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Related Party Transactions

Introduction

A Related Party Transaction (RPT) refers to a transaction between two parties who are joined by a special relationship prior to the transaction. The transaction would include any arrangement for provision of goods or service, a single or a series of financial contracts, or an arrangement. The parties involved on the two sides of the transaction can be related to each other in various forms. The common forms of relations between entities are parent-subsidiary, associate, affiliate, joint venture, entities under common control, entities controlled through relatives, the directors or the management of the company. RPTs are a) recognised in corporate and taxation laws; b) they have their own standards for accounting and c) systems of checks and balances have been built around them to make sure they are conducted within these boundaries.

Corporate governance, transparency in ownership structures has attained importance around the world under the garb of Base Erosion Profit Shifting and Exchange of Information initiatives. Indian regulators and authorities closely follow developments around the world and periodically introduce some of the best

practices followed or introduced in other countries.

Controlling stakeholders indulge in various forms of such intra-group dealings, such as executive perquisites, compensation, transfer pricing, appropriation of corporate opportunities, and self-serving financial transactions such as directed equity issuance or loans to insiders, and misappropriation of corporate assets. Governments all over the world have proactively taken steps to monitor and prevent such self-dealings in the form of disclosures, approvals, or even outright restriction on such transactions. OECD has also provided guidelines on legislative and regulatory approaches for monitoring and preventing abusive related party. The disclosure of an entity's transactions, outstanding balances (including commitments), and relationships with related parties are important for the investor.

OECD has published a report on Related Party Transactions and Minority Shareholder Rights in the year 2012 which focused on the corporate governance framework that manages Related Party Transactions with the aim to protect minority investors. It covered over 30

jurisdictions, including in-depth reviews of Belgium, France, Israel, Italy and India. In this report it was observed that *“the five countries (especially India and Italy) all indicate a high level of RPTs with either controlling shareholders or affiliated companies. The key transactions vary over time but financing operations, credit guarantees, transfers of property, etc., are particularly important although recurring transactions at “market prices” involving goods and services might be under-reported due to reporting thresholds and exemptions for those on “market terms”. The five jurisdictions only ban some RPTs such as loans to directors and the placement of new securities. They therefore implicitly accept that such transactions can be legitimate and raise efficiency, particularly in company groups. That means that suitable policies must be in place to manage and approve RPTs.”*

Regulations related to RPTs are found in the Companies Act, 2013, Accounting Standard 18 (AS 18), the Indian Accounting Standard 24 (Ind AS 24), the Company Auditors Report Order (CARO), Clause 49 of the Listing Agreement, Insolvency and Bankruptcy Code, Goods & Services Tax Act. The Income-tax Act, 1961 also contains provisions related to transfer pricing (for international transactions) and specified domestic transactions on similar footing. These regulations and provisions are discussed in the following sections.

Definition of Related Party

There are various laws that require ‘related parties’ to be defined or described. Some of the places where ‘related parties’ and similar relationships are dealt with include:

- Companies Act, 2013 [related parties, relative, associated company]
- Income-tax Act, 1961 [associated enterprise, significant influence, arm’s length]
- Insolvency & Bankruptcy Code
- Goods & Services Tax Act

- Foreign Exchange Management Act, 1999
- Various SEBI-issued regulations [insider trading, persons acting in concert]
- Indian Succession Act, 1925
- Competition Commission of India [collusion]

The various laws that need to consider and regulate transactions between related parties in principle cover the following:

- Identification of related parties
- Disclosure of related parties
- Identification of transactions with related parties
- Disclosure of transactions with related parties
- Require that unrelated interested parties affected by the transaction are consulted and protected
- Identification of transactions that are liable to be undertaken to regarded as contravening a provision of the law, or defeat or circumvent a purpose or spirit of the law, or obtain some unjust enrichment or advantage
- Direct related parties to transact in a way that is not detrimental or prejudicial to the interests of certain other parties
- Prohibit certain transactions that are against public interest

Compliances & regulations with respect to Related Parties

The intention of the law is not to prevent related parties from entering into transactions; it is to ensure that when related parties transact, no other person is unjustly and unreasonably affected by such transaction(s). There must be a balance between the protecting various stakeholders while not unfairly burdening or impeding the conduct of commerce.

There are various compliances, both formal and substantive, which parties have to undertake while transacting with related parties.

Companies Act, 2013

The Companies Act, 2013 regulates the transactions entered into by a Company with its related parties. With the increase in the number of transactions within a corporate group, the provisions of the Companies Act also bring out the principle of arm's length pricing for transactions between the company and its related parties. In other words, a transaction will be considered to be undertaken at arm's length if the conduct between the two related parties takes place as though they were unrelated and there is no conflict of interest.

As per section 2(76) of the Companies Act, 2013 the term 'related party' with reference to a Company has been defined to mean:

- a) directors or Key Managerial Persons and his/her relative;
- b) firm or private company where director/ manager or their relative is a partner, member or director
- c) a public company in which a director and manager is a director and holds along with his relatives, more than two per cent of its paid-up share capital;
- d) any body-corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager^{#1};
- e) any person on whose advice, directions or instructions a director or manager^{#1} is accustomed to act;
- f) any body-corporate which is holding, subsidiary or an associate company of such company or a subsidiary of a holding company to which it is also a subsidiary or an investing company or venture of the Company;

"an investing company or the venturer of the company" will mean a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate.

(^{#1}Except if in a professional capacity)

Section 188 of the Companies Act 2013 casts the responsibility on the Company to discuss and approve related party transactions that are proposed to be entered into by way of special resolution where the thresholds prescribed have been exceeded. For the purpose of section 188 of Companies Act, 2013 related party transactions include:

- a) Sale, purchase or supply of any **goods or materials**;
- b) Avail or render **any services**;
- c) **Appointment of any agent** for purchase/ sale of any goods, materials or services;
- d) Sale, buy, lease or dispose of **any property**;
- e) Underwriting the subscription of any securities or derivatives;
- f) Such related party's appointment to any office or place of profit in the company, subsidiary or associate company.

The section clarifies that such approval for related party transaction shall not be required if the transaction is entered into by the company in the ordinary course of business and such transaction is at an arm's length. This principle of 'arm's length' is seen under the transfer pricing provisions under the Income-tax Act, 1961 which aims to determine whether international transactions entered into by associated enterprises are at an arm's length. While the Companies Act, 2013 does not prescribe any methodology to determine the arm's length standard of a transaction, one may consider the application of the arm's length methodology under transfer pricing provisions to determine the fair price.

The phrase “ordinary course of business” used for this purpose is not defined under the Companies Act or rules made thereunder. It seems that the ordinary course of business will cover the usual transactions, customs and practices of a business and of a company.

However, the Allahabad High Court¹ has observed that for a transaction to be construed to have occurred in the ordinary course of business, there must be “an element of continuity and habit for it to constitute the exercise of a profession and business.” However, the frequency of transactions over a period of time cannot be the only factor and it cannot be restricted to the core business activities of a company alone. Other activities such as support services that do not form part of the main core activity of a business, but are necessary and ancillary for running the core business, should also be considered as transactions that happen during the ordinary course of business. The assessment of whether a transaction entered was in the ordinary course of business is very subjective and should be decided on a case-to-case basis giving consideration to nature of business and objects of the entity.

The law also requires that all related party transactions need to be approved by the Audit Committee. The Audit Committee is also

empowered to give an ‘omnibus’ approval for transactions up to ₹ 1 crore i.e., a pre-approval for all related party transactions proposed to be entered into by the company during a financial year subject to certain criteria to be defined by the Audit Committee. These criteria include the names of the parties with which the transactions can be entered into, the maximum value per transactions and of all the transaction in aggregate that can be entered into during the year, the manner of disclosures to be made and review of transactions undertaken at regular intervals. Such omnibus approval cannot be given for transactions that entail sale or disposal of an undertaking of the company.

It should be noted that the Companies Act does not clarify whether related party transactions must be first approved by the Board or the Audit Committee. If the Board approves a transaction, but the Audit Committee withholds consent it would pose challenges to the company, therefore, such transactions should ideally be approved by the Audit Committee first and then by the Board.

Further, the law also provides that if the transactions entered into exceed a certain threshold, shareholder’s approval shall also be required by way of an ordinary resolution. The thresholds for each type of transaction are tabulated below:

Type of transaction(s)	Prescribed threshold (i.e. if the value of transaction)
<ul style="list-style-type: none"> Sale, purchase or supply of any goods or materials Avail or render any services Appointment of any agent for purchase/sale of any goods or materials or services 	Exceeds 10% of turnover; or ₹ 100 crore for goods; ₹ 50 crore for services, whichever is lower
Sale, buy, lease or dispose of any property	Exceeds 10% of net worth or ₹ 100 crore, whichever is lower
Underwriting the subscription of any securities or derivatives	Exceeds 1% of net worth
Such related party’s appointment to any office or place of profit in the company, subsidiary or associate company.	Exceeds ₹ 2,50,000 per month

¹ Ram Sarup v. Tika Ram Vakil (1919) 6 AIR 11-13

Further, if a contract is not approved/ratified by the Board or Shareholders within three months, such contract shall be voidable at the option of the Board/ Shareholders. Also, if an unratified transaction was entered into with a director's related party or authorised by a director, such director shall indemnify the company against the loss.

The Companies Act also provides that when such transactions are being approved, interested members/directors are prohibited from voting on such resolutions unless 90% or more of the members, by number, are relatives of the promoter or related parties.

If a director or employee enters into a transaction in contravention of the provisions of section 188, the law provides for a fine of ₹ 25,000 to ₹ 500,000 and imprisonment of up to 1 year (in case of listed companies). Further, under section 164, a director who has been convicted for contravening section 188, he is disqualified from being appointed as a director for a period of 5 years post such conviction.

The Companies Act, through section 184, requires that every director must disclose his concern or interest in any company or companies or bodies corporate, firms, or other association of individuals which shall include the shareholding in prescribed manner. A director with such concern or interest must disclose his interest when a contract with such party is being discussed and he shall not participate in such meeting. If any director becomes concerned or interested in an entity with which a contract or arrangement exists, he shall disclose his interest in the first Board Meeting held after he becomes so interested. If a director does not disclose his interest and a contract is entered into with such an entity, the contract shall be voidable at the option of the Company. A director contravening this section shall be punishable with imprisonment for up to one year or with fine which may extend to one lakh rupees, or with both.

In addition to the above disclosure and approval requirements the Act also requires the Board to provide a justification for entering into every such contract or arrangement in its report to the shareholders. The company must also maintain a register, in which all transactions above a prescribed threshold value in respect of contracts/arrangements, in which directors are interested, should be entered. The register should be kept at registered office of the company and should be open to inspection to all members.

While the above restrictions applied to the company and its conduct, the Companies Act also has placed restrictions on persons from becoming auditors of a company, to ensure that no one with a conflict can be appointed as an auditor. Section 141 lays down that the following persons will be disqualified from being appointed as auditors of a company:

- a person who himself or whose relative or partner
 - holds any security of or interest in the company or its holding, subsidiary or associate company or sister concern
 - is indebted to the company or its holding, subsidiary or associate company or sister concern in excess of prescribed amount
 - has given a guarantee or provided any security in connection with the indebtedness of any third person to the company or its holding, subsidiary or associate company or sister concern exceeding a prescribed amount.
- a person or a firm who, directly or indirectly, has business relationship with the company or its holding, subsidiary or associate company or sister concern of prescribed nature
- a person whose relative is a director/ KMP

Account Standard 18 – Related Party Disclosures

The Accounting Standard 18 (AS 18) covers the disclosure requirement in respect of RPTs undertaken by a company. For the purpose of AS 18, two parties are considered to be related to each other if one party has the ability to control the other party, or if one party can significantly influence the other in making financial and/or operating decisions in a particular reporting period.

AS 18 does not mandate a specific format for how to report RPTs. It however, provides for aggregating these transactions when they are too numerous. Only those transactions that pass the materiality test — those that are 10% or in excess of the monetary value of the total transactions of the same nature — are exempted from aggregation.

The requirement of disclosure of RPTs in the financial statements includes

- (i) the name of the transacting related party
- (ii) a description of the relationship between the parties
- (iii) a description of the nature of transactions undertaken
- (iv) the volume of the transactions either as an amount or as an appropriate proportion
- (v) any other elements of the RPTs necessary for understanding the financial statements, &
- (vi) the amounts or appropriate proportions of outstanding items.

Indian Accounting Standard (Ind AS) 24 – Related Party Disclosures

Ind AS 24's main objective is to ensure that appropriate disclosures are made in the financial statements *“to draw attention to the possibility that its financial position and profit or loss may have been affected by the existence of related parties and*

by transactions and outstanding balances, including commitments, with such parties”.

Accordingly, Ind AS 24, similar to AS 18, requires reporting entities to identify related parties and disclose details of the transactions undertaken with such parties in the financial statements.

For governing the determination and identification of related party relationship, Ind AS 24 has provided the following definitions:

Related Parties

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
 - (i) has control or joint control of the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a KMP of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions apply:
 - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of

employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified (a)(i) has significant influence over the entity or is a member of the KMP of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides KMP services

Further, **close members of the family** of a person are the family members who may be expected to influence or be influenced by that person in their dealings with the entity, including:

- (a) that person's children, spouse or domestic partner, brother, sister, father and mother;
- (b) children of that person's spouse or domestic partner; and
- (c) dependants of that person or that person's spouse or domestic partner.

Income-tax Act, 1961 (ITA)

The ITA deals with transactions between related parties in various provisions. Certain provisions exempt certain transactions from giving rise to taxable income if they are entered into between related parties, such as gift between relatives or transfer of assets between an Indian holding company and its subsidiary etc.

Specifically, related party transactions as being discussed in this Article are dealt with under Section 40A(2) of the ITA and under the Transfer Pricing provisions of the ITA.

Section 40A(2) provides for disallowance of expenditure, if in respect of such expenditure

payment is made or to be certain related persons of the payer, and the Assessing Officer is of opinion that such expenditure is excessive or unreasonable. For the purpose of section 40A(2), related persons are described to include:

- Relative of an individual
- director of the company, partner of the firm, or member of the association or family, or any relative of such director, partner or member.
- an individual or his relative, or a company (or director) or firm (or partner) or AOP/ HUF (or member) if such person has substantial interest in assesses or relative's biz/prof.
- a person if an individual or his relative, or a company (or director) or firm (or partner) or AOP/ HUF (or member) has substantial interest in such person's business.

The transfer pricing provisions (TP provisions) are given in sections 92 to 92F and 94B of the ITA. They cover international transactions, i.e., transactions between related parties where at least one party is a non-resident, and specified domestic transactions (SDTs), i.e., certain transactions where the entity in question or one of the entities is availing certain activity-linked profit exemptions under the ITA.

It is interesting to note that the TP provisions with respect to SDTs cover cases where there are internal transactions within a single entity but between a unit that is eligible for certain tax exemptions and another unit within that entity.

TP provisions require that transactions between AEs are undertaken at an 'arm's length price' (ALP) i.e., is in a manner that is consistent with the conduct between two unrelated parties in similar circumstances. The provisions provide for methods to determine the ALP and criteria on how to choose and apply such methods.

If a transaction between two AEs is found to have taken place at a price that differs from the ALP and such deviation results in a loss to the Revenue, an appropriate adjustment is made to the prices by disallowing certain portion of the expenditure claimed or increased the income that is offered to tax.

The TP provisions also, do not cover transactions between related parties but transactions between “associated enterprises”, a definition that it is different in scope than ‘related parties’.

Associated enterprises (AEs) would include the following persons or entities:

- that participate directly or indirectly in the management or control or capital of the other enterprise (which means he has at least 26% direct or indirect voting power) and
- which are controlled or managed by the same person or entity
- has advanced loans of more than 51% of book value of assets or guaranteed 10% or more of total borrowings
- appoints majority directors or 1 or more executive directors
- on whom the operations, through provision of intellectual property rights or supply of raw material are wholly dependent, or
- the goods manufactured or processed by one enterprise, are sold to the other enterprise and the prices and other conditions relating thereto are influenced by such other enterprise
- are controlled by an individual and the other enterprise by him or his relative.
- an individual who, alone or with his relatives, controls both enterprises
- a firm, AOP or BOI, in which the other enterprise holds 10% or more interest

The ITA also contains General Anti-Avoidance Rules that give sweeping powers to the tax authorities to disregard or characterise agreements between ‘accommodating parties’ that are deemed ‘impermissible’ and for the purpose of avoidance of taxes or are arrangements that lack commercial substance irrespective of the relationship between the entities. GAAR would cover transaction or contracts between relatives, associated enterprises, connected persons, and cases where there is substantial interest. Recently, Mumbai Bench of NCLT *vide* an order dated 5th September 2018 in case of Gabs Investments Private Limited rejected a scheme of merger considering the objections raised by the revenue invoking provisions of GAAR thereby introducing new facet of correlation of various laws.

Goods & Services Act

Other than avoidance of direct taxes, transactions with related parties can also be used to avoid or escape indirect taxes. Barter transactions or *quid pro quo* schemes between related parties can be deployed to deprive the Revenue of due taxes. Accordingly, Schedule I of the CGST Act provides that commercial transactions entered into between related persons, including import of services by a taxable person from a related person or any establishment outside India, shall be treated as supply even if made without consideration. Thus, even if related parties do not remunerate each other for commercial transactions, the liability to charge and pay GST on such transactions will arise.

For GST, persons are deemed to be related if they fall under any of the categories below:

- An officer or director of one business is the officer or director of another business
- An employer and an employee
- A person who directly or indirectly holds at least 25% shares in a company
- One person controls the other directly or indirectly

- Two persons are under common control or management
- The entities together control another entity
- Persons who are members of the same family

Persons who are associated with one another's business or are a sole agent or sole distributor or sole concessionaire will also be deemed to be related.

Clause 49 of Listing Agreement

Clause 49 of the Listing Agreement requires that the details of material individual transactions with related parties that are not in the normal course of business along with a statement of all RPTs should be placed before the audit committee.

Insolvency & Bankruptcy Code, 2016

The IBC which was introduced to streamline the insolvency and debt recovery process in India also deals with transactions between related persons. There are many ways in which related persons can enter into abusive transactions during insolvency proceedings and obtain unjust benefits at the cost of creditors or the company.

For the purposes of IBC, section 5(24) defines 'related parties' in relation to corporate debtors as under:

- a) a director or partner or his relative
- b) a KMP or his relative
- c) an LLP or firm in which a director, partner, or manager of the corporate debtor or his relative is a partner
- d) a private company in which a director, partner or manager of the corporate debtor is a director and holds along with his relatives, more than 2% share capital
- e) a public company in which a director, partner or manager of the corporate debtor is a director and holds along with relatives, more than 2% of paid-up share capital

- f) any body corporate, whose, Board, MD or manager, or LLP or firm whose partners or employees in the ordinary course of business, acts on the advice, directions or instructions of a director, partner or manager of the corporate debtor;
- g) any person on whose advice, directions or instructions, a director, partner or manager of the corporate debtor is accustomed to act;
- h) a body corporate which is a holding, subsidiary, or associate company or sister concern of the corporate debtor,
- i) a person who controls more than 20% voting rights in the corporate debtor
- j) any person in whom the corporate debtor controls more than 20% voting rights
- k) any person who can control the composition of the Board or corresponding governing body of the corporate debtor
- l) any person who is associated with the corporate debtor because he participates in the policy making processes, or has more than 2 common directors, or interchanges managerial personnel with, or provides or receives essential technical information to or from, the corporate debtor.

IBC, 2016 was amended *vide* The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2018 dated 6th June, 2018 to balance the interests of various stakeholders. Accordingly, Section 5(24A) was inserted which defines 'related parties' in relation to an individual. As per the newly inserted section related parties in relation to an individual includes the followings:

- a) a person who is a relative of the individual or a relative of the spouse of the individual;
- b) a partner of a limited liability partnership, or a limited liability partnership or a partnership firm, in which the individual is a partner;

- c) a person who is a trustee of a trust in which the beneficiary of the trust includes the individual, or the terms of the trust confers a power on the trustee which may be exercised for the benefit of the individual;
- d) a private company in which the individual is a director and holds along with his relatives, more than two per cent. of its share capital;
- e) a public company in which the individual is a director and holds along with relatives, more than two per cent. of its paid-up share capital;
- f) a body corporate whose board of directors, managing director or manager, in the ordinary course of business, acts on the advice, directions or instructions of the individual;
- g) a limited liability partnership or a partnership firm whose partners or employees in the ordinary course of business, act on the advice, directions or instructions of the individual;
- h) a person on whose advice, directions or instructions, the individual is accustomed to act;
- i) a company, where the individual or the individual along with its related party, own more than fifty per cent of the share capital of the company or controls the appointment of the board of directors of the company.
- e) mother,
- f) son,
- g) daughter,
- h) son's daughter and son,
- i) daughter's daughter and son,
- j) grandson's daughter and son,
- k) granddaughter's daughter and son,
- l) brother,
- m) sister,
- n) brother's son and daughter,
- o) sister's son and daughter,
- p) father's father and mother,
- q) mother's father and mother,
- r) father's brother and sister,
- s) mother's brother and sister; and
- t) wherever the relation is that of a son, daughter, sister or brother, their spouses shall also be included.**

For the purpose of this definition, the term 'relative' with reference to any person has been very widely defined to mean anyone who is related to another, in the following manner, namely:

- a) members of a Hindu Undivided Family,
- b) husband,
- c) wife,
- d) father,

Further, section 28 of the IBC, 2016 provides that without prior approval of the committee of creditors, the resolution professional cannot enter into any related party transactions so as to prevent any undue advantage or misuse of insolvency proceedings. Section 21 of the IBC prevents a related party to whom a corporate debtor owes a financial debt from having any right of representation, participation or voting in a meeting of the committee of creditors that is constituted by the interim resolution professional after the collation of all claims.

It is possible that a company, in the period prior to going into insolvency proceedings undertook transactions that were under or overvalued to it determine in order to provide benefits to certain persons. Further, even though the company would not have been paying some creditors, it may have unfairly given preferential treatment to certain persons in discharging their debts. To tackle such cases, the IBC has defined what

transaction will be considered preferential or undervalued and also provides for the reversal or undoing or avoidance of such transactions in various circumstances.

Section 43 provides that any transactions that was undertaken with related parties within a period of 2 years prior to the commencement of the insolvency resolution proceedings will be considered as being preferential in nature.

Section 44 of the IBC allows for transactions to be undone or the undue benefit to re-vest in the corporate debtor undergoing the insolvency proceedings. Further, a situation can exist that some person acquires some property from a person who has received benefit through a preferential transaction with a corporate debtor. Section 44 also provides that if such other person had sufficient intimation that the corporate debtor was undergoing insolvency proceedings or is a related party of, it shall be assumed that the transaction was not undertaken in good faith.

Sections 46 and 47 provide that if prior transactions with related parties are shown to be undervalued, they can be declared void and reversed.

Sections 29A of the IBC, 2016 debars persons who are not eligible to be resolution applicant in the Corporate Insolvency Resolution Process. Section 29A was introduced into the IBC recently to prevent persons with conflicts of interest from proposing resolution plans. Clauses (a) to (i) of Section 29A of the IBC render certain persons who may have conflicts ineligible to submit a resolution plan. Clause (j) to Section 29A further provides that even 'connected persons' of such ineligible persons are ineligible from submitting a resolution plan during the insolvency resolution process.

For this purpose, 'connected persons' are defined as:

- a) any person who is the promoter or in the management or control of the resolution applicant; or

- b) any person who shall be the promoter or in management or control of the business of the corporate debtor during the implementation of the resolution plan; or

the holding company, subsidiary company, associate company or related party of such above persons

Conclusion

In the present environment, where laws are evolving to insert greater transparency in the dealings of businesses, transactions between related parties will only be further scrutinised. The greater responsibility on directors and liability on professionals, and changes such as the notification of reporting requirements under the Companies Act, 2013 which require the identification of "Significant Beneficial Owners" of companies are making it less and less likely that related party transactions will be used to circumvent laws or obtain any unjust benefits.

The principle behind RPT disclosure is to have a framework of laws and rules that ensure that other than commercial benefits through synergy and collaboration, transactions between related parties do not have any loopholes available to exploit. As the cost of complying with various provisions and the disclosure requirements increase, unnecessary RPTs would be avoided. However, the law-makers and regulators should be mindful that the cost of compliance and disclosure requirements should not become prohibitive or restrictive to genuine transactions. In the event unreasonable restrictions being placed on private enterprises, there are legal remedies available; an environment of honest compliance with the law will ensure that the law-makers are receptive and sympathetic to the needs and problems faced by businesses. It is the role of professionals and business leaders to be aware of the changes in law and the direction it is taking and be proactive to such changes – where such developments are justified they should be complied with in spirit.

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