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Experts laud Sebi move on related-party deal rules, also flag gaming risk

Neha Joshi | 4 min read | 05 Aug 2025, 08:07 PM IST



New

Sebi's move is expected to impact over 2,000 listed firms. (Reuters)

SUMMARY

A scale-based compliance overhaul may ease the reporting burden for India's largest listed companies, but experts warn of fresh risks and potential for regulatory loopholes.

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The proposal of the Securities and Exchange Board of India (Sebi) to overhaul related-party transaction (RPT) rules may offer long-awaited compliance relief for India's large listed companies and reshape governance standards, but it also opens the door to fresh regulatory arbitrage, legal experts caution.

Announced on Monday, the capital markets regulator's proposals, issued as a consultation paper, seek to replace the one-size-fits-all threshold for material RPTs with a scale-based model tied to the company's turnover. The move is expected to impact over 2,000 listed firms and significantly reduce the volume of routine intra-group transactions requiring shareholder approval, by as much as 60% among the top 100 companies, according to Sebi's own back-testing.

While industry voices have welcomed the shift as a pragmatic response to operational gridlock, concerns are mounting over how companies might exploit the leeway, particularly through subsidiaries operating under different threshold rules.

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One of the biggest red flags lies in how thresholds will now be calculated for subsidiaries. For newly-formed arms without financials,

Sebi proposes using net worth as the basis. Some experts warn this could create confusion--or worse, opportunities for misuse.

Since subsidiaries often serve as key vehicles for complex corporate structuring, multiple threshold definitions across a group could enable deal-routing and dilute oversight. Experts say clarity and enforcement would be crucial to prevent the system from being gamed.

Much-needed reform

Exuding optimism over the proposals, Ketan Dalal, managing partner of Katalyst Advisors, said: "It is very heartening to see Sebi address ease of doing business with tangible steps." If the proposal goes through, for a company with ₹50,000 crore turnover, the threshold would be ₹3,250 crore. "This obviates the need for shareholder approval in such a case."

Currently, any RPT exceeding ₹1,000 crore or 10% of annual consolidated turnover, whichever is lower, requires shareholder approval. Industry participants say this rule has forced even routine intra-group deals in vast conglomerates into public scrutiny, weighing down audit committees and managements with time-consuming procedural hurdles.

"Not all categories of related party transactions require the same degree of approval or disclosure rigour," Dalal said. He added that any sign of unfairly priced or questionable RPTs is quickly reflected in market valuations, acting as an added deterrent. "Against this backdrop, Sebi's move to relax approvals for such transactions is both logical and much needed"

Under Sebi's proposal, an RPT would be considered material if it exceeds 10% of annual consolidated turnover for companies with a turnover up to ₹20,000 crore; ₹2,000 crore, plus 5% of a turnover above ₹20,000 crore for those between ₹20,001 crore and ₹40,000 crore; and a ₹3,000 crore plus 2.5% of turnover above ₹40,000 crore (capped at ₹5,000 crore) for those above ₹40,000 crore.

Shriram Subramanian, founder and MD of InGovern Research Services, was emphatic about the need for transparency. "The current thresholds are creating an excessive burden for audit committees, prompting them to push back because there is simply too much to review. What matters most is transparency; companies should disclose related party transactions openly," he said.

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He emphasized that as long as the disclosures are made, seeking approvals is just a step and can be managed within higher thresholds. "Ultimately, stringent rules only increase compliance costs for good companies, while those intent on wrongdoing often find ways around them anyway. Therefore, focus should be on improving disclosures, rather than unnecessarily raising the compliance burden," Subramanian said.

Plugging subsidiary loopholes

Sebi is also fortifying oversight of RPTs involving subsidiaries, entities frequently used for complex corporate structuring. Materiality will now be based on the lower of the parent or subsidiary's thresholds,

and new subsidiaries without financials will calculate thresholds from net worth, reducing regulatory blind spots.

Some experts have, however, flagged risk of confusion or malpractices. Apurva Kanvinde, partner at Juris Corp said permitting different methods for calculating the threshold for related party transactions by subsidiaries may create confusion. “Or even raise concerns about potential misuse through creative accounting practices. Companies might use this to avoid crossing the approval threshold," she said.

Meanwhile, the exemption for small-value RPT disclosures has been proposed to be relaxed: deals below the lower of 1% of turnover or ₹10 crore (up from ₹1 crore) will not trigger detailed reporting, reducing red tape for routine, low-risk deals.

“This is best understood as a measured recalibration, not a relaxation of standards," said Sujoy Bhatia, head of corporate and M&A at Chandhiok and Mahajan. “The blanket materiality threshold had an unintended consequence of triggering procedural approvals even for low-risk, routine intra-group transactions in large corporate groups; that became operationally burdensome".

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He said now proportionality is being brought back, so the focus is on relevance, risk, and context, aligning India with global best practices, such as those in the UK.

Safeguards remain, but so do risks

Importantly, audit committee scrutiny remains mandatory for all RPTs, and truly material deals still need shareholder approval, preserving minority investor protection. Validity periods for blanket RPT approvals are also coming, and only consolidated, wholly-owned subsidiaries will get disclosure exemptions, plugging older gaps.

Yet, experts warn of new ambiguities and loopholes. “Some risks remain, especially with transactions done through subsidiaries or how the new, simpler disclosure rules will be used", cautioned Puneet Gupta, managing director of Protiviti Member Firm for India. “If done right, this move could bring India closer to global standards, but strong enforcement will still be key to making sure the system is not abused."

Kanvinde summed up the proposals as a mixed bag. “The scale-based approach brings India a step closer to global practices and international standards. However, enforcing some of the proposed thresholds may be challenging due to complex calculations and loopholes in regulations," she said.

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