

## **BOX II: NON-DISCLOSURE OF RELATED PARTY TRANSACTIONS: LEGAL FRAMEWORK AND REGULATORY SCRUTINY**

Indian corporate law places strict emphasis on transparency and disclosure in transactions involving related parties, particularly where listed companies and regulated financial institutions are concerned. Multiple statutory and regulatory frameworks govern how such transactions are to be approved, disclosed, and monitored. The legal and regulatory architecture governing related-party transactions is intended to protect minority shareholders, creditors and lenders, policyholders and investors, and overall protect the integrity of financial markets. The Cobrapost investigation has examined the transactions and disclosure practices identified in the context of this statutory framework, leaving the legal assessment of compliance and penal consequences to the appropriate authorities.

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### **1. Companies Act, 2013 – Disclosure and Governance Framework**

The Companies Act, 2013 provides the overarching legal framework for related-party transactions (RPTs):

- **Section 2(76)** defines a “related party” to include promoters, directors, key managerial personnel (KMP), and their relatives, as well as entities in which such persons exercise control or significant influence.
- **Section 188** prescribes conditions under which RPTs may be entered into, including:
  - prior approval of the Board of Directors,
  - disclosure to shareholders through the Board’s report, and
  - additional safeguards where transactions involve the rendering or availing of services.
- **Section 184** requires directors to disclose their direct and indirect interests in entities entering into transactions with the company.
- **Section 177** mandates the constitution of an Audit Committee for listed entities, with specific responsibility to review and approve RPTs.

These provisions are designed to ensure that transactions involving related parties are conducted transparently and are subject to independent oversight.

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### **2. SEBI’s Listing Obligations and Disclosure Requirements (LODR)**

Drawing from the Companies Act, SEBI’s LODR Regulations impose additional disclosure obligations on listed entities and their subsidiaries:

- **Regulation 23** requires listed companies to:
  - formulate a policy on materiality of RPTs,
  - obtain Audit Committee and shareholder approvals where applicable, and
  - disclose RPTs to stock exchanges and on the company’s website.
- The definition of “related party” under LODR has been progressively widened (notably through amendments effective from 2021 and 2023) to include promoter-group entities and persons holding significant beneficial interests.
- Entities classified as “**high-value debt listed entities**”—including companies issuing listed non-convertible debentures—are subject to enhanced and periodic RPT disclosure requirements.

SEBI examines disclosure practices against these regulatory standards when assessing compliance and governance.

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### **3. Accounting Standards and Disclosure Integrity**

Indian Accounting Standards (Ind AS) require companies to:

- disclose the nature of related-party relationships,
- report transactions and outstanding balances with related parties, and
- explain the terms and conditions of such transactions.

The adequacy and completeness of these disclosures are central to assessing whether financial statements present a true and fair view.

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#### **4. Penal Provisions and Regulatory Determination**

Certain provisions of the Companies Act and other laws, including the Bharatiya Nyaya Sanhita (BNS), empower regulators and enforcement agencies to examine whether:

- material facts were omitted or misstated,
- disclosures were incomplete or misleading, or
- fiduciary obligations were breached.

The determination of whether any conduct attracts civil or criminal consequences can only be carried out by competent authorities, based on evidence, investigation, and due process.

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#### **5. Insurance Sector Regulations (IRDAI Framework)**

For insurance companies and corporate insurance agents, additional disclosure requirements apply under:

- the Insurance Regulatory and Development Authority Act, 1999, and
- IRDAI's corporate-governance and RPT guidelines.

These provisions require insurers and insurance intermediaries to disclose:

- related-party relationships,
- transactions with promoter-group entities, and
- interests of directors and key management personnel.

IRDAI assesses compliance with these norms in the context of conflict-of-interest prevention and policyholder protection.

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#### **6. Regulatory Action and Oversight**

Indian regulators—including SEBI and IRDAI—are empowered to:

- seek explanations,
- direct corrective disclosures,
- impose monetary penalties,
- order governance reforms, and
- initiate proceedings in accordance with law, where warranted.

Recent regulatory actions in unrelated cases demonstrate that failures in RPT disclosure and governance can attract enforcement scrutiny.

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