Related-Party Transactions (RPT)

Prelims *- Current events of national and international importance | Economic and Social Development.*

Why in News?

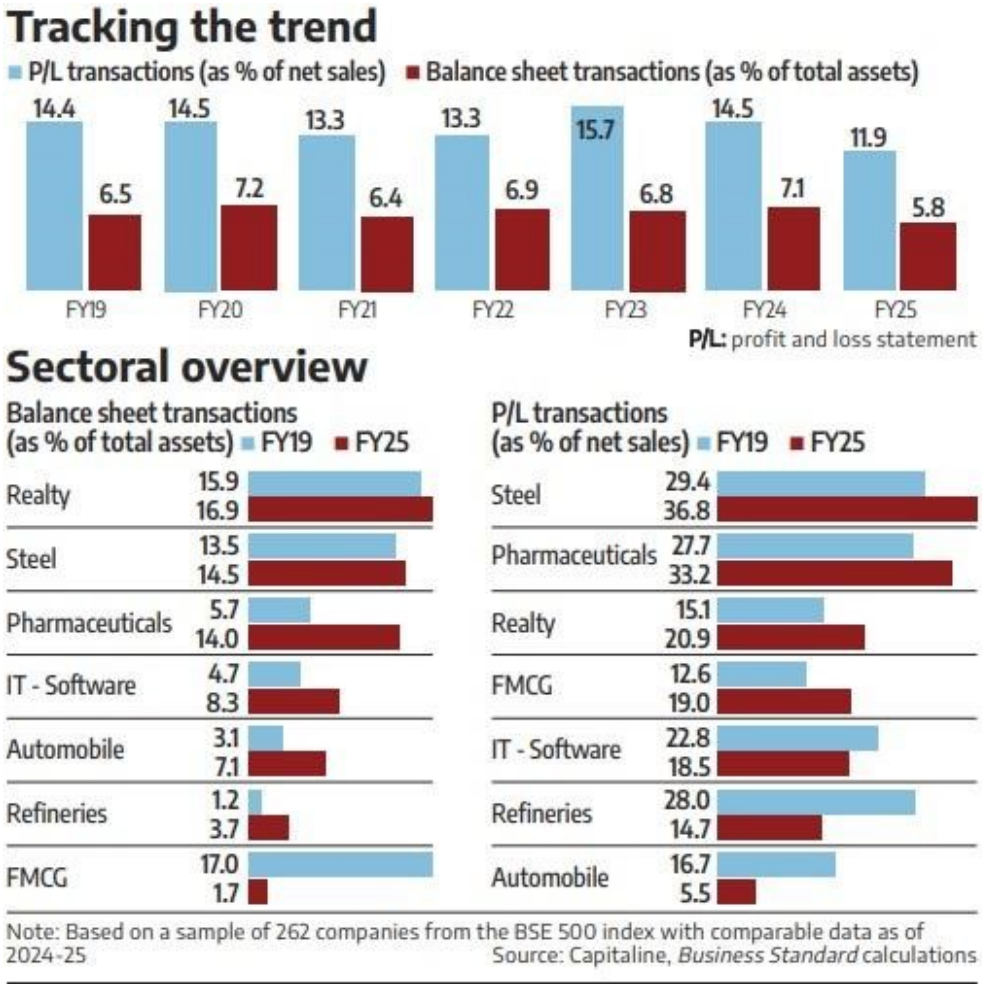
Recently, the data show that the value of related-party transactions has been lower than the levels seen before the pandemic.

- **RPT –** It is a deal or arrangement made between two entities that are connected by a pre-existing business relationship or common interest. It is legal.
- **Usage –** This can involve the ***buying or selling of goods or raw materials*** among group companies.
- It can be used to benefit promoters at the cost of minority shareholders.
- **Reported in –** Transactions are reported on the ***balance sheet and the profit-and-loss statement.***

  The balance sheet displays the company's total assets and how the assets are financed, either through either debt or equity (Assets = Liabilities + Equity).

- **Regulated by** *– Securities and Exchange Board of India (SEBI)*.
- **Regulated under** - The Companies Act, 2013.
- **Regulation –** SEBI requires shareholder approval for related-party transactions that exceed a defined threshold to ensure they do not harm shareholder value or corporate profitability.
- **Recent regulation changes –** The consultation paper is easing the minimum threshold requirements at which such transactions would require shareholder approval.
- It reduces regulatory burden for large-turnover companies that otherwise require frequent approvals.
- **Current values in India** – Proportion of balance sheet assets was 5.8% in 2024-25 (FY25), compared to 6.5% in (FY19).

- Profit and loss statement was equivalent to 11.9% of net sales in FY25 compared to 14.4% in FY19
- **Sector-wise usage** – Sectors such as ***steel, real estate and pharmaceuticals*** have a higher share of transactions.
- The value of RPTs on the balance sheet of real estate is equivalent to nearly 17% of their assets.
- RPT values in the profit-and-loss statement constitute 20% or more of net sales in multiple sectors.



Reference

[Business Standard| RPT Pre-Pandemic Data]

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