ICGN
International Corporate Governance Network

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

22 August 2025

Dear Sir or Madam,

Subject: Amendments to provisions relating to related party transactions under SEBI (LODR) Regulations, 2015

The International Corporate Governance Network (ICGN) appreciates the opportunity to comment on the consultation paper proposing amendments to provisions relating to related party transactions under SEBI Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015.

Led by investors responsible for assets under management of >US$90 trillion, ICGN is an authority on global standards of corporate governance and investor stewardship. Headquartered in London, our membership is based in more than 40 countries. ICGN's Global Governance Principles and Global Stewardship Principles[1], written from an investor perspective, are widely used by our members in their company assessments and voting decisions, and by regulators when developing corporate governance rules.

Investor views on the risks associated with related party transactions

Investors typically view related party transactions (RPTs) with some caution because they can carry a high risk of conflicts of interest, misuse of company assets, and value destruction, especially in controlled companies or those with weak governance.

Key concerns include:

- RPTs might not be undertaken at market prices, as there might be a conflict of interest for some person(s) in the company.
- RPTs can be used as a mechanism for extracting private benefits of control at the cost of other shareholders. This can range from mild to extreme degrees of expropriation[2].

Robust safeguards and protections must be in place

It is important to ensure that robust safeguards are in place to protect minority shareholders, and to help prevent fraud and misuse of company assets.

Truly independent board members should approve transactions that are material to the company. Furthermore:

[1] International Corporate Governance Network, ICGN Principles of Corporate Governance, 2021.
[2] International Corporate Governance Network, ICGN Viewpoint on Related Party Transactions, 2018.

- Companies should have clear policies in place and regular audits on the integrity of the RTP process.
- Shareholders should have the right to approve significant related party transactions above an appropriate materiality threshold, and this should be based on the approval of a majority of disinterested shareholders. According to the OECD Corporate Governance Factbook 2023, a majority of jurisdictions surveyed require shareholder approval for such transactions.
- Board oversight is key. The board must be responsible for managing the potential conflicts of interest inherent in related-party transactions to ensure that shareholders are treated fairly.
- The Board must have sufficient independence in order to provide this oversight appropriately.

India's progress on related party transaction protections

ICGN appreciates the various steps taken to date by SEBI, with amendments to LODR Regulations, to align India's rules on RTPs with international best practices. We welcome the requirement that companies' audit committees verify the integrity of RTP transactions and that shareholders have a right to vote on material RTPs. We also acknowledge SEBI's adoption of detailed standards on the minimum information to be presented to audit committees and shareholders relating to RPTs before they are approved.[3]

These protections have served investors in Indian companies well and have been an important step to enhance shareholder protections and raise governance standards towards international best practice.

ICGN view on proposed reforms

As investors, we support the initiative to ease companies doing of business in India. Investors want to invest in successful, thriving companies, to make good returns for our clients and beneficiaries.

However, it is important that measures to ease the doing of business do not come at the risk of undermining investor protections that may damage trust in the capital markets.

We recognise the unique context of India's capital markets, where promoter groups continue to hold majority shareholdings in many listed companies and often hold a dominant position in relation to board composition and voting control. It is therefore essential that efforts to ease doing business do not inadvertently reinforce promoter dominance or leave minority shareholders at a disadvantage.

ICGN has the below suggestions to further strengthen the regulatory regime:

Align the definitions of RPTs:

- We note that India currently has three distinct definitions of RPTs under the Companies Act, Indian Accounting Standards, and SEBI regulations, which creates complexity for both investors and companies. While we appreciate that the proposed amendments go some way towards aligning these, more fulsome alignment of these definitions would improve clarity, reduce compliance burdens, and enhance comparability for investors.

[3] Associated Chambers of Commerce and Industry of India, Standards for Minimum Information to be provided for Related Party Transaction Approval, 2024.

Consider a multi-metric approach for RTP materiality:

- We welcome SEBI's intention to introduce scale-based materiality thresholds to improve proportionality in RPT reporting. However, we are concerned that reliance on turnover alone as the metric may not adequately capture material RPTs as it disregards important factors such as transaction type, industry context, impact on assets or profitability, and capital allocation.
- This may result in certain transactions appearing immaterial relative to turnover despite being economically significant, while others exceeding the threshold may not, in substance, be material. We also note that the turnover-based thresholds have been revised multiple times over the past four years, and given the ongoing growth of Indian companies, regular recalibration would likely be necessary, creating uncertainty**.**
- We therefore encourage SEBI to move towards a more holistic, multi-metric, framework considering various elements of net worth, turnover, and absolute value of profit or loss after tax to assess materiality - an approach already embedded in other parts of the LODR Regulations (Regulation 30). A multi-metric approach was recommended by SEBI's 2020 working group[4] and is observed in international practice, including the United Kingdom[5] ,and in OECD guidance.[6] A system based on relative percentages rather than flat absolute values would scale naturally with company growth and provide a more stable, transparent and consistent basis for RPT oversight.

Strengthen audit committee independence and effectiveness:

- We note SEBI's estimate that the proposed thresholds could reduce RPT reporting by around 60%. This, combined with tiered disclosure, increases the importance of audit committees in scrutinising RTPs.
- While regulation 23(2) of the LODR requires approval of RPTs by independent directors on the audit committee, concerns persist about whether such directors are genuinely independent. A lack of true independence weakens their ability to serve as an effective check on conflicts of interest. Strengthening the independence and accountability of audit committee members is therefore an essential complement to any easing of shareholder oversight. In particular, we recommend SEBI clarifies that Chief Financial Officers and Finance Directors should not serve as formal members of audit committees, so that the required majority of independent directors truly reflects non-executive oversight. ICGN welcomes recent statements by SEBI leadership about improving independent director effectiveness, and we encourage reforms in this area before further reducing shareholder rights.
- In addition, it is important to ensure mechanisms exist for holding directors accountable, for example, enabling shareholders to vote against audit committee members who approve RPTs that investors consider contrary to their interests. This is particularly important in promoter driven companies.

Address royalty and brand payments:

- We are concerned that the proposals do not address royalty payments, which have been a major source of related party outflows in Indian companies.
- Regulation 23(1A) currently requires shareholder approval for brand/royalty payments only if they exceed 5% of annual consolidated turnover. This single

[4] Securities and Exchange Board of India, Report of the Working Group on Related Party Transactions, 2020.

[5] Financial Conduct Authority, DTR 7 Annex 1: The related party tests - FCA Handbook, 2019.

[6] Organisation for Economic Co-operation and Development, Flexibility and Proportionality in Corporate Governance, 2018.

turnover test can obscure the fact that royalties are often highly material relative to net profits. SEBI's 2024 study shows that royalty payments by listed companies have doubled over the past decade, with a quarter of companies paying royalties exceeding 20% of net profits.[7] This trend raises concerns that controlling shareholders may extract disproportionate value through royalty structures without sufficient shareholder oversight.

- We recommend that SEBI revisits the thresholds for royalty-related RPTs and ensures that they are subject to robust disclosure and approval.

Consider promoter remuneration and related benefits:

- We also encourage SEBI to address the treatment of promoter pay within the broader review of related party transaction governance. The current framework for approving remuneration of promoters involves inherent conflicts of interest, especially in companies with concentrated ownership.
- Treating promoter pay as an RPT and requiring approval by minority shareholders would strengthen safeguards and improve alignment of pay with performance.
- We also recommend that nomination and remuneration committees engage with shareholders in advance of significant pay decisions.

Ensure appropriate enforcement:

- Institutional investors welcome a regulatory framework that protects their rights as shareholders. In addition, they strongly value the effective enforcement of these rules, which is key to well-functioning capital markets. We recognise that investor activism, proxy advisory, and ratings ecosystems are still developing in India. Until these mechanisms mature, regulatory enforcement must play an even greater role in safeguarding minority investor rights.

Consider longer-term progress towards a more principles-based approach:

- We recognise that SEBI's proposals present a mix of principles-based and formulaic rules-based approaches. This combination provides a good baseline safeguard in the current environment. However, over time, as corporate governance practices and behaviours become more established, it would be a good goal for India to move towards a more holistic, principles-based governance regime informed by the G20/OECD Principles of Corporate Governance[8], the ICGN Global Governance Principles, and other international best practices.

Thank you again for the opportunity to share our perspective. If you would like to follow up with questions or comments, please contact our Global Policy Director, Séverine Neervoort, or Policy Executive, Maggie Fellowes (policy@icgn.org).

Yours faithfully,

Jen Sisson

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Chief Executive Officer, ICGN

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[7] Securities and Exchange Board of India, Study - Analysis of Royalty Payments by Listed Companies to Related Parties, 2024.
[8] Organisation for Economic Co-operation and Development, G20/OECD Principles of Corporate Governance 2023, 2023.