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SHANKAR IAS ACADEMY

Discuss the various impacts related to SEBI's recently approved key changes with respect to related party transactions.

Ans: Related party Transaction, RPT is the deal between 2 or more companies joined by preexisting business relationship or common interests.

RPT is useful for easy capital access, managing contract delays, curtailing costs, mitigating supply constraints etc

2022 OECD report says that in 2006 nearly 5.5% of total income of top 500 companies came from RPT and in 2019 it rose to 11%.

However RPT has major issues and concerns like diversion of funds, non disclosure of RPT, defrauding, manipulating balance sheets, bogus expenses, claim false GST input credit, bogus turn over, window dressing etc.

Balance of risk and benefits is a challenge.

SEBI has recently approved key changes in the policies related to RPT.

(1) ~~Indust~~ promoters, any person/ subsidiaries / entity holding equity shares or benefit interest on basis of 20% in april 2022 and 10% in april 2023 should be included in RPT

Impacts: (1) Determining transactions involving consolidated groups or any other person is a challenge.

(2) Normal financial and other strategic investors will no criteria of RPT

(3) Counterproductive to competitiveness of firms.

(2) Transactions greater than 10% of annual consolidated turnover including foreign transaction also should be under approval of audit committee.

Impacts : March 2020 — Nifty 50 has 50 subsidiaries. keeping track of all reduces efficiency of Audit Committee board

(3) Threshold for obtaining shareholder approval to carry transactions exceeding Rs. 1000 Cr.

Impacts : Nifty 50, of FY2021, 47 companies have turnover between 2000 cr — 5,40,000 cr

So in some cases 1000 cr does not account to 1%.

Hence SEBI's recent ammendment has a risk of policy overkill and affect the business climate. The entire business universe will be impacted of regulations on too stringent and due to fear of infractions, fair business also became severely challenged.