

SEBI clarification on the validity period of approved related party transactions (RPT)Background

In November 2021, the Securities and Exchange Board of India (SEBI) amended the SEBI Listing Obligations and Disclosure Requirements (LODR) by widening the scope of 'related party' and 'related party transactions' (RPT). The amended regulations that became mandatory from 1 April 2022 require the audit committee's approval and the shareholders' approval if the RPT is material. As per the LODR following are considered 'material RPT'

An RPT, if such transaction individually or with earlier RPTs taken together exceeds lower of the following:

- INR 1,000 crore OR
- 10% of the annual consolidated turnover of the listed entity as per the last audited financial statements

W.e.f. 1 April 2023, the above limit of 10% will apply to the subsidiary's standalone annual turnover (as per the last audited financial statements.)

Approval for RPT and its validity period

1. Omnibus approval by audit committee: The audit committee of the listed entity may grant omnibus approvals for the proposed RPT (which are repetitive in nature). Such omnibus approvals shall be valid for a period not exceeding 1 year and will *require fresh approval after the expiry of 1 year*.
2. Prior approval by shareholders: Shareholders' prior approval is required for all material RPT and material modifications thereto.

However, the Companies Act, 2013 specifies that the time gap between two annual general meetings (AGM) shall not be more than 15 months. On this background, SEBI received representations seeking clarity on the validity period of the audit committee's omnibus approvals for RPTs which also require shareholders' approval.

Clarification from SEBI: In order to facilitate listed entities to align their processes with conducting AGMs and with obtaining omnibus shareholders' approval for material RPTs, SEBI has clarified that the shareholders' approval of omnibus RPTs approved in an AGM shall be valid upto the date of the next AGM for a period not exceeding 15 months. This will eliminate the requirement of obtaining fresh approval for the already approved RPTs for a balance period of 3 months. *However, if the omnibus approval is granted in general meetings other than AGM, then such approval is valid only for 1 year and requires fresh sanction after 1 year.*

Weblink

<https://www.sebi.gov.in/legal/circulars/apr-2022/clarification-on-applicability-of-regulation-23-4-read-with-regulation-23-3-e-of-the-sebi-listing-obligations-and-disclosure-requirements-regulations-2015-in-relation-to-related-party-transactions-57807.html>

Therefore

The revised LODR requiring RPT approvals and disclosures became effective from 1 April 2022 onwards. The listed companies will soon conduct their AGMs and will observe RPT compliances. The period of 15 months, which the Companies Act prescribes, if adopted for such omnibus RPT approvals (of repetitive nature), will ease the entities of obtaining fresh approvals for the balance short period of 3 months, i.e. upto the date of the next AGM.