



SEBI Updates



Disclosure obligations of listed entities in relation to Related Party Transactions

SEBI has mandated disclosure requirements for Related Party Transactions (RPTs) which needs to be placed by listed entities before the audit committee and shareholders for their consideration. SEBI requires a comprehensive disclosure of RPTs including necessary justifications in respect of its interest, value and underlying external / internal supporting documentation. →

Schemes of Arrangement by Listed Entities

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) inter alia provides that a scheme of arrangement / amalgamation / merger / reconstruction / reduction of capital, etc. (Scheme) to be presented to any court or tribunal should not in any way violate, override or limit the provisions of securities laws or requirements of the stock exchanges. It further requires a listed entity involved in a Scheme or desirous of undertaking a Scheme, to obtain a no objection letter from the stock exchanges before filing the Scheme with the relevant bench of National Company Law Tribunal.

Pursuant to the 2021 Amendment Circulars, SEBI has introduced certain additional requirements to be complied with by the listed entities while undertaking a Scheme. The amendments specified in the 2021 Amendment Circulars are aimed at ensuring that the recognized stock exchanges refer Scheme(s) to SEBI only upon being fully convinced that the listed entity, is in compliance with the SEBI Act, 1992, rules, regulations and circulars issued thereunder.

The amendments proposed in the 2021 Amendment Circulars will be applicable to all the Scheme(s) filed with the stock exchanges from 16 November 2021. →

RBI Updates



Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances (IRACP norms) – Clarifications

In order to ensure uniformity in applying IRACP norms across all lending institutions, certain aspects of the extant regulatory guidelines were being clarified and / or harmonised, which will be applicable mutatis mutandis to all lending institutions. This Circular contains important aspects which may affect Non-Banking Finance Companies (NBFCs) in particular. →

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Disclosure obligations of listed entities in relation to Related Party Transactions

The listed entity shall provide the following information, for review of the audit committee and approval of proposed RPTs:

- Type, material terms and particulars of the proposed transaction.
- Name of the related party and its relationship with the listed entity or its subsidiary, including nature of its concern or interest (financial or otherwise).
- Tenure and value of the proposed transaction.
- The percentage of the listed entity's annual consolidated turnover, for the immediately preceding financial year, that is represented by the value of the proposed transaction. For an RPT involving a subsidiary, such percentage is calculated on the basis of the subsidiary's annual turnover on a standalone basis.
- If the transaction relates to any loans, inter-corporate deposits, advances, or investments made or given by the listed entity or its subsidiary:
 - details of the source of funds in connection with the proposed transaction.
 - where any financial indebtedness is incurred to make or give loans, inter-corporate deposits, advances or investments, nature of indebtedness, cost of funds; and tenure.
 - applicable terms, including covenants, tenure, interest rate and repayment schedule, whether secured or unsecured; if secured, the nature of security.



- the purpose for which the funds will be utilised by the ultimate beneficiary of such funds pursuant to the RPT.
- Justification as to why the RPT is in the interest of the listed entity.
- A copy of the valuation or other external party report, if any such report has been relied upon.
- Percentage of the counter-party's annual consolidated turnover that is represented by the value of the proposed RPT on a voluntary basis.

RPT disclosures are required every six months in the prescribed format and the new disclosure framework will come into force with effect from April 1, 2022.



Schemes of Arrangement by Listed Entities

- The listed entity involved in the Scheme will now be required to submit an undertaking to the stock exchanges specifying that, no material event has occurred during the intervening period of filing the Scheme documents with stock exchanges and period under consideration for valuation.
- Typically, valuation report is obtained by listed entity, either on the day on which the Scheme is tabled before the audit committee / board of directors of the listed entity or a couple of days prior to the date of meeting of the audit committee / board of directors. Further, until now, no timeline was prescribed for filing the Scheme with the stock exchanges after approval to the Scheme by the board of directors of the listed entity.
- The listed entity undertaking a Scheme will now be required to submit a declaration in relation to any past defaults of listed debt obligations of the entities forming part of the Scheme.
- The following are the additional requirements / amendments:

No Objection Certificate (NOC) from the lending scheduled commercial banks / financial institutions / debenture trustees. Interestingly, Sections 230 to 232 of the Companies Act, 2013 (the Act) provides a threshold (majority in number representing 3/4th in value) for each class of creditors (which includes banks / lending institutions / debenture trustees) of a company to approve a Scheme. Further, if a particular class of creditors being at-least 90% (in value), consent to a Scheme, by way of affidavit, the requirement of holding their class meeting to approve the Scheme can be dispensed with by the National Company Law Tribunal. Upon conjoint reading of the provisions of the 2021 Amendment Circulars and Sections 230 to 232 of the Act, the requirement of obtaining no-objection certificate from all the lending scheduled commercial banks / financial institutions / debenture trustees will also need to be complied with in addition to the requirement of obtaining consents as prescribed under Sections 230 to 232 of the Act.



Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances (IRACP norms) – Clarifications

Following is the gist of key clarificatory provisions:

- **Classification of Borrower accounts under Special Mentioned Category (SMA)**

Classification of borrower accounts as SMA as well as NPA shall be done as part of the day-end process for the relevant date and the SMA or NPA classification date shall be the calendar date for which the day end process is run. The said SMA classification of borrower accounts are applicable to all loans (except agri advances), including retail loans, irrespective of size of exposure of the lending institution.

- **Upgradation of accounts classified as NPAs**

- Loan accounts classified as NPAs may be upgraded as 'standard' assets only if entire arrears of interest and principal are paid by the borrower.
- It was observed that the approach of the lending institutions for upgrading accounts classified as NPAs to 'standard' asset category was upon payment of only interest overdues, partial overdues, etc. or upon the Days Past Due (DPD) status coming below 90 days. However, the RBI has clarified that loan accounts classified as NPAs may be upgraded as 'standard' assets only if entire arrears of interest and principal is paid by the borrower. This would mean that any partial payment, such as payment of only interest or only one installment, shall not result in the upgradation of the loan account. Hence, once



a loan account is classified as an NPA, it shall remain as such till the time the entire outstanding amount due is repaid. Hence, there would be no downgrade from NPA to SMA. It can only directly be classified as 0 DPD.

- **NPA Classification and Interest Accrual / Impact on Profit and Loss**

DPD status and NPA classification will no longer be correlated. An account classified as NPA would continue as NPA even if one or two installments have been paid. Hence, even at a DPD of less than 90 days, the account still would be classified as NPA and the income recognition would be on a cash basis under RBI norms. Further, the provisioning will also be done accordingly depending on the classification as on the date of creating such provision. There may also be an impact on the Profit / Loss of the lender. This will continue until the entire dues are repaid by the customer.

- **Accrual of interest income on Loans with Moratorium / Reversal of interest accrued**

In cases of loans where moratorium has been granted for repayment of interest, lending institutions may recognise interest income on accrual basis for accounts which continue to be classified as 'standard'. It has been clarified that if loans with moratorium on payment of interest (permitted at the time of sanction of the loan) become NPA after the moratorium period is over, the capitalised interest corresponding to the interest accrued during such moratorium period need not be reversed.



- **NPA classification of Term loans**

Term loan accounts will be classified as NPA if the interest applied at specified rests remains overdue for more than 90 days. This is an amendment to IRACP norms applicable to banks for classification of NPA. There is no change for NBFCs since they have already been classifying such accounts as NPA in case the instalment is overdue for a period of 3 months or more or on which interest amount remained overdue for a period of 3 months or more.

- **Customer education Literature not later than March 31, 2022**

Lending institutions shall place consumer education literature on their websites, explaining with examples, the concepts of date of overdue, SMA and NPA classification and upgradation, with specific reference to day-end process.

All lending institutions should analyse this Circular carefully, identify gaps if any and address the same with necessary information system changes and prior approval from Board / its committees including keeping regulators in loop, if required.