry. In this backdrop, it **simplifies laws related to trade unions, conditions of employment in industrial establishment or undertaking, investigation and settlement of industrial disputes.**

### **MAJOR HIGHLIGHTS**

**Fixed Term Employment (FTE):** Allows direct, time-bound contracts with full parity in wages and benefits; gratuity eligibility after one year. The provision reduces excessive contractualization and offers cost efficiency to employers.

**Re-skilling Fund:** To train retrenched employees, this fund has been set up from the contribution to be made by an industrial establishment for an amount equal to 15 days' wages for every worker retrenched. This is in addition to retrenchment compensation. The amount will be credited to the workers account within 45 days of retrenchment.

**Trade Union Recognition:** Unions with 51% membership get recognition as the Negotiating Union; otherwise, a Negotiating Council is formed from unions, not less than 20% membership of trade union. Such an arrangement strengthens collective bargaining.

**Expanded Worker Definition:** Covers sales promotion staff, journalists, and supervisory employees earning up to ₹18,000/month.

**Broader Definition of Industry:** Includes all systematic employer-employee activities, regardless of profit or capital, widening access to labour protections.

**Higher Threshold for Lay-off/Retrenchment/Closure:** Approval limit raised from 100 to 300 workers; States may enhance the limit further. The provision will simplify compliance and contribute to formalization.

**Women's Representation:** Ensures proportional representation of women in grievance committees for gender-sensitive redressal.

**Standing Orders Threshold:** Raised from 100 to 300 employees, easing compliance and enabling flexible workforce management.

**Work-from-Home Provision:** Permitted in service sectors by mutual consent, improving flexibility.

**Industrial Tribunals:** Two-member tribunals consisting of judicial and administrative member for quicker dispute resolution.

**Direct Tribunal Access:** Parties may approach tribunals directly after failed conciliation within 90 days.

**Notice for Strikes/Lockouts:** Mandatory 14-day notice for all establishments to promote dialogue and minimize disruptions.

**Expanded Definition of Strike:** Includes "mass casual leave also within its ambit" to prevent flash strikes and ensure lawful action.

**Decriminalization & Compounding:** Minor offences made compoundable with monetary penalties, promoting compliance over prosecution.

**Digital Processes:** Enables electronic record-keeping, registration, and communication for transparency and efficiency.

### **Code 3: The Code on Social Security, 2020**

The Code on Social Security incorporates existing nine Social Security Acts viz; *The Employee's Compensation Act, 1923; The Employees' State Insurance Act, 1948; The Employees' Provident Funds and Miscellaneous Provisions Act, 1952; The Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959; The Maternity Benefit Act, 1961; The Payment of Gratuity Act, 1972; The Cine-Workers Welfare Fund Act, 1981; The Building and Other Construction Workers' Welfare Cess Act, 1996 and; The Unorganised Workers' Social Security Act, 2008.* **The Code extends social security to all workers-** including unorganized, gig, and platform workers- covering life, health, maternity, and provident fund benefits, while introducing digital systems and facilitator-based compliance for greater efficiency.

### **MAJOR HIGHLIGHTS**

**Expanded ESIC (Employees' State Insurance) Coverage:** ESIC now applies pan-India, eliminating the criteria of "notified areas." Establishments with fewer than 10 employees may voluntarily opt in with mutual consent of employers and employees. Coverage would be mandated for hazardous occupation and extended to plantation workers.

**Time-bound EPF (Employees' Provident Fund) Inquiries:** A five-year limit has been set for initiating EPF inquiries and recovery proceedings, to be completed within two years (extendable by one). Suo-moto reopening of cases has been abolished, ensuring timely resolution.

**Reduced EPF Appeal Deposit:** Employers appealing EPFO orders now need to deposit only 25% of the assessed amount (down from 40–70%), reducing financial burden and ensuring ease of business and access to justice.

**Self-assessment for Construction Cess:** Employers can now self-assess cess liabilities in respect to Building and Other Construction Work, previously assessed by the notified Government authority. It reduces procedural delays and official intervention.

**Inclusion of Gig and Platform Workers:** New definitions are included- “aggregator,” “gig worker,” and “platform worker” to enable social security coverage. Aggregators to contribute 1-2% of annual turnover (capped at 5% of payments to such workers).

**Social Security Fund:** A dedicated fund to finance schemes for unorganised, gig, and platform workers, covering life, disability, health, and old-age benefits has been proposed. The amount collected through the compounding of offences will be credited to this Fund and used by the Government.

**Expanded Definition of Dependents:** Coverage extended to maternal grandparents and in case of female employees it also includes dependent parents-in-law, broadening family benefit access.

**Uniform Definition of Wages:** “Wages” now include basic pay, dearness allowance, and retaining allowance; 50% of the total remuneration (or such percentage as may be notified) shall be added back to compute wages, ensuring consistency in calculating gratuity, pension, and social security benefits.

**Commuting Accidents Covered:** Accidents during travel between home and workplace are now deemed employment-related, qualifying for compensation.

**Gratuity for Fixed-Term Employees:** Fixed-term employees become eligible for gratuity after one year of continuous service (earlier five years).

**Inspector-cum-Facilitator System:** Introduces randomized web-based, algorithm-driven inspections for transparency and wider compliance. Inspectors now act as facilitators to support adherence and reduce harassment.

**Decriminalization & Monetary Fines:** The code has replaced imprisonment with monetary fines for certain offences. The employer will be given mandatory 30 days’ notice for compliance before taking any legal action.

**Compounding of Offences:** First-time offences punishable with fines are compoundable- for fine-only: 50% of maximum fine and for fine/imprisonment cases: 75% of maximum fine-reducing litigation and improving ease of doing business.

**Digitization of Compliance:** Mandates electronic maintenance of records, registers, and returns, cutting costs and improving efficiency.

**Vacancy Reporting:** Employers shall report vacancies to specified career centres before recruitment, promoting transparency in employment opportunities.

## **Code 4: The Occupational Safety, Health and Working Conditions Code 2020**

The Code has been drafted after amalgamation, simplification and rationalization of the relevant provisions of the 13 Central Labour Acts- *The Factories Act, 1948*; *The Plantations Labour Act, 1951*; *The Mines Act, 1952*; *The Working Journalists and other Newspaper Employees (Conditions of Service and Miscellaneous Provisions) Act, 1955*; *The Working Journalists (Fixation of Rates of Wages) Act, 1958*; *The Motor Transport Workers Act, 1961*; *The Beedi and Cigar Workers (Conditions of Employment) Act, 1966*; *The Contract Labour (Regulation and Abolition) Act, 1970*; *The Sales Promotion Employees (Conditions of Service) Act, 1976*; *The Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979*; *The Cine-Workers and Cinema Theatre Workers (Regulation of Employment) Act, 1981*; *The Dock Workers (Safety, Health and Welfare) Act, 1986* and; *The Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996*.

The Code balances the twin objectives of **safeguarding worker rights and safe working conditions, and creating a business-friendly regulatory environment**. This will spur economic growth and employment thereby, making India's labour market more efficient, fair, and future-ready.

### **MAJOR HIGHLIGHTS**

**Unified Registration:** A uniform threshold of 10 employees is set for electronic registration. One registration for an establishment has been envisaged in place of 6 registrations in the Acts. This will create a centralised database and promote ease of doing business.

**Extension to Hazardous Work:** The Government can extend the Code's provisions to any establishment, even with one employee, engaged in hazardous or life-threatening occupations.

**Simplified Compliance:** Introduces one license, one registration, one return framework for the establishments, reducing redundancy and compliance burden.

**Wider Definition of Migrant Workers:** The definition of inter-state migrant workers (ISMW) now covers workers employed directly, through contractors, or migrate on their own. Establishments must declare the number of ISMW. Benefits include: a lump-sum annual travel allowance to native place once in 12 months and portability of public distribution system and social security benefits across states along with access to a toll-free helpline.

**Health and Formalization:** Free annual health check-ups for employees,

**Formalization via appointment letters:** Appointment letters specifying job details, wages, and social security will be given to enhance transparency and accountability.

**Women's Employment:** Women can work in all types of establishments and during night hours (before 6AM, beyond 7PM) with consent and safety measures, fostering equality and inclusion.

**Expanded Media Worker Definition:** “Working journalists” and “cine workers” now include employees in electronic media and all forms of audio-visual production.

**National Database for Unorganised Workers:** A national database to be developed for unorganized workers including migrants to help migrant workers get jobs, map their skills and provide other social security benefits.

**Victim Compensation:** Courts can direct at least 50% of fines imposed on offenders to be paid as compensation to victims or their legal heirs in case of injury or death.

**Contract Labour Reform:** Applicability threshold has been raised from 20 to 50 contract workers. All India license valid for 5 years against work-order based license to be provided to the contractor. For contract labour, beedi and cigar manufacturing and factory: a common license is envisaged and provision of deemed license after expiry of prescribe period is introduced. Moreover, the license shall be auto-generated. Provision of contract labour board has been done away with and provision for appointment of designated authority to advise matters on core and non-core activities is introduced.

**Safety Committees:** Establishments with 500 or more workers will form safety committees with employer-worker representation, enhancing workplace safety and shared accountability.

**National Occupational Safety & Health Advisory Board:** A single tripartite advisory board replaces six earlier boards to set national safety and health standards across sectors, ensuring uniformity and quality.

**Decriminalisation & Compounding of Offences:** Offences punishable by fine only to be compounded by paying 50% of the maximum fine; those involving imprisonment or fine or both by 75%. Criminal penalties (imprisonment) replaced by civil penalties like monetary fines, promoting compliance over punishment.

**Revised Factory Thresholds:** Applicability increased from 10 to 20 workers (with power) and 20 to 40 workers (without power), reducing compliance burden for small units.

**Social Security Fund:** Establishes a fund for unorganised workers, financed through penalties and compounding fees, for their welfare and benefit delivery.

**Contract Labour- Welfare & Wages:** Principal employers to provide welfare facilities like health and safety measures to contract workers. If the contractor fails to pay wages, the principal employer has to pay unpaid wages to the contract labour.

**Working Hours & Overtime:** Normal working hours capped at 8 hours/day and 48 hours/week. Overtime allowed only with worker consent and paid at twice the regular rate.

**Inspector-cum-Facilitator System:** Inspectors will now act as facilitators with an objective to help employers comply with law, rules and regulations rather than merely policing them.

### **The Transformative Power of Labour Codes**

India's new Labour Codes make labour laws simpler, fairer, and more in tune with today's work environment. They **protect workers' rights, improve safety and social security, make it easier for businesses to comply with rules, and create more job opportunities in a growing economy.** The enacted Labour Codes bring out following transformations in the labour market:

- *Align labour laws with the current economic scenario* by modernizing regulations in accordance with evolving work patterns, technological advancements, and economic realities.
- *Ensure the safety, health, social security, and wage security of every worker* through a unified and comprehensive framework encompassing all categories of workers.
- *Enhance employment opportunities* by simplifying procedures and fostering a business-friendly environment that promotes investment and economic growth.
- *Facilitate easier compliance* by introducing uniform definitions, single registration, single return, and simplified online systems for seamless adherence.
- *Encourage the use of technology* in the administration of labour laws through digital registration, licensing, and inspections for improved efficiency and transparency.
- *Strengthen transparency and accountability* in enforcement through online, risk-based inspection mechanisms and objective implementation processes.
- *Achieve simplification, harmonization, and rationalization* of the regulatory framework by consolidating multiple labour laws into four comprehensive Codes, ensuring consistency and reducing administrative burden.

### **Conclusion**

Establishment of the new Labour Codes marks a transformative step in India's labour landscape—one that balances the welfare of workers with the efficiency of enterprises. These provisions simplify compliance, promote safety, and ensure fairness in wages. Moreover, these reforms lay the foundation for a more equitable, transparent, and growth-oriented economy. They reaffirm India's commitment to fostering a modern labour ecosystem that empowers both workers and industry, paving the way for inclusive and sustainable progress.

## **DPDP Rules, 2025 Notified**

- **DPDP Rules notified** on 14 November 2025 and the rules give **full effect** to the Digital Personal Data Protection Act, 2023.

**CIRCULARS - MASTER CIRCULARS ISSUED BY SEBI DURING THE MONTH – NOVEMBER 2025**

<b>Date</b>	<b>Title</b>
<b>Nov 28, 2025</b>	<b>Reclassification of Real Estate Investment Trusts (REITs) as equity related instruments for facilitating enhanced participation by Mutual Funds and Specialized Investment Funds (SIFs)</b>
<b>Nov 27, 2025</b>	<b>Additional incentives to distributors for onboarding new individual investors from B-30 cities and women investors</b>
<b>Nov 25, 2025</b>	<b>Specification of the terms and conditions for Debenture Trustees for carrying out activities outside the purview of SEBI</b>
<b>Nov 25, 2025</b>	<b>Modifications to Chapter IV of the Master Circular for Debenture Trustees dated August 13, 2025</b>
<b>Nov 25, 2025</b>	<b>Timeline for submission of information by the Issuer to the Debenture Trustee(s)</b>

**18.11.2025: Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Fifth Amendment) Regulations, 2025. A WRITE UP ON THIS WAS CIRCULATED TO ALL THE MEMBERS BY THE CHAIRMAN OF THE COMMITTEE. KINDLY REFER THE SAME.**

**CONSULTATION PAPERS ISSUED BY SEBI FOR COMMENTS FROM PUBLIC**

**DURING THE MONTH NOVEMBER 2025**

- 1. CONSULTATION PAPER FOR PUBLIC COMMENTS** Sub: Ease of doing investment -Review of simplification of procedure and standardization of formats of documents for issuance of duplicate securities certificates.
- 2. DRAFT CIRCULAR FOR PUBLIC COMMENTS** Sub: Ease of investments and ease of doing business measures -Review of the 'Facility for Basic Services Demat Account (BSDA) for Financial Inclusion.'
- 3. Extension in timeline to submit comments on consultation paper on "Comprehensive review of SEBI (Mutual Funds) Regulations, 1996.**
- 4. Consultation Paper on amendments to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018, with the objective of enhancing ease of doing business and increasing the participation of retail investors in public issue.**
- 5. Consultation paper on Amendments to SEBI (CAPSM) Regulations, 2007**

**Press Release No.77/2025 - Mumbai November 28, 2025**  
**Securities and Exchange Board of India (Informal Guidance) Scheme,**  
**2025**

The Securities and Exchange Board of India (Informal Guidance) Scheme 2003 ('IG Scheme, 2003') was issued on June 24, 2003 to enable certain entities to obtain guidance from the Securities and Exchange Board of India ('Board') on the applicability of laws and regulations administered by it, in the form of 'No Action Letter' or 'Interpretive Letter'. **The Board has approved the substitution of the existing IG Scheme, 2003 with the Securities and Exchange Board of India (Informal Guidance) Scheme, 2025.** In view of the same, **with effect from December 01, 2025, the processing of all informal guidance applications shall be governed by the Securities and Exchange Board of India (Informal Guidance) Scheme, 2025 ('IG Scheme, 2025')**, which broadens the scope of the Scheme and enables stock exchanges, clearing corporations, depositories and Managers of Pooled Investment Vehicles registered with the Board, to seek guidance from the Board. It also envisages streamlining and structuring of the process for seeking guidance from the Board, by creation of a nodal cell for processing all informal guidance applications. The eligible applicants are required to forward their applications to the email id: [iguidance@sebi.gov.in](mailto:iguidance@sebi.gov.in), in the format specified in Schedule I to the IG Scheme, 2025, accompanied with a revised application fee, payable via the SEBI payment module. The Securities and Exchange Board of India (Informal Guidance) Scheme, 2025 may be accessed via this link.

**NO CIRCULARS WERE ISSUED IN THE MONTH OF NOVEMBER 2025**

**BY MINISTRY OF CORPORATE AFFAIRS**

**NOTIFICATIONS ISSUED BY MINISTRY OF CORPORATE AFFAIRS – NOVEMBER 2025**

**MINISTRY OF CORPORATE AFFAIRS NOTIFICATION** New Delhi, the 3rd November, 2025

**G.S.R. 811(E).— In exercise of the powers conferred by sections 173, 177, 178 and 186 read with section 469 of the Companies Act, 2013 (18 of 2013), the Central Government hereby makes the following rules further to amend the Companies (Meetings of Board and its Powers) Rules, 2014, namely: —**

**1. (1) These rules may be called the Companies (Meetings of Board and its Powers) Amendment Rules, 2025.**

**(2) They shall come into force on the date of their publication in the Official Gazette.**

**2. In the Companies (Meetings of Board and its Powers) Rules, 2014, in rule 11, for sub-rule (2), the following sub-rule shall be substituted, namely: —**

**'(2) For the purposes of clause (a) of sub-section (11) of section 186 of the Act, the expression "business of financing industrial enterprises" shall include —**

**(i) with regard to a Non-Banking Financial Company registered with the Reserve Bank of India, "business of giving of any loan to a person or providing any guaranty or security for due repayment of any loan availed by any person in the ordinary course of its**

*business"; and (ii) with regard to a Finance Company registered with the International Financial Services Centres Authority, "activities as provided in sub-clause (a), or sub-clause (e) of clause (ii) of sub-regulation (1) of regulation 5 of the International Financial Services Centres Authority (Finance Company) Regulations, 2021 in the ordinary course of its business".*

## ARTICLE

### ***Mastering the Maze: Effectively Decode Related Party Transactions***

#### **Abstract**

*Related Party Transactions (RPTs) are a critical yet complex feature of corporate finance, offering potential strategic efficiencies while simultaneously posing significant risks to governance and shareholder value. Often buried in the footnotes of financial reports, these deals—Involving entities connected by control or influence—represent a crucial focus for regulators, auditors, and investors.*

*This deep-dive article provides a practical framework for decoding the RPT maze. We move beyond simple definitions to outline the indispensable steps for effective oversight: rigorous identification of related parties, implementation of a robust arm's length principle for fair valuation, and strict adherence to mandated tiered approval thresholds. Crucially, we analyze the red flags that indicate potential value leakage or conflicts of interest, emphasizing the need for independent Audit Committee scrutiny. Ultimately, mastering RPTs is not merely a compliance burden but a strategic governance imperative essential for unlocking corporate transparency and sustaining investor trust in today's complex business environment.*

#### **Introduction**

*In the intricate world of corporate finance, few areas are as strategically vital—and potentially fraught with peril—as Related Party Transactions (RPTs). These dealings—which occur between a company and entities or individuals that can exert control or influence—are often essential for operational efficiency, yet they carry an inherent risk of conflicts of interest and value diversion. While regulators and standard-setters have erected guardrails through mandated disclosures, the sheer complexity and sheer volume of these transactions can make them feel like an impenetrable maze for investors and governance professionals. This article is your guide to navigating that labyrinth. We'll decode the mechanics of RPTs, transforming them from confusing footnotes into comprehensible indicators of corporate health. By implementing a systematic approach to identification, valuation, and approval, we can march from merely complying with regulations to truly Mastering the Maze and building a robust framework for ethical, transparent, and sustainable growth.*

*In India, the regulatory focus on RPTs has intensified with a series of amendments in the Companies Act, 2013, SEBI (LODR) Regulations, and adoption of IND AS 24. These frameworks aim to ensure that RPTs are disclosed, reviewed, and approved appropriately. Yet, implementation challenges persist, which range from identification to disclosure, often requiring significant effort from compliance professionals, particularly Company Secretaries.*

### **ARRAY OF LEGAL AND REGULATORY PROVISIONS**

*India's legal framework around RPTs is multi-layered and integrates regulatory requirements of corporate, securities, accounting and tax laws. The primary regulatory sources include:*

#### ***Companies Act, 2013***

- *Section 2(76): Defines 'related party' comprehensively to include directors, KMPs, their relatives, and entities over which they exercise significant influence.*
- *Section 188: Governs transactions with related parties and mandates board and, in certain cases, shareholder approval, especially if the transaction exceeds prescribed thresholds.*
- *Rule 15 of Companies (Meetings of Board and its Powers) Rules, 2014: Specifies thresholds for prior approvals and procedural nuances*

#### ***SEBI (LODR) Regulations, 2015***

***Regulation 23:*** *Applies to listed companies. It mandates prior approval of the Audit Committee, disclosure of material RPTs to stock exchanges, and shareholder approval for significant transactions. Audit Committees must grant omnibus approval where needed, with disclosures recorded in the minutes and periodic reviews ensured.*

#### ***Income-Tax Act, 1961***

*Transfer pricing provisions under Sections 92–92F apply to international and specified domestic RPTs. The arm's length principle governs pricing and disclosure to ensure tax neutrality. These interlinked laws aim to ensure fairness, transparency, and accountability in RPTs.*

### ***GLOBAL PERSPECTIVE***

*Globally, corporate regulators recognize RPTs as a source of potential abuse if left unchecked. Hence, most jurisdictions have robust laws governing disclosure and approval processes.*

- ***United States:*** *SEC mandates disclosure of material RPTs in financial statements (e.g., in Form 10-K). The Sarbanes-Oxley Act restricts certain types of insider transactions, such as personal loans to executives. Independent Directors play a key role in approval and oversight.*

- **United Kingdom:** Under the UK Listing Rules, shareholder approval is mandatory for significant RPTs. The UK Corporate Governance Code emphasizes Board independence and oversight of RPTs.
- **OECD Guidelines:** Encourage disclosure and fairness in RPTs, especially in state-owned enterprises. Recommend that all material RPTs be approved by the board and, where applicable, shareholders.
- **IFRS (IAS 24):** Like Ind AS 24, it mandates disclosure of relationships, nature of transactions, amounts involved, and outstanding balances.

Despite differences in thresholds and procedures, the common global theme is: transparency, independence, and accountability.

## ***RELATED PARTY TRANSACTION Vs TRANSACTION WITH RELATED PARTY***

### ***RELATED PARTY TRANSACTION (RPT)***

A Related Party Transaction (RPT) refers to a specific kind of transaction that a company enters into with a person or entity that is classified as a “related party” under the Companies Act, 2013 or relevant accounting standards.

The term doesn’t just describe any transaction between related parties — rather, it includes only those transactions that fall within certain prescribed categories and may have a potential conflict of interest.

### ***Definition under Section 188 of the Companies Act, 2013***

A related party transaction includes the following dealings between a company and its related party:

1. Sale, purchase, or supply of any goods or materials
2. Selling or otherwise disposing of, or buying, property of any kind
3. Leasing of property of any kind
4. Availing or rendering of any services
5. Appointment of any agent for purchase or sale of goods, materials, services, or property
6. Appointment of a related party to any office or place of profit in the company, its subsidiary, or associate company
7. Underwriting the subscription of any securities or derivatives thereof of the company

These transactions, when conducted between the company and a related party, are governed by Section 188 and require Board or shareholders' approval depending on the monetary thresholds prescribed in the Companies (Meetings of Board and its Powers) Rules, 2014.

### **Purpose of Regulation**

The primary objective behind regulating RPTs is to ensure that:

- Such transactions are conducted at arm's length and in the ordinary course of business, and
- They do not result in undue advantage to related parties at the expense of shareholders or the company's interest.

### **TRANSACTION WITH A RELATED PARTY**

A transaction with a related party is a broader term that encompasses any financial or commercial dealing with a related party, whether or not it meets the definition of a "related party transaction" under Section 188.

In other words, **every RPT is a transaction with a related party, but not every transaction with a related party is an RPT.**

While these are still transactions with related parties, they may not qualify as related party transactions requiring approval under Section 188.

However, disclosure may still be required under Accounting Standard (AS) 18 or Ind AS 24, as these standards focus on transparency in reporting the company's relationship with related parties.

### **KEY DIFFERENCES**

<b>Basis</b>	<b>Related Party Transaction (RPT)</b>	<b>Transaction with a Related Party</b>
Scope	Narrower — covers only those transactions specified under Section 188	Broader — includes all transactions involving related parties
Focus	Type of transaction and its regulatory implications	Relationship between the parties
Legal Framework	Governed by Section 188 of the Companies Act, 2013	Governed mainly by disclosure requirements under AS 18/IND AS 24
Approval Requirement	May require Board / Shareholders' approval depending on value thresholds	Usually no prior approval required unless it becomes an RPT
Disclosure	Mandatory under both the Act and accounting standards	Required under accounting standards if material
Example	Company sells assets to a director's firm	Company reimburses a director's official travel expenses

**The distinction is important for companies to:**

1. Maintain compliance with the Companies Act,
2. Ensure transparency in financial statements, and
3. Uphold good corporate governance standards.

**REPORTING REQUIREMENTS**

**Private Limited Companies:**

Private limited companies in India are required to adhere to specific statutory reporting and governance requirements for related party transactions (RPTs). While the compliance regime is somewhat less burdensome compared to public companies, it still prioritizes transparency and regulatory discipline.

**Key Compliance Obligations**

<b>Section 188 compliance:</b>	<b>Board approvals</b>	<b>Shareholder approval</b>	<b>Registers and disclosures</b>	<b>Financial statement disclosures</b>	<b>Transparency expectations</b>
<p><i>Transactions with related parties that exceed prescribed thresholds under Section 188 of the Companies Act, 2013, mandate board approval. In some cases, shareholder approval may be exempt if specific conditions outlined in the Act are satisfied</i></p>	<p><i>Approval from the Board of Directors is mandatory for RPTs beyond certain monetary limits, ensuring oversight and accountability.</i></p>	<p><i>While relaxed for private companies, shareholder approval might be required unless they meet exemption criteria based on the nature of the transaction and the parties involved.</i></p>	<p><i>Maintenance of Register MBP-4 is compulsory for recording contracts or arrangements in which Directors are interested. Directors must make disclosures in Form MBP 1 regarding their interests in any company, body corporate, or association of individuals</i></p>	<p><i>If the company is compliant with Indian Accounting Standards (Ind AS), disclosures for RPTs must be included under Ind AS 24 in the financial statements</i></p>	<p><i>Private companies, particularly those engaged in transactions with institutional investors or involved in mergers and acquisitions, are expected to uphold transparency like public companies despite a nominally lighter compliance burden.</i></p>

## **PUBLIC LIMITED COMPANIES**

Public and listed companies are subject to a far more rigorous and comprehensive governance structure for related party transactions, aimed at safeguarding minority shareholders and maintaining investor confidence

### **MANDATORY APPROVALS AND CONTROL**

<b><i>Audit committee approvals</i></b>	<b><i>Board approvals</i></b>	<b><i>Shareholder approvals for material transactions</i></b>
<i>All RPTs require approval by the audit committee before execution, ensuring independent scrutiny.</i>	<i>Certain related party transactions necessitate formal Board approval in addition to audit committee clearance</i>	<i>If a related party transaction qualifies as 'material' under Regulation 23 of SEBI Listing Obligations and Disclosure Requirements (LODR), shareholder approval by way of an ordinary resolution is mandatory</i>

### **MANDATORY INCLUSIONS IN STATUTORY REPORTS**

<b><i>Board's Report</i></b>	<b><i>Notes to financial statements</i></b>	<b><i>Annual Return (Form MGT-7)</i></b>
<i>Summary of related party transactions to be included</i>	<i>Detailed disclosures in the annual financial statements as per Ind AS 24.</i>	<i>RPTs must be reported in the annual return submitted to the Registrar of Companies</i>

### **LISTED COMPANIES – A DEEP DIVE on RPT**

The Securities and Exchange Board of India (SEBI) has consistently reinforced its commitment to strengthening governance frameworks for listed entities, with particular emphasis on Related Party Transactions (RPTs).

In collaboration with key industry bodies ASSOCHAM, CII, and FICCI, SEBI introduced a standardized disclosure regime through the Industry Standards on Minimum Information to be placed before the Audit Committee and the Shareholders for RPT Approvals, aiming to balance transparency with operational feasibility.

Following the initial mandate via Circular dated February 14, 2025, and subsequent extensions through March 21, 2025, and June 26, 2025, the framework came into effect on September 1, 2025. However, industry stakeholders continued to raise concerns over the complexity and volume of disclosures required, especially for low-value transactions.

Responding to these representations, SEBI at its 211th Board Meeting held on September 12, 2025, approved targeted relaxations to ease compliance burdens. This culminated in the issuance of SEBI Circular No. SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/135 dated **October 13, 2025**, effective immediately, which introduces threshold-based exemptions and a tiered disclosure format under Annexure-13A for moderate-value Related Party Transactions (RPTs) as under:

- *Part A: Minimum information to be placed before the Audit Committee*
- *Part B: Minimum information to be placed before Shareholders*

Therefore, Listed entities shall follow the format as prescribed in the said circular (Annexure-13A) or RPT Industry Standards (RPT ISN), as may be applicable, to ensure compliance with Part A and Part B of Section III-B of the Master Circular read with Regulation 23(2), (3) and (4) of LODR Regulations

### ***Exempted Categories***

*The provision of the Circular shall not apply to the following classes of listed entities:*

- *Entities having only non-convertible securities listed.*
- *High value debt-listed entities.*
- *Listed entities with paid-up equity share capital  $\leq$  ₹10 crore and net worth  $\leq$  ₹25 crore (as on the last day of the previous financial year).*
- *Entities listed on the SME Exchange, except where paid-up equity share capital exceeds ₹10 crore and net worth exceeds ₹25 crore.*

### ***Legal Background and Regulatory Framework (Links Below)***

- [SEBI Circular dated 26th June, 2025](#)
- [Industry Standards Note on Minimum information to be provided to the Audit Committee and Shareholders for approval of Related Party Transactions \(as revised\) dated June 26, 2025 \(“RPT ISN”\).](#)
- [SEBI Circular dated 13th October, 2025](#)

### ***Step-by-Step Compliance Check for RPT Disclosure Requirements***

#### **Step 1: Determine the Financial Thresholds – Moderate RPT and Material RPT Thresholds**

- ✓ Refer to the last audited annual consolidated turnover of the listed entity.
- ✓ Calculate:
  - ❖ 1% of the last audited annual consolidated turnover of the listed entity.
  - ❖ Compare with ₹10 crore.

- ❖ Identify the lower of the two → defines the Moderate Value RPT threshold under SEBI Circular dated October 13th, 2025.
- ✓ Also calculate:
  - ❖ 10% of the last audited annual consolidated turnover of the listed entity.
  - ❖ Compare with ₹1000 crore.
  - ❖ Identify the lower of the two → defines the Materiality threshold under Regulation 23 of SEBI LODR

#### **Step 2: Identify the Nature and Value of the Proposed RPT**

- Determine the type of transaction (e.g., Sale/Purchase, loan/ICD, Borrowings, Investment, Service contract, Royalty Payments).
- Calculate the aggregate value of transactions with the same related party during the financial year.
- Include: Proposed transactions + Previously approved transactions + Ratified transactions

#### **Step 3: Classify the RPT Category**

<b>RPT Category</b>	<b>Threshold Criteria</b>
Small Value RPT	≤ ₹1 crore
Moderate Value RPT	> ₹1 crore but ≤ lower of 1% of turnover or ₹10 crore
High Value RPT	> Moderate threshold but < Materiality threshold
Material RPT	> ₹1000 crore or >10% of turnover (whichever is lower)

#### **Step 4: Apply the Relevant Disclosure Standard**

<b>Category</b>	<b>Disclosure Requirement</b>
Small Value RPT	Exempt from SEBI Circular and ISN; Governed by Reg. 23(3) and Rule 6A of MBP Rules
Moderate Value RPT	Requires Annexure-13A disclosures to Audit Committee and Shareholders
High Value RPT	Requires ISN Parts A & B disclosures to Audit Committee
Material RPT	Requires ISN Parts A, B & C disclosures; Shareholder approval mandatory

## **Step 5: Prepare and Present Disclosures Accordingly**

### **For Audit Committee:**

- Use Annexure-13A (Part A) or ISN Part A and B depending on RPT category.

### **For Shareholders:**

Use Annexure-13A (Part B) for Moderate Value RPTs

*[This scenario is unlikely to arise, as the threshold for moderate-value RPTs under Annexure 13A (Part B) is considerably lower than the materiality threshold prescribed under Regulation 23 of the SEBI LODR, 2015. Under Regulation 23, shareholder approval is mandated only for material RPTs, for which a comprehensive Industry Standard Framework (Part C) is already in place. Therefore, practical applicability of Annexure-13A (Part B) appears to be limited].*

**Use ISN Parts A + B s C for Material RPTs.**

**With this background Let's delve into Related Party Transactions (RPTs) by understanding the following:-**

1. Point-wise comparison of the minimum information required by ISF Part A and Annexure 13A (Part A) for Audit Committee approval
2. Point wise Comparison of the minimum information required ISF Parts B and by Annexure 13A [Part A] for Audit Committee approval
3. Point-wise comparison of the minimum information required ISF Part C and by Annexure 13A [Part B] for Shareholders approval

**Point-wise comparison of the minimum information required by ISF Part A and Annexure 13A (Part A) for Audit Committee approval:**

*The Industry Standard Framework (ISF) Part A and Annexure 13A address the minimum information required for the Audit Committee (AC) approval of Related Party Transactions (RPTs). The key distinction is driven by the transaction value: ISF Part A applies to all RPTs above the moderate threshold, requiring comprehensive details, while Annexure 13A is a simplified format specifically for "Moderate value RPTs" (RPTs that do not exceed the lower of 1% of annual consolidated turnover or Rupees Ten Crore, but exceed Rs. One Crore).*

Details required for RPT	ISF Part A Requirements v/s Annexure 13A (Part A) [SEBI Circular October 13, 2025]
A(1): Basic details of the related party	Annexure 13A is simplified, requiring only the <b>Name</b> . ISF Part A requires more granular identity details, specifically the <b>Country of incorporation</b> and <b>Nature of business</b> of the related party.
A(2): Relationship and Ownership of the related party	While the basic relationship disclosure is common, ISF Part A mandates <b>comprehensive ownership details</b> , including the <b>shareholding of the listed entity/subsidiary in the related party</b> and the <b>shareholding of the related party in the listed entity/subsidiary</b> (direct or indirect).
A(3): Details of previous transactions	ISF Part A requires <b>detailed historical data</b> , including the total amount of all transactions with the related party during the <b>last financial year</b> and in the <b>current financial year up to the preceding quarter</b> . This historical tracking is absent in Annexure 13A, reflecting the simplified nature of disclosures for moderate- value RPTs.
A(3): Details of previous transactions (Default)	ISF Part A requires <b>the disclosure of any default</b> made by the related party concerning any obligation during the last financial year. This is not required under Annexure 13A.
A(4): Amount as % of Related Party Turnover	ISF Part A requires this disclosure if the related party's turnover information is available. Annexure 13A explicitly makes this disclosure <b>voluntary</b> . <i>(This reflects an attempt to facilitate ease of doing business for lower-value RPTs by reducing the mandatory burden of obtaining counter-party financial data.)</i>
A(4): Financial performance of the related party	ISF Part A requires <b>key financial metrics</b> (Turnover, Profit After Tax, Net worth) of the related party for the immediately preceding financial year. <i>[This ensures the AC assesses the financial stability of the counterparty, a requirement deemed necessary for higher-value transactions subject to ISF Part A.]</i>
A(4): Materiality Check	ISF Part A requires an explicit check of whether the proposed transactions, taken together with previous transactions, would render the proposed RPT a <b>material RPT</b> . Since Annexure 13A applies specifically to transactions below the threshold required to be placed before shareholders, this check is less relevant to the Annexure.

A(5): Details of director/KMP Interest	ISF Part A requires <b>detailed disclosure</b> of the <b>name of the director/KMP</b> interested in the transaction and their <b>direct or indirect shareholding in the related party</b> . This crucial conflict-of-interest detail is not explicitly mandated in Annexure 13A
A(5): Omnibus Approval	ISF Part A requires disclosure of whether <b>omnibus approval is being sought</b> .
A(5): Multi-year Transaction Break-up	ISF Part A requires that if a proposed transaction extends over more than one financial year, the estimated <b>break-up financial year-wise</b> must be provided. Annexure 13A simply requires the <b>value</b> .
Specific Financial Terms (Loans/ICDs/Advances/Investments)	For transactions involving loans, ICDs, or investments, <b>Annexure 13A integrates specific financial transaction requirements</b> (usually covered by ISF Part B) directly into its AC disclosure list. <b>ISF Part A alone does not require these details</b> ; they are only mandated when Part B is triggered (e.g., B(2) or B(3)).
<i>Common Requirements (Mandatory in both)</i>	<i>Both frameworks require the core information necessary for basic review, including: Type, material terms, and particulars of the transaction ; Tenure; Value; Percentage of listed entity's annual consolidated turnover; Justification; and placing the valuation/external report before the AC.</i>

#### **Industry Standard Framework Part B and Part C v/s Annexure 13A [Part A and B]**

*The Industry Standard Framework (ISF) Parts B and C are designed for Specific RPTs exceeding the threshold for "Moderate value RPTs" (i.e., above the lower of 1% of annual consolidated turnover or INR 10 Crore). These Parts require extensive, transaction-specific, and risk-focused disclosures. In contrast, Annexure 13A (Part A for Audit Committee approval, Part B for Shareholders approval) is a simplified set of mandatory disclosures applicable only to Moderate value RPTs.*

#### ***Point wise Comparison of the minimum information required ISF Parts B and by Annexure 13A [Part A] for Audit Committee approval***

*ISF Part B applies specific additional disclosures for seven types of RPTs. Annexure 13A (A) requires detailed disclosures for financial transactions (loans/investments) but eases other conditional disclosures mandatory in ISF Part B.*

<b>Particulars</b>	<b>ISF Part B Requirement</b>	<b>Annexure 13A [Part A] Requirement</b>
<b>Sale/Purchase (B1) Pricing and Bidding Details</b>	<p>Requires the</p> <ul style="list-style-type: none"> <li>• Basis of price determination and</li> <li>• Details of bidding/other processes for choosing a party for purchase and sale of goods/supply of services.</li> </ul>	<p>Requires <b>Type, material terms, and particulars</b> of the proposed transactions but <b>does not explicitly mandate disclosure of the price basis or bidding process.</b></p>
<b>Trade Advances (B1) Specifics</b>	<p>Requires amount, tenure, and whether the trade advance is self-liquidating.</p>	<p>No specific, dedicated field for "Trade advances" in Annexure 13A (A).</p>
<b>Loans/Investments (B2/B3) General Details</b>	<p>Requires detailed information on</p> <ul style="list-style-type: none"> <li>• Source of funds,</li> <li>• Cost of borrowing (if indebtedness incurred),</li> <li>• Nature of indebtedness, and</li> <li>• Rate of Interest at which LE borrows from its bankers/other lenders and</li> <li>• Purpose (for loans/investments).</li> </ul>	<p>Annexure 13A (A) Para (f) also <b>explicitly requires these exact details</b> (source, cost of funds, interest rate, security, purpose).</p> <p><i>(This is one area where Annexure 13A mirrors the transactional depth of ISF Part B, reflecting the high-risk nature of giving funds regardless of value.)</i></p>
<b>Guarantee/Surety (B4) Risk and Recovery</b>	<p>Requires</p> <ul style="list-style-type: none"> <li>• Rationale for giving the guarantee,</li> <li>• Confirmation of legal binding obligation,</li> <li>• Material Covenants of the Proposed RPT including details of commission received, and the</li> <li>• contractual provisions on how the listed entity will recover the monies if the guarantee is invoked.</li> </ul>	<p>Annexure 13A <b>does not specifically mandate</b> these critical risk, recovery, and compensation details related to providing guarantees.</p>
<b>Asset/Share Disposal (B6) Historicals Impact</b>	<p>Requires details on the</p> <ul style="list-style-type: none"> <li>• Bidding/selection process,</li> <li>• Basis of price,</li> <li>• Reasons for disposal,</li> <li>• Financial track record (Turnover, Net worth, Net Profit) of the asset/subsidiary for the last three financial years, and the</li> <li>• Expected financial impact on the listed entity's financials.</li> </ul>	<p>Annexure 13A <b>does not specifically mandate</b> all these specific historical data and detailed financial impact assessments.</p>

<b>Royalty Payments (B7) Structure and Comparable</b>	Requires the <b>Purpose break-up</b> (brand, technology, fee, etc.), confirmation on whether the parent company charges royalty at a <b>uniform rate</b> from all group companies in other jurisdictions, and disclosure of <b>minimum/maximum rates</b> received by the parent from group entities abroad.	Annexure 13A requires disclosure of the type, terms, and justification, but <b>does not require the complex global royalty structure or rate comparison</b> mandated by ISF Part B.
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***Point-wise comparison of the minimum information required ISF Part C and by Annexure 13A [Part B] for Shareholders approval***

*ISF Part C applies only if a proposed RPT (specifically, Loan, Investment, Guarantee, Borrowing, Disposal, or Royalty) is also a Material RPT (exceeding 10% of consolidated turnover or ₹1000 Crore) requiring the minimum information to be provided to the Shareholders for approval (including modification/ratification) of RPTs.*

<b>Particulars</b>	<b>ISF Part C Requirement</b>	<b>Annexure 13A [Part B] Requirement</b>
<b>C(1)/C(2)/C(3) Counterparty Credit Assessment</b>	Requires disclosure of the <b>Latest credit rating</b> of the related party (if the proposed transaction type).	Annexure 13A <b>does not require</b> any credit rating disclosure for the related party. <i>(This high-risk financial assessment is reserved for Material RPTs)</i>
<b>C(1)/C(3) Solvency and Default History</b>	Requires disclosure of <ul style="list-style-type: none"> <li>• <b>Default on borrowings</b> over the last <b>three financial years</b>,</li> <li>• Current <b>NPA status</b>,</li> <li>• Whether the related party is a “<b>wilful defaulter</b>,”</li> <li>• Whether it is undergoing an <b>insolvency resolution or liquidation process</b>,</li> <li>• Checks against <b>Section 2GA disqualifications</b> (if applicable).</li> </ul>	Annexure 13A <b>does not require</b> disclosure of the related party's default history, NPA status, or involvement in insolvency proceedings. <i>(These solvency checks are critical only for RPTs that meet the Materiality threshold)</i>
<b>C(4) Listed Entity Borrowing Ratios</b>	For borrowing RPTs, requires disclosure of <ul style="list-style-type: none"> <li>• <b>Debt-to-Equity Ratio</b> and</li> <li>• <b>Debt Service Coverage Ratio</b> (DSCR) of the listed entity (or subsidiary) <b>both before and after</b> the proposed transaction.</li> </ul>	Annexure 13A <b>does not require</b> the calculation or disclosure of these mandatory capital structure and leveraging ratios.

<b>C(6) Royalty Historical Data and Peer Comparison</b>	<p>Requires disclosure of the</p> <ul style="list-style-type: none"> <li>• <b>Gross amount of royalty paid</b> and its <b>Purpose</b></li> <li>• <b>Break up</b> for the <b>last three financial years</b>.</li> <li>• <b>Royalty paid as a % of Net Profits</b> over the last three financial years and</li> <li>• Performing a detailed <b>Peer Comparison</b> (with a minimum of 3 industry peers).</li> </ul>	Annexure 13A <b>does not require</b> any historical financial data, ratio calculation, or mandatory peer comparison.
<b>Valuation Report Access</b>	Requires providing a <b>web-link</b> and <b>QR Code</b> for shareholders to access the valuation or external party reports.	Requires only a <b>statement that the valuation or external report</b> will be made available through the registered email address of the shareholders.
<b>CEO/CFO Certificate</b>	Requires disclosure that the Audit Committee has reviewed the certificates provided by the CEO/CFO confirming the RPT is in the interest of the listed entity.	Does not require a statement confirming the review of the CEO/CFO certificates.

*The SEBI Circular dated 13 October 2025 signifies a well-intentioned step towards proportionate compliance by introducing a separate disclosure regime for moderate-value Related Party Transactions (RPTs) through Annexure 13A. By defining a threshold of the lower of 1% of consolidated turnover or ₹10 crore, SEBI has sought to streamline information requirements and ease procedural burdens for smaller transactions, aligning the regulatory framework with the principles of materiality and practicality.*

*While the tiered disclosure structure demonstrates SEBI's commitment to transparency and governance, its actual application for disclosure required for shareholder Approval appears limited. Nevertheless, the Circular underscores SEBI's responsive and consultative approach, reflecting an effort to balance ease of doing business with the imperatives of oversight and accountability.*

#### **Penalties under the Companies Act, 2013 (Section 188)**

<b>Violation Type</b>	<b>Penal Provision</b>	<b>Listed Company</b>	<b>Private / Unlisted Public Company</b>
<i>Monetary Penalty (On the Director/Employee)</i>	Section 188(5)	<i>Fine of ₹25 Lakh</i>	<i>Fine of ₹5 Lakh</i>
<i>Imprisonment (On the Director/Employee)</i>	Section 188(5)	<i>Imprisonment up to 1 year OR Fine OR Both</i>	<i>No Imprisonment for RPT violation</i>
<i>Consequence of Non-Ratification</i>	Section 188(3)	<i>The RPT becomes voidable at the option of the Board or shareholders.</i>	<i>The RPT becomes voidable at the option of the Board or shareholders.</i>

<i>Recovery of Loss</i>	Section 188(4)	<i>The company can proceed against the concerned director or employee to recover any loss sustained as a result of the non-compliant RPT.</i>	<i>The company can proceed against the concerned director or employee to recover any loss sustained as a result of the non-compliant RPT.</i>
<i>Disqualification of Director</i>	Section 164(1)(g)	<i>A director is disqualified from being appointed as a director for five years if he has been convicted of the offence dealing with RPTs under Section 188.</i>	<i>Applies to directors of all company types.</i>

#### ***Additional Penalties for Listed Companies (SEBI LODR)***

*Listed Companies face dual compliance requirements and additional, often more severe, penalties from SEBI for breaches of the SEBI (LODR) Regulations, 2015 (Regulation 23), which cover approval and disclosure of RPTs.*

#### ***A. Non-Monetary Penalties by SEBI***

*SEBI can take various actions against the listed company and its directors for violating the RPT regulations (e.g., failure to obtain Audit Committee/Shareholder approval for material RPTs, or failure to disclose RPTs publicly):*

*Suspension of Trading: Temporarily suspending the trading of the company's shares.*

*Fines on the Company: Levying monetary penalties on the company under the SEBI Act, 1992, which can be substantial and unrelated to the penalties under the Companies Act.*

*Action against Directors/Promoters: Imposing restrictions on access to the securities market for the concerned directors or promoters.*

#### ***B. Penalties for Disclosure Failures – Monetary Penalties***

*Failure to make mandated disclosures of RPTs to the stock exchanges, as required by LODR, attracts penalties under the SEBI Act, 1992 (Section 15A to 15HB).*

***Failure to Furnish Information/Returns:*** *Fine of ₹1 lakh per day, up to ₹1 crore.*

*The regulatory environment is significantly stricter for listed companies, emphasizing the protection of public shareholders from self-dealing and conflicts of interest.*

## **ROLE OF A PRACTICING COMPANY SECRETARY IN RPT**

*The Practicing Company Secretary (PCS) plays a vital and multi-faceted role in the governance and compliance of Related Party Transactions (RPTs), acting as the primary compliance assurance professional for the company's Board, Audit Committee, and shareholders.*

*Their duties are crucial across the entire lifecycle of an RPT—from its initial identification to its final disclosure and certification.*

### ***I - Governance and Advisory Role***

*The PCS acts as an expert legal and corporate advisor, ensuring that the company's RPT policy is robust and aligned with all regulatory requirements.*

1. *Policy Formulation: Drafting, reviewing, and updating the company's Policy on Materiality of RPTs as required by the SEBI (LODR) Regulations, 2015, and the Companies Act, 2013.*
2. *Compliance Guidance: Advising the Board of Directors and key managerial personnel (KMPs) on the accurate interpretation of the law, including:*
  - a. *Defining who constitutes a "Related Party" (which is complex and changes based on different laws/accounting standards).*
  - b. *Determining what qualifies as a transaction in the "Ordinary Course of Business" and on "Arm's Length Basis" (ALP).*
3. *Best Practices: Guiding the company on implementing robust internal controls (like ERP system tagging) to flag potential RPTs early, thereby preventing post-facto non-compliance.*

### ***II - Procedural and Documentation Role***

The PCS is responsible for the procedural execution and meticulous documentation required for legal validity.

1. *RPT Identification and Tracking: Maintaining and constantly updating the Master Register of Related Parties and tracking all RPTs throughout the year against the approved thresholds.*
2. *Meeting Management: Facilitating the approval process for RPTs at all three levels:*
  - a) *Audit Committee (AC): Preparing the detailed agenda notes and background information (including justification for ALP or non-ALP status) required for the AC to grant approval, including Omnibus Approvals.*

- b) Board of Directors: Ensuring the interested Director abstains from the discussion and voting, and drafting the Board Resolution.
- c) Shareholders: If required for a Material RPT, drafting the Special Notice for the General Meeting and ensuring the interested related party is prohibited from voting on the resolution.

3. Statutory Records: Ensuring all approved RPTs are promptly recorded and authenticated in the statutory Register of Contracts or Arrangements (e.g., Form MBP-4).

### **III - Audit and Certification Role**

This is the most direct and crucial role where the PCS's professional competence is formally leveraged by the regulators.

Secretarial Audit (Form MR-3): For prescribed companies, the PCS issues a Secretarial Audit Report (SAR) in Form MR-3. This report is mandatory and requires the PCS to specifically comment on the company's compliance with Section 188 of the Companies Act, 2013, concerning RPTs.

Annual Secretarial Compliance Report (ASCR): For listed entities, the PCS issues the ASCR to SEBI, which includes a post-facto review and certification of the company's compliance with the SEBI (LODR) Regulations, 2015—with RPT (Regulation 23) being a key area of focus.

E-Form Certification: The PCS is often required to digitally certify the e-forms filed with the Registrar of Companies (ROC), such as forms relating to RPT approvals, ensuring the procedural steps and documentary evidence support the filing.

#### **Conclusion**

*Mastering the maze of Related Party Transactions (RPTs) is ultimately about embedding transparency and ethical conduct into a company's DNA. RPTs are a double-edged sword: vital for business efficiency yet inherently dangerous due to the potential for self-dealing and wealth expropriation. Effective decoding and governance, therefore, hinge on strict adherence to the Arm's Length Principle (ALP) and meticulous compliance with multi-layered regulations from the Companies Act and SEBI. The Company Secretary (CS) or Practicing Company Secretary (PCS) emerges as the single most crucial assurance provider in this process. By acting as the professional conscience and governance gatekeeper, the CS not only navigates the complex procedural approvals—from the Audit Committee to shareholders—but also provides the mandatory certifications and audits (like the Secretarial Audit). Their comprehensive oversight ensures that every RPT is legally valid, properly disclosed, and ethically executed, thereby safeguarding the company's integrity and protecting the trust placed in the management by minority shareholders.*

## ***Disclaimer:-***

*The views and opinions expressed in this Article are those of the Author of this document and don't represent views of any organization to which she belongs and are based on internal research done by the Author.*

*Every effort is made to avoid error, in spite of that errors and discrepancies may creep in. It is expressly stated that neither the Author nor any of the correspondents will be responsible for any damage to anybody on the basis of this Article. Readers are therefore, requested to cross check with the original sources before taking any decision.*

***C V Kavviya – M.com, ACS, LLB and MBA  
Assistant Company Secretary  
ZF Commercial Vehicle Control Systems India Limited***

## **ARTICLE 2:**

### **LODR REGULATION : 19 AND 20 - DECODED**

#### **REGULATION:19**

##### **Nomination and remuneration committee.**

**Regulation 19 deals with constitution of Nomination and Remuneration Committee:**

Regulation 19 comprises of 6 sub-regulations. Sub Regulation 1(c) was amended with effect from 29.07.2019 and 01.01.2022, Regulation 2A was inserted with effect from 01.04.2019 and in Sub regulations 3A, the word "financial" was inserted with effect from with effect from 13.12.2024.

**19. (1) The board of directors shall constitute the nomination and remuneration committee as follows:**

- (a) the committee shall comprise of at least three directors ;**
- (b) all directors of the committee shall be non-executive directors; and**
- (c) at least two-thirds of the directors shall be independent directors.**

**1.A listed company shall mandatorily constitute a Nomination and Remuneration Committee.**

**2. It shall comprise of at least 3 directors.**

**3. All the directors of the committee shall be non-executive directors.**

4. At least two-thirds of the directors shall be independent directors.

**(2) The Chairperson of the nomination and remuneration committee shall be an independent director.**

1. Chairperson of the committee shall be an independent director.

**Provided that the chairperson of the listed entity, whether executive or non-executive, may be appointed as a member of the Nomination and Remuneration Committee and shall not chair such Committee.**

1. Chairperson of the listed entity whether executive or non-executive can be appointed as a member of the committee but cannot be appointed as a chairperson of the committee.

**(2A) The quorum for a meeting of the nomination and remuneration committee shall be either two members or one third of the members of the committee, whichever is greater, including at least one independent director in attendance.**

1. Quorum for the committee meeting shall be either two members or one third of the members, whichever is higher including at least one independent director being present.

**(3) The Chairperson of the nomination and remuneration committee may be present at the annual general meeting, to answer the shareholders' queries; however, it shall be up to the chairperson to decide who shall answer the queries.**

1. Chairperson of the committee to be present at the AGM to answer shareholders' queries.

**(3A) The nomination and remuneration committee shall meet at least once in a financial year.**

1. The committee is mandatorily required to meet at least once in a financial year i.e a NRC meeting is to be held at least once in a financial year.

**(4) The role of the nomination and remuneration committee shall be as specified as in Part D of the Schedule II.**

#### **ROLE OF NOMINATION AND REMUNERATION COMMITTEE :**

The Role of the committee shall, inter-alia, include the following:

(1) formulation of the criteria for determining qualifications, positive attributes and independence of a director and recommend to the board of directors a policy relating to, the remuneration of the directors, key managerial personnel and other employees;

(1A). For every appointment of an independent director, the Nomination and Remuneration Committee shall evaluate the balance of skills, knowledge and experience on the Board and on the basis of such evaluation, prepare a description of the role and capabilities required of an independent director. The person recommended to the Board for appointment as an independent director shall have the capabilities identified in such description.

For the purpose of identifying suitable candidates, the Committee may:

a. use the services of an external agencies, if required;

- b. consider candidates from a wide range of backgrounds, having due regard to diversity; and
- c. consider the time commitments of the candidates.

(2) formulation of criteria for evaluation of performance of independent directors and the board of directors;

(3) devising a policy on diversity of board of directors;

(4) identifying persons who are qualified to become directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the board of directors their appointment and removal.

(5) whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors.

(6) recommend to the board, all remuneration, in whatever form, payable to senior management.

**REGULATION:20**

**Stakeholders Relationship Committee.**

**Regulation 20 deals with constitution of Stakeholders Relationship Committee:**

Regulation 20 comprises of 6 sub-regulations. Regulation 1 was substituted with effect from 01.04.2019, Regulation 2A was inserted with effect from 29.07.2019, Regulation 3 was substituted with effect from 01.04.2019 and in Sub regulation 3A, the word "financial" was inserted with effect from 13.12.2024.

**20. (1) The listed entity shall constitute a Stakeholders' Relationship Committee to specifically look into various aspects of interest of shareholders, debenture holders and other security holders.**

1. A listed company shall mandatorily constitute a Stakeholders' Relationship Committee.
2. The committee shall specifically look into various aspects of interest of shareholders, debenture holders and other security holders.

**(2) The chairperson of this committee shall be a non-executive director.**

1. Chairperson of the committee shall be a non-executive director.

**(2A) At least three directors, with at least one being an independent director, shall be members of the Committee and in case of a listed entity having outstanding SR equity shares, at least two thirds of the Stakeholders Relationship Committee shall comprise of independent directors.**

1. The committee shall comprise of at least 3 directors.
2. At least one committee member shall be an independent director.
3. In the case of a listed entity having outstanding SR equity shares, at least two-thirds of the committee shall comprise of independent directors.

**(3) The Chairperson of the Stakeholders Relationship Committee shall be present at the annual general meetings to answer queries of the security holders.**

1. Chairperson of the committee to be present at the AGM to answer shareholders' queries.

**(3A) The stakeholders relationship committee shall meet at least once in a financial year.**

1. The committee is mandatorily required to meet at least once in a financial year i.e a SRC meeting is to be held at least once in a financial year.

**(4) The role of the Stakeholders Relationship Committee shall be as specified as in Part D of the Schedule II.**

**Role of Stakeholders Relationship Committee:**

The role of the committee shall inter-alia include the following:

(1) Resolving the grievances of the security holders of the listed entity including complaints related to transfer/transmission of shares, non-receipt of annual report, non-receipt of declared dividends, issue of new/duplicate certificates, general meetings etc.

(2) Review of measures taken for effective exercise of voting rights by shareholders.

(3) Review of adherence to the service standards adopted by the listed entity in respect of various services being rendered by the Registrar and Share Transfer Agent.

(4) Review of the various measures and initiatives taken by the listed entity for reducing the quantum of unclaimed dividends and ensuring timely receipt of dividend warrants/annual reports/statutory notices by the shareholders of the company.

(5) Resolving grievances of debenture holders related to creation of charge, payment of interest/principal, maintenance of security cover and any other covenants.

**CS V V NARESH, PRACTICING COMPANY SECRETARY**

**NOTIFICATIONS ISSUED BY RESERVE BANK OF INDIA:**

**Nov 24, 2025: Amendments to Directions - Compounding of Contraventions under FEMA, 1999**

**Nov 20, 2025: Foreign Exchange Management (Export of Goods and Services) (Second Amendment) Regulations, 2025**

**Nov 14, 2025: Implementation of Section 51A of UAPA,1967: Updates to UNSC's 1267/1989 ISIL (Da'esh) & Al-Qaida Sanctions List: Delisting of 02 Entries**

**Reserve Bank of India (Trade Relief Measures) Directions, 2025**

**Nov 11, 2025: Master Direction – Reserve Bank of India (Repurchase Transactions (Repo)) Directions, 2025**



***FIFTH MEETING OF THE COMPANY LAW AND  
CORPORATE MATTERS COMMITTEE WILL BE  
HELD ON TUESDAY THE 09<sup>TH</sup> DECEMBER 2025 AT  
4 PM AT THE CHAMBER PREMISES. THIS BEING  
LAST MEETING FOR THE CALENDAR YEAR 2025  
BLOCK YOUR CALENDAR NOW ITSELF.***

***WOULD BE HAPPY TO SEE ALL THE MEMBERS  
OF THE COMMITTEE ATTENDING THE MEETING  
IN FULL STRENGTH***