

Good corporate governance framework

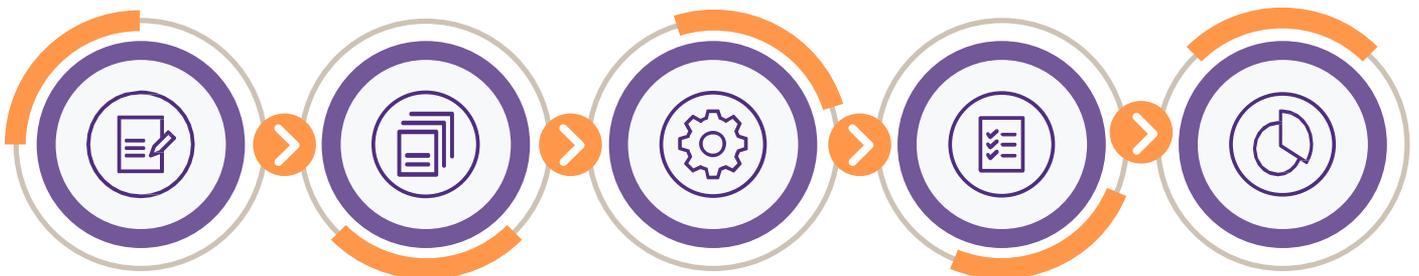
Adopting best practices in related-party transactions

A related-party transaction (RPT) is a type of arrangement or deal between two parties with preexisting business relationship. It can be a potential reason for conflict of interest and are therefore, closely linked to the governance framework of a company and its stakeholders.

Adopting end-to-end best practices in related party governance, from identifying related parties, reviewing transparent approval processes, to determining arm's length and maintaining robust documentation, maximises shareholder confidence and corporate brand value.



What does RPT include



Sale, purchase or supply of any goods or materials

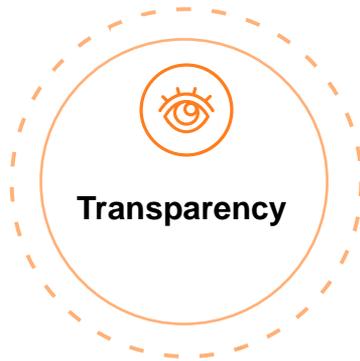
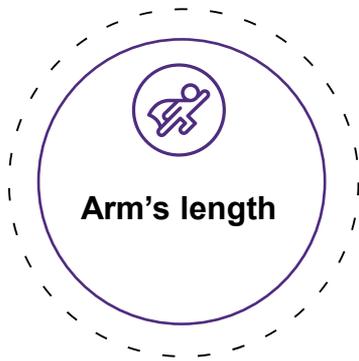
Sale, purchase or lease of property

Availing or rendering of any services

Investment and financial transactions including but not limited to inter-company loans, guarantee

Any other transaction influenced or controlled by a related party

Four guiding principles of good governance



Key regulations

- The Companies Act, 2013 (the Act) and SEBI (Listing Obligations and Disclosure requirements) regulations, primarily outline the policies and compliance requirement for RPT.
- The Income-tax Act covers RPT between two domestic related parties to the extent that either of the entities is availing tax. GST and special valuation law lay down requirements for related party supply.
- Regulations require RPTs to be undertaken in the ordinary course of business on an arm's length basis.
- Robust RPT policies and compliance requirements instill more responsibility and accountability for the key management personnel, board members, independent directors, audit committee members.
- Penal provisions in case of RPT-related non-compliance.





Case studies

Few recent incidents of RPT misgovernance in certain sectors led Securities and Exchange Board of India (SEBI) to form a working group to recommend changes in the Listing Obligations & Disclosure Requirements (LODR) for examination of RPT of unlisted subsidiaries of listed entities



Aviation

A promoter had alleged a co-promoter for exercising undue control on related-party transactions and violation of corporate governance norms. The share price of the company crashed.

As a result, SEBI intervened and appointed an adjudicating officer to settle the dispute.



FMCG

An incident of diversion of funds to related parties of one of the largest Indian alcohol beverage companies.

As a result, SEBI prohibited directors from dealing in securities for a period of 3 years and barred them holding the position of director/ KMP for a period of up to 5 years.



Real Estate

Directors of a real estate giant failed to discharge their governance responsibilities and consented to preferential, undervalued and fraudulent RPTs.

As a result, the Supreme Court prohibited them from alienating their personal properties or assets in any manner.



Power

Conflict between the company and its chairman on usage of funds and land assets by promoter-connected entities, borrowings against the assets of the company for the benefit of group companies, and vendor transactions with promoter-connected entities.

This resulted in share price tumbling down, removal of Chairman and led to investigation of stakeholder's role.

We provide...

A step-by-step approach to a holistic RPT governance framework

Grant Thornton Bharat has a team of seasoned professionals who assist leading companies across verticals including financial services, real estate, manufacturing and consumer, in undertaking **RPT review and benchmarking from Corporate Governance perspective**.

Our bespoke solution aims at a comprehensive review of the RPTs along with the underlying documentation and related approval processes. As a value add, we share best practices to improve the RPT governance systems and processes from a corporate governance standpoint. Our findings can be relied upon for presentation before the audit committee/the board of directors.

A comprehensive suite of review

Compliance review

- RPT compliance review under various statutes
- Risk identification and grading
- Risk mitigation



RPT policies and approval process review

- Robust testing and review of policies and processes
- Identification of areas of improvement
- Corrective measures



Arm's length benchmarking

- Review internal and external comparable data for benchmarking
- Undertaking arm's length analysis commensurate with function, asset and risk profile of the related parties



Standard operating procedures

- Develop SOPs for covering the RPT lifecycle
- Provide inputs for strengthening RPT policy framework



Domain insight

- Cross-functional experts from tax and regulatory, forensic, transfer pricing, governance, risk and operations etc.
- Inputs from technology domain experts



Why Grant Thornton Bharat?



Relevant credentials

Similar dynamic engagements for clients across sectors and a team that represents this experience and expertise



Solution-driven

Tailored solutions rather than one size fits all approach



Excellent client feedback

End-to-end value addition in RPT processes appreciated widely



More partner attention

Relationship-led approach focusing on clients' requirements, with time and attention from partners and senior advisors



State-of-the-art technology

Pan-India Centre of Excellence (CoE) experienced in handling licensed national and international databases and carrying out robust benchmarking exercise



Team collaboration

Teams and solutions built around your needs and a 'no surprises' approach

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