Blog Series: Good Governance for Value Creation
Blog Post no.4

Related-Party Transactions: supporting value creation, preventing private benefit extraction.

Written by Jen Sisson (ICGN CEO) and Jakub Brejdak (Senior Policy Executive) on 22 January 2026

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Related-party transactions are a common feature of modern economies. For many companies, financing and trade arrangements with entities related to controlling shareholders, directors or deals within the same corporate group can support growth, reduce capital costs and improve tax efficiency. These transactions are often legitimate and aligned with the company's interests. The risks arise when related-party transactions are not conducted at market terms. In such cases, they can become a mechanism for extracting private benefits of control at the expense of other shareholders.

Safeguards for related party transactions

To protect minority investors and the company's long-term interests, clear governance safeguards are essential. Boards should disclose the processes for reviewing, approving and monitoring related-party transactions, as well as any inherent conflicts of interest. ICGN's Global Governance Principles recommend that significant related-party transactions should be reviewed by a committee composed entirely of independent directors, whether established as a dedicated committee or embedded within an existing body, such as the audit committee. In either case, the committee is expected to assess whether a transaction is in the best interests of the company and whether its terms are fair and reasonable, with the outcome of these deliberations disclosed to shareholders. The last-resort safeguard lies in giving shareholders the right to approve the most significant, so-called material transactions. For this safeguard to be effective, shareholders must receive timely and sufficiently detailed information, including the board's rationale, to make an informed decision. This reinforces shareholder rights by enabling providers of capital to participate directly in decisions that may have significant implications for the company's long-term direction.

It should be highlighted that related-party transactions test the effectiveness of the board. While shareholder approval is still a key safeguard, the primary responsibility for identifying, scrutinising and, where necessary, rejecting conflicted transactions lies with the board itself. Qualified, independent and suitably questioning directors, particularly those with strong financial and capital markets experience, should act as the first line of defence against transactions that may transfer value or entrench control. Shareholder votes should therefore function as a backstop rather than a substitute for rigorous board-level oversight.

These considerations are particularly relevant for founder-controlled and family-controlled companies, including those preparing for or considering an IPO. In such companies, related-party transactions are often embedded in the business model from an early stage and may be perceived as normal or efficient by controlling shareholders. For public and prospective investors, however, the transition to a listed environment heightens the need for clear safeguards, genuinely independent oversight and robust board scrutiny to ensure that legacy arrangements do not undermine minority protection or long-term value creation.

Temptation to water down the safeguards

It seems self-evident that the nature of related-party transactions carries a risk of conflicts of interest. When conducted without proper checks, they can enable value leakage, self-dealing, or the misuse of corporate resources at the expense of other shareholders. Yet across many markets, there is a growing temptation to ease safeguards in the name of competitiveness and regulatory simplification.

In the UK, recent reforms to the listing regime have significantly reduced shareholder oversight of related-party transactions. Deals that meet or exceed the 5% threshold on the class tests no longer require prior independent shareholder approval or a shareholder circular. Instead, approval now rests solely with the board, excluding conflicted directors, while the company must simply disclose the transaction to the market and obtain a statement from its sponsor that the terms are "fair and reasonable." Smaller transactions face even lighter treatment, with limited disclosure and no external confirmation required. Recent market examples have already raised doubts about how independent such sponsor opinions truly are.[1] When the same financial institutions advising companies also act as validators of fairness, questions of objectivity inevitably arise. By shifting responsibility away from shareholders and toward advisors and boards, the reforms risk replacing independent oversight with self-assurance. In the effort to make UK capital markets more attractive, regulators may be undermining the very trust and transparency that have long been their competitive strength.

In the US, oversight of related-party transactions remains limited compared with other major markets. Boards and audit committees are typically responsible for reviewing such transactions, but shareholders are rarely given a vote, even when deals involve substantial sums or close interconnections between counterparties. This approach assumes that board-level approval is sufficient to protect investor interests. Yet as corporate ecosystems become increasingly intertwined, particularly in technology and finance sectors, the potential for conflicts of interest grows.[2] Without meaningful shareholder involvement, trust risks being replaced by complacency. The absence of formal shareholder scrutiny in large, strategically significant transactions raises legitimate questions about whether US governance standards are keeping pace with the realities of modern corporate power and influence. At the state law level, a worrying example comes from Delaware, where legislators have faced growing pressure to accommodate influential funders and corporate leaders. Amendments to the Delaware General Corporation Law adopted in 2025 expand procedural safe harbours for conflicted and controlling-shareholder transactions, lower the threshold for obtaining business-judgment protection, and restrict shareholders' access to company records needed to assess potential misconduct.[3] In practice, these changes make it more difficult for shareholders to challenge related-party transactions in court and increase reliance on board processes alone.

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[1] London gets what it asked for with Dan Loeb's hedge fund fight, Financial Times, 12.08.2025, https://www.ft.com/content/e84299e3-e2a0-4283-97d6-3e3f83c3e5f1

[2] Shareholders should have more say over the AI rush, Financial Times, 26.09.2025 https://www.ft.com/content/4ca2db21-782c-4746-b662-cfb5da6be703

[3] Delaware enacts significant amendments to its corporation law, 31.03.2025 https://www.wolterskluwer.com/en/expert-insights/delawares-new-corporation-law-amendments

In several Asian markets, including Korea and Hong Kong, related-party transactions represent a structural governance risk. Concentrated ownership, cross-shareholdings and founder or family control increase both the frequency and complexity of such transactions. Historically, poorly governed related-party transactions have been a common channel for value transfer and private benefit extraction at the expense of minority shareholders, underscoring why strong safeguards are foundational in these markets.[4] Although regulatory frameworks increasingly rely on independent committees, external advisers and enhanced disclosure, practice shows that formal safeguards do not always translate into effective challenge. Independence in form does not necessarily ensure independence in substance. Long-standing relationships, information asymmetry and deference to controlling shareholders can weaken oversight even where procedural requirements are met. In Korea, historic related-party transactions within chaebol groups, including intra-group asset transfers and preferential financing, have demonstrated how value can be shifted within corporate structures despite board approval, prompting reforms under the Commercial Act and strengthened stewardship expectations.[5] In Hong Kong, concerns around connected transactions involving controlling shareholders have similarly exposed the limitations of disclosure-led approaches where board independence is weak.[6]

Why safeguards for related-party transactions matter?

1. **Fair treatment for all shareholders**

Those who provide capital and bear financial risk should have a meaningful say in how that capital is used. The fundamental concept of shareholder ownership is built on this principle. When investors are excluded from approving material related-party transactions, their ownership rights are weakened, and accountability diminishes. Giving shareholders the power to vote on significant deals is not just a procedural step; it is the core mechanism that ensures those who fund companies also have

[4] Cho, S., & Lim, K. (2018). Tunneling by Related-party Transactions: Evidence from Korean Conglomerates. Asian Economic Journal, 32(2), pp. 147–164.
[5] He, J., & Zhang, Z. (2025). To whom are directors accountable? Stakeholder governance and the controversy over the amendment to Article 382-3 of the Korean Commercial Act. Cogent Social Sciences, 11(1).
6 Chen, C.C.H. and Wan, W.Y. (2019), ‘Transnational corporate governance codes: Lessons from regulating related party transactions in Hong Kong and Singapore’, Chinese (Taiwan) Yearbook of International Law and Affairs, Vol. 36(2), pp. 56–93.

oversight of how their resources are deployed, For this mechanism to function effectively, shareholders must have access to timely and qualitative disclosure, including the board's rationale, to assess whether the transaction has been concluded in shareholders' interests.

2. **Shareholders review of the transaction is in everyone's interest**

Safeguards are not designed to automatically block all transactions. Stopping legitimate business activity is not in shareholders' interests. Minority shareholders can be supportive of related-party transactions when they are properly reviewed and clearly explained. Shareholders need an effective screening tool rather than costly rubberstamp process. The purpose of these safeguards is to ensure that such transactions are conducted on fair terms, strengthening the company's long-term value rather than creating insiders' opportunities for short-term gain.

3. **Safeguards helping in building trust on the market**

Investor confidence depends on knowing that oversight mechanisms work and that investors can challenge questionable decisions when necessary. The recent example from the United Kingdom shows how weakening related party rules can erode that trust: shareholders in one London-listed investment vehicle found themselves holding shares in a Cayman-registered insurer related to the high- profile founder of the investment vehicle after a reverse takeover they had no say in[7]. When investors believe their capital could be misused or even exposed to fraud, it becomes impossible to predict how or where they will invest.

According to academic research, high levels of extraction of private benefits through related-party transactions, or tunnelling, reduce the number of companies willing to enter the public markets. Firms that cannot credibly signal that controllers will refrain from value extraction are more likely to avoid an IPO, leading to shallower and less diverse capital markets. Tunnelling also distorts the market for corporate control. Potential acquirers who could generate greater long-term value may be unable to match the private benefits enjoyed by incumbent controllers, reducing the likelihood

[7] Fox, Merritt B. and Heller, Michael A. (2006), "Corporate Governance Lessons for Transition Economy Reforms."

that control passes to the most efficient owner.[8] Over time, this weakens ownership structures and undermines the dynamic efficiency on which healthy capital markets depend.[9]

Case studies

Olympus: Concealing losses through opaque related-party structures

Background: In 2011, Olympus Corporation, a leading Japanese manufacturer of optical and medical equipment, became embroiled in a major accounting scandal. Its CEO Michael Woodford, newly appointed at the time, uncovered and exposed a long-standing scheme where Olympus had concealed over $1.7 billion in investment losses dating back to the 1990s. Olympus used complex and opaque related party transactions[10]. These included paying exorbitant advisory fees for acquisitions to obscure shell companies (often linked to executives) and acquiring unrelated businesses at grossly inflated prices. These schemes, collectively known as "tobashi," allowed Olympus to move losses off its books.

Outcome: The scandal led to a dramatic collapse in Olympus's stock price, erasing approximately 80% of its market value within weeks. Multiple senior executives, including former Chairman Tsuyoshi Kikukawa, were arrested and received suspended prison sentences. Olympus was fined and faced lawsuits from shareholders and creditors.

Atacadao: Limited investor protections in a related-party transaction

Background: In April 2025, Atacadao proposed a corporate reorganisation with its controlling shareholder, Carrefour, including its delisting from the Novo Mercado segment of the Brazil Stock Exchange (B3). The initial offer drew strong criticism for undervaluing the company, especially given its significant growth since its IPO. Atacadao cancelled the first shareholders' meeting and presented a second proposal with slightly improved, but still contentious, terms. According to local regulation and Novo Mercado guidelines, the deal required approval from independent

[8] Bebchuk, Lucian A. (1994), "Efficient and Inefficient Sales of Corporate Control," *Quarterly Journal of Economics*, 109: 957.
[9] Enriques, Luca (2015), "Related Party Transactions: Policy Options and Real-World Challenges (with a Critique of the European Commission Proposal)," *European Business Organization Law Review*, 16: 1–37.
[10] BBC News, 'Olympus reports a 33 bn-yen loss', BBC News, 13 February 2012.

shareholders, and a special committee was formed. However, its credibility was questioned due to one member's ties to Carrefour.

Outcome: Despite opposition from minority shareholders, the transaction was approved. Wishbone Partners objected to the offer price, noting Atacadao's shares traded at Brazilian real (BRL) 15 in 2017, nearly double the buyout offer, and highlighted that the company's 2024 revenue had reached BRL 115 billion (USD 18.55 billion), 2.3 times higher than in 2017[11]. British Columbia Investment Management Corporation (BCI) also voted against the deal, calling it "inadequate" and "unfair" to minority shareholders[12].Despite this, Atacadao became wholly owned by Carrefour and its shares were delisted from B3[13]. The case highlights the damage possible when safeguards for minority investors in related-party transactions are weak.

[11] Natalia Viri (Exame INSIGHT), 'Acionista parte para o ataque contra deslistagem do Carrefour: "Oportunista e antiética"', *Exame INSIGHT*, 7 March 2025.
[12] Valor Econômico, 'Exclusivo: Gestora canadense BCI questiona proposta do Carrefour e vai votar contra plano', *Valor Econômico*, 14 March 2025.
[13] Reuters, 'Shareholders approve Carrefour bid to take Brazil unit private', *Reuters*, 25 April 2025.