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REGULATING RELATED PARTY TRANSACTIONS: A COMPARATIVE STUDY OF THE INDIAN AND US FRAMEWORKS

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Abstract

Related party transactions (RPTs) represent one of the key corporate governance issues wherein conducting them legally creates efficiency within corporate groups while using them illegally turns them into tools of tunnelling, self-dealing, and minority expropriation. This study provides a comparative legal analysis of regulation of RPTs in India and the United States, which have developed structurally different approaches to solving this corporate governance problem. Specifically, the Indian regime of RPTs control, established through Companies Act, 2013, and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, involves a prior approval-based approach, which requires material RPTs to be audited by audit committees and receive a majority of minority approval from the shareholders before their conduct. In contrast, the US disclosure-based approach to dealing with this problem includes SEC Regulation S-K Item 404, Sarbanes-Oxley Act of 2002, and ASC 850, which provide requirements of disclosing these RPTs but not their prior approval. Based on the doctrinal research and analysis of SEBI's enforcement against Reliance Home Finance Limited and SEC's decision against Super Micro Computer, Inc., the paper highlights the weaknesses inherent in the two regimes that cannot be adequately addressed by either disclosure or approval. This paper then proceeds to look at the potential implications of using artificial intelligence in regulating RPTs. The conclusion reached is that the best way forward is to have a hybrid regulatory regime that involves both mandatory approval of material RPTs and disclosure, with the use of artificial intelligence to monitor the transaction.

Keywords

Related party transactions; corporate governance; minority shareholder protection; disclosure regulation; approval-based framework; Tunnelling.

1. Introduction

Related Party Transactions, hereinafter referred to as 'RPT', refers to the exchange of resources, services or other liabilities between a reporting entity and another party who is related to the entity because of the relationship of control, material influence or even family relationship.¹ If these transactions are conducted legally, RPTs make operational processes more efficient using intra-group synergies and lowering of transaction costs in corporate groups.² However, if these RPTs are used improperly, they become tools for tunnelling, self dealing and expropriation of minority shareholders since it facilitates the diversion of corporate assets which can be enjoyed by controlling shareholders while expropriating the minority shareholders.³

The regulatory framework adopted in India is very much different compared to that of the US where the Indian regime is based on an approval process in which shareholders' consent, together with the audit committee's, must be obtained in advance, while the US adopts the disclosure approach.

There are some prominent examples of corporate scandal in both the nations highlighting the need for a thorough examination of the regulation of this framework. In the case of the United States, there have been revelations involving companies like Enron and Adelphia Communications.⁴ While Enron involved the use of RPTs involving the formation of special purpose vehicles in order to disguise financial truths from the investors, Adelphia Communication involved the use of private guarantors who would help in concealing financial facts from the investors. In each case, there was a problem of failure of the disclosure frameworks since by the time this fraud was discovered the investors were heavily affected.⁵ On the other hand, in India, there was a case of Reliance Home Finance Limited ("RHFL") Order of the Securities and Exchange Board of India ("SEBI"). This was in relation to the discovery that crores of money were being lent out as loans to certain promoters despite the lack of sufficient collateral, and even credit appraisal, causing SEBI to impose penalties on

¹ Companies Act, 2013, § 2(76)

² Do Majority-of-Minority Shareholder Voting Rights Reduce Expropriation? Evidence from Related Party Transactions." *Journal of Accounting Research*, Vol. 59, No. 4 (2021), pp. 1385–1423. <https://doi.org/10.1111/1475-679x.12357>

³ U. S. Mahtani, Analysis of Related Party Transactions in India: A Group and Non-Group Company Perspective, 15 *Corp. Ownership & Control* (2-1) 174 (2018), <https://doi.org/10.22495/cocv15i2c1p4>.

⁴ Elaine Henry et al., The Role of Related Party Transactions in Fraudulent Financial Reporting, 4 *J. Forensic & Investigative Accounting* 186 (2012).

⁵ In re Enron Corp., 316 B.R. 434 (Bankr. S.D. Tex. 2004); William C. Powers Jr. et al., Report of Investigation by the Special Investigative Committee of the Board of Directors of Enron Corp. (Feb. 1, 2002).

RHFL amounting to over INR 625 crore.⁶

The problem formulated as the basis for the research paper will be the following one: there must be enough flexibility concerning what actions are necessary to be done regarding each transaction that happens in the company, but at the same time, there must be some mechanism which protects the rights of minority shareholders and shouldn't be violated by the majority shareholder. There are two distinct approaches, which are applied to solve this problem in India and the United States; however, neither of them can be considered as an answer to this question. The main objectives pursued in the research paper include the following points: to analyze the efficiency of the Indian approach to the RPT regulation according to the Companies Act, 2013 and SEBI (LODR) Regulations, 2015; To analyze the efficiency of the RPT regulation under the US approach considering SEC Regulation S-K Item 404, SOX 2002 and ASC; To reveal the impact caused by technological development and application of artificial intelligence on the process of detection of RPTs.

2. Regulation of RPTs in India

2.1. Concept and Definition

The Indian legal system has two main statutes that provide a clear definition of 'related parties'. The statutory provision that defines 'related parties' is contained in section 2(76) of the Companies Act, 2013, which states that related parties refer to any person including directors, key managerial personnel, and their close relatives, subsidiaries of such a person, as well as other people having significant interests in such persons.⁷ Moreover, the LODR Regulations, 2015, Regulation 2(1)(zb) gives a relational description of related parties in terms of a list of persons that include listed companies, promoter groups companies regardless of their ownership structure, as well as individuals with an interest of not less than ten percent in the issued capital of the listed company in the preceding financial year⁸. It should be noted that the main difference between both definitions is the approach used to define 'related parties', i.e., a combination of definition and relation.⁹

⁶ Final Order in the matter of Reliance Home Finance Limited, WTM/AN/CFID/CFID_1/30660/2024-25, Securities and Exchange Board of India (Aug. 23, 2024).

⁷ Companies Act, 2013, § 2(76)

⁸ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Reg. 2(1)(zb)

⁹ 8.2 *identifying related parties and de facto agents* (no date) *DART*, <https://dart.deloitte.com/USDART/home/codification/broad-transactions/asc810-10/roadmap-consolidation/chapter-8-related-party-considerations/8-2-identifying-related-parties-de> (Accessed: 28 April 2026).

What distinguishes the Indian regime from the American approach of SEC Regulation S-K Item 404 is that both “arm’s length test” and “ordinary course of business test” are substantive tests that help to assess the fairness of the related party transaction.¹⁰

2.2. Procedural and Substantive Requirements

Under the Indian framework, the approval approach is employed. Due to the provisions of SEBI (LODR) Regulation 23 of 2015,¹¹ there is a need for audit committee approval for any material transaction before entering into a contract. Material transactions, that is, those material transactions whose value exceeds ten percent of annual consolidated turnover or one thousand crores, depending on whichever is lower, now requires the prior approval of the shareholders after the amendment made in 2021, with the added benefit of excluding all related parties, regardless of their involvement in the transaction, from voting for such transactions.¹²

This majority of minority approach constitutes the core principle behind the protection of the interest of minority shareholders in India and has been quite effective in achieving that purpose. As per a dissertation at Columbia University by Li, the requirement of voting in mandatory transactions reduced RPT volumes by fourteen percent in treated firms and encouraged the participation of institutional investors. In addition, board approval as per Section 188 for non-ordinary transactions at arms-length is also required.¹³

As far as the earlier approvals needed as per the old regime is concerned, the SEBI (LODR) Sixth Amendment Regulations, 2021 (amendment to SEBI (LODR) 2015),¹⁴ improved upon the earlier regime by using the ‘test of purpose and effect,’ which has been stated under regulation 2(1)(zc)(ii). In this regard, more importance has been assigned to the effect of the transaction rather than its purpose.¹⁵

2.3. Transparency and Governance Mechanisms

In accordance with the disclosures regarding RPTs stated under Indian Accounting Standard, the process is the same as required under IAS 24 (International Accounting Standards).

¹⁰ ZUNI BAROKAH, AN ANALYSIS OF CORPORATE RELATED-PARTY DISCLOSURE IN THE ASIA-PACIFIC REGION, (Ph.D. Thesis, Queensland University of Technology 2013).

¹¹ SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Reg. 23

¹² Id.

¹³ Nan Li, Do Majority-of-Minority Shareholder Voting Rights Reduce Expropriation? Evidence from Related Party Transactions, 59 J. Accounting Research 1385, 1407 (2021).

¹⁴ SEBI (Listing Obligations and Disclosure Requirements) (Sixth Amendment) Regulations, 2021, Reg. 23

¹⁵ Bharat Vasani, RPT Disclosure Standards: Regulator’s Ongoing Quest for Balance, Cyril Amarchand Mangaldas Blog (Mar. 10, 2025), <https://corporate.cyrilamarchandblogs.com/2025/03/rpt-disclosure-standards-regulators-ongoing-quest-for-balance/>

According to IAS 24 disclosures requirement, SEBI (LODR) 2015 schedule V necessitates reporting of the nature of the transaction, type of the relationship, total amount of transaction, total outstanding balance at the end of the date of the balance sheet along with reasons and effects of the transaction on the financial performance of the firm.¹⁶ The two most common methods used in India for internal control include independent directors and audit committees that perform a review of all previous and potential transactions through the arm's length test.¹⁷ Penalties amounting to more than INR 625 crores had been imposed on the companies involved, and sometimes sanctions like barring from trading in the market had even been imposed. In the RHFL case, however, enforcement was taken only after irreparable damage had already occurred, thereby highlighting the weakness in a regulatory regime based on an enforcement mechanism.¹⁸

2.4. Regulatory Oversight and Enforcement – SEBI's RHFL Order

It must be kept in mind that the overlapping jurisdiction in both these regulatory authorities exists owing to the powers vested in SEBI, which include making guidelines and also the imposition of fines and sanctions on trading. The guidelines made by SEBI on the issue of Reliance Home Finance Limited started from August 2024. In the year 2018-19, the advances made by RHFL to its various clients reached up to INR 14,577 crores. Out of this, INR 12,487 crores of loans had been made to 47 clients, who did not have any net worth and collateral security and had not undergone a credit rating by the company. Apart from the above, there were issues of loan evergreening, wherein 40% of the total money had been sanctioned through circularization to pay off other group entities.¹⁹

Penalties to the tune of over INR 625 crores had been imposed by SEBI along with the ban on market access. But, as seen from the case of RHFL, any kind of enforcement to solve this problem is undertaken only after the damage has already occurred, highlighting the limitation inherent in such a regulatory system where enforcement comes too late.²⁰

¹⁶ SEBI (LODR) Regulations, 2015, Schedule V

¹⁷ Bharat Vasani, RPT Disclosure Standards: Regulator's Ongoing Quest for Balance, Cyril Amarchand Mangaldas Blog (Mar. 10, 2025), <https://corporate.cyrilamarchandblogs.com/2025/03/rpt-disclosure-standards-regulators-ongoing-quest-for-balance/>

¹⁸ Securities and Exchange Board of India, Adjudication Order No. Order/PB/KG/2024-25 in the matter of Reliance Home Finance Limited (Aug. 2024)

¹⁹ RHFL Order, supra note 6.

²⁰ Id.

2.5. Loopholes and Enforcement Gaps

While intended to be approval-based, however, the Indian regime suffers from a number of serious structural flaws. In particular, the mismatch between the Companies Act and the SEBI (LODR) results in definitional discrepancies, as the two pieces of legislation use a different approach to defining related parties.²¹ In this case, businesses can claim that a given deal is exempt from the stricter provisions of the SEBI (LODR). The abuse of “ordinary course of business” and “arm’s length” exemptions, generous shareholder approval requirements and the influence of the company promoter on audit committees are the ways in which the framework can be abused.²² Even though the introduction of the purpose and effect test in 2021 addresses a certain category of evasion, there is significant uncertainty in the interpretation of that test—the absence of clear guidelines as to what circumstances would qualify as “detrimental” and mere “suboptimal” outcomes—which may limit the use of this instrument.²³ Moreover, it remains possible to deconstruct a given related party transaction into multiple smaller deals each meeting individual materiality requirements despite such requirements having been lowered.²⁴ As per the Companies (Amendment) Act of 2020, the decriminalization²⁵ of the offenses under RPT has meant that there is no application of criminal penalties, and only financial penalties are applied. This has diminished the aspect of deterrence since people could view their non-conformity with the requirements not as a violation of a particular statute but as simply another cost that comes along with doing business.²⁶ The deficiencies mentioned here indicate that while the model is certainly superior to the disclosure model, it does not have a self-enforcing mechanism.

3. Oversight and Effectiveness of RPT Regulation in the United States

3.1. Concept and Definition Under US Law

However, unlike the codification system adopted in India, where regulation of RPTs includes

²¹ Dr. (CS) Divyesh Patel & Dr. Naresh K. Patel, Related Party Transactions Compliances, Cases and Reforms 4 (Dharmsinh Desai Univ., Working Paper, Nov. 4, 2023).

²² M Dhanush, Related Party Transactions Under the Companies Act, 2013 (2015) (SSRN Working Paper).

²³ Nan Li, Do Majority-of-Minority Shareholder Voting Rights Reduce Expropriation? Evidence from Related Party Transactions, 59 J. Accounting Research 1385, 1407 (2021).

²⁴ Securities and Exchange Board of India, Adjudication Order No. Order/PB/KG/2024-25 in the matter of Reliance Home Finance Limited (Aug. 2024)

²⁵ Cyril Shroff, Tax Scout: A Quarterly Update on Recent Developments in Taxation Law (July 2018–December 2018), Cyril Shroff (2018), <https://www.cyrilshroff.com/wp-content/uploads/2019/01/Tax-Scout-NL-Jul-Dec.-2018.pdf>

²⁶ ⁵¹ Ami Galani & Nathan Rehn, Related Party Transactions: Empowering Boards and Minority Shareholders to Prevent Abuses, 22 NLSI Rev. 1, 10 (2010).

a series of statutory laws, the US follows a tripartite approach involving use of three concurrent systems to regulate the same, namely, ASC 850²⁷, the defining tool; SEC Regulation S-K item 404, which gives guidance on the reporting requirements; and SOX 2002, which gives the governance structure. No single regulatory instrument qualifies as an RPT legislation. The definition of a related party as per ASC 850-10-20 is given as follows: “A relationship between entities that results in one entity being able to control or significantly influence the other to an extent that the second entity does not act in its own self-interest.” It should be understood that the definition is principled in nature, relation-oriented and also focuses on substance over form. The definition of a reportable related party transaction under item 404(a) is given as follows: “Any transaction in excess of, or expected to be in excess of, \$120,000 in which any related party has, directly or indirectly, a material interest.”²⁸ Whereas in India, the definition of a related party transaction (RPT) serves as a criterion for regulation, Item 404 considers the definition of an RPT as an event that requires disclosure. The purpose of the former is to establish the nature of the transaction while the latter aims at determining whether it should be reported.

3.2. Oversight Mechanisms

Under SOX 301, the audit committee must be independent and have a direct oversight role over the firm’s financial reporting process.²⁹ Under Item 404(b), the corporation is required to disclose its policies concerning RPT; however, most importantly, it specifies no elements of what those policies should contain. As such, while one may find in-depth RPT policies provided by the RPT committee in the case of a large-cap firm, he/she might just come across mere boilerplate language in the small-cap one. ³⁰SOX 302 mandates that CEO and CFO personally certify financial statements for their accuracy and completeness when disclosing related-party transactions,³¹ whereas SOX 402 makes all personal loans between corporations and their directors/executive officers illegal, which can be said to constitute the sole prohibition on RPTs in SOX.³²

²⁷ Fin. Acct. Standards Bd., Accounting Standards Codification 850, Related Party Disclosures (FASB ASC 850).

²⁸ 17 C.F.R. § 229.404(a) (2025).

²⁹ Sarbanes-Oxley Act of 2002 § 301, 15 U.S.C. § 78j-1 (2018).

³⁰ 17 C.F.R. § 229.404(b) (2025).

³¹ Sarbanes-Oxley Act of 2002 § 302, 15 U.S.C. § 7241 (2018).

³² Sarbanes-Oxley Act of 2002 § 402, 15 U.S.C. § 78m(k) (2018).

3.3. Sector-Specific Tunnelling and Regulations

There is the phenomenon of tunnelling in the United States as well. In other industries, which are not covered by the SEC-SOX-ASC 850, we may witness the same phenomena. As reported in a NBER Working Paper, the percentage of tunneling in nursing homes is sixty-eight percent and it is done using inflated related party payment rates.³³ On top of it, the regulation that should prohibit the process of overpayment – 42 C.F.R. Section 413.17 (prohibition on related party payments that exceed cost or market value) works totally independently of the overall regulation framework.³⁴ Charter schools are affected by the very same problem because when people establish charter schools, they lease premises from organizations that are related to them at an inflated rate and use taxpayer money for personal benefit. Cardine states that it happens because of the lack of clarity and absence of elections.³⁵ In some industries there are sector specific laws that restrict market failures in the most severe manner. Banking (Sections 23A and 23B of the Federal Reserve Act), as well as Investment Company Act (Section 17) have quantitative constraints on related party transactions.

3.4. Disclosure Framework and Strengths

Item 404(a) calls for the disclosure of the name of the related party, relationship, interests, and approximate amount in dollars.³⁶ Disclosure of the relationship, nature of the relationship, and amount using footnotes is required under ASC 850-10-50.³⁷ It implies that both standard 404 and ASC require the exact disclosure: relationship, nature of the relationship, and amount. Therefore, the same information in terms of disclosure requirement (RPT) appears in the two standards. It looks like a perfect and consistent system, but, in fact, the two requirements differ because the research done by Beerbaum and Piechocki proved empirically that the same transaction was disclosed in two different ways.³⁸ The floor of \$120,000 remains the same since 2006, and, according to Hope and Lu, it can no longer be considered suitable for the largest companies.³⁹

³³ Ashvin Gandhi & Andrew Olenski, *Tunneling and Hidden Profits in Health Care*, NBER Working Paper No. 32258, at 1 (Mar. 2024, rev. Sept. 2025), <https://www.nber.org/papers/w32258>.

³⁴ 42 C.F.R. § 413.17 (2024).

³⁵ Curtis J. Cardine, *Horace's Hope, Friedman's Folly: The Purpose and Promise of Public Common Schools in a Democratic Republic* 15–35 (2024).

³⁶ 17 C.F.R. § 229.404(a) (2025).

³⁷ Financial Accounting Standards Board, Accounting Standards Codification Topic 850-10-50, *Related Party Disclosures* (2009).

³⁸ Dirk Beerbaum & Maciej Piechocki, *Related Party Transactions — Empirical Study Based on IFRS and SEC Disclosures*, SSRN Working Paper (Sept. 12, 2017), <https://ssrn.com/abstract=2665015>.

³⁹ Ole-Kristian Hope & Haihao Lu, *Economic Consequences of Corporate Governance Disclosure: Evidence*

3.5. Weaknesses – Super Micro Computer

The following is an illustration of how the framework structure has some inherent weaknesses. An illustration of this inherent weakness can be found in the case of Super Micro Computer, Inc. (NASDAQ: SMCI). According to the company, in their annual reports and proxy statements, they have included information on the related party transactions undertaken between Super Micro and Ablecom Technology and Compuware Technology (companies owned by the brothers of Super Micro's CEO, Mr. Charles Liang, who owns 10.5% of the firms along with his wife)⁴⁰. According to the analysis carried out by Hindenburg Research based on Super Micro Company's SEC filing, spending on the two firms in FY 2021, FY 2022, and FY 2023 was about \$983 million.⁴¹ Although the framework structure worked well in the United States, its inherent weakness is the inability of Item 404⁴² to demand the company to show arm's length pricing of the transaction.

Ernst & Young's decision to resign as the auditing firm for 2024, which has been evidenced in the public arena, further serves as a testament to the inability of the supervision procedure to be effective, as per SOX Section 302.⁴³ The unproven accusations put forth by the short-seller company, Hindenburg Research in its findings made public in September 2024 on undisclosed transactions between the company and Leadtek Research, cannot at any rate be taken as truth. Facts will make the point evident. It is quite likely that a business entity may observe all the requirements of Item 404, report all its RPTs faithfully each year, yet find itself violating laws.⁴⁴

4. Digitalisation, Artificial Intelligence, and Financial Oversight in RPT Regulations

The reason behind the relevance of AI and digital means in the context of RPT supervision is the basic challenge involved in regulating RPTs, that of recognizing any instances of undisclosed or under-disclosed RPTs, which is a challenge that lends itself to machine learning

from the 2006 SEC Regulation on Related-Party Transactions, 95 Accounting Rev. 263, 277 (2020); see also SEC Release No. 33-8732, *Executive Compensation and Related Person Disclosure*, 71 Fed. Reg. 53,158 (Aug. 29, 2006) (establishing the \$120,000 threshold).

⁴⁰Super Micro Computer, Inc., Definitive Proxy Statement (Form DEF 14A) at Item 13 (Oct. 2023), <https://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000866374&type=DEF+14A&dateb=&owner=include&count=40>.

⁴¹ Hindenburg Research, *Super Micro: Fresh Evidence of Accounting Manipulation, Sibling Self-Dealing and Sanctions Evasion at This AI High Flyer* (Aug. 27, 2024), <https://hindenburgresearch.com/smci/>.

⁴² 17 C.F.R. § 229.404(a) (2025).

⁴³ Hindenburg Research, *supra*.

⁴⁴ Hindenburg Research, *supra*.

algorithms. The traditional approach used by regulators for RPTs, both in the US and India, has included the use of periodic audits, annual disclosure requirements, and enforcement mechanisms that only come into play after the transgression has been reported or investigated. According to Kamalnath and Lin in their examination of governance technology in China and India, there is significant potential in the use of AI for uncovering complicated RPTs while recognizing that AI will be quite capable of handling the data networks involved in complex controlling shareholder relationships. However, in the Indian and US supervisory approaches, there is no such potential because the enforcement process is inherently reactive rather than preventative.⁴⁵

The ability of AI to resolve the issue of the indirect related party gap, which by definition is outside the ambit of Item 404 of SEC Regulation S-K, will prove to be the most interesting from a regulatory perspective in the USA. Using network algorithms to uncover multi-tier ownership, the AI can detect, for instance, that the company where a CEO's brother's firm is an owner is automatically a related party despite no obligation to disclose this information in accordance with Item 404; and chainlike relationships of this kind were quite characteristic of the Super Micro case. At present, the SEC is making active use of artificial intelligence in its work, having identified thirty applications of AI from searches to manipulative trading detection in its 2024 Use Case Inventory.⁴⁶ Its AI Task Force was established back in August 2025, its main goal being to increase staff abilities. Alongside the new tagging via XBRL, more machine-readable analysis of related party transactions (RPT) disclosures is currently taking place in the USA,⁴⁷ with automatic cross-referencing of each related party for the periods specified in the SEC filings possible regardless of the complexity of processing Item 404 disclosures in the machine-readable format.

As far as India is concerned, the use of AI should play a vital role in reinforcing the enforcement part of the structurally reactive system of India, which is contrary to the proactive approval-based system as demonstrated in the case of RHFL.⁴⁸ Since 2019, when SEBI issued its circular for the supervisory regime of AI and ML systems implemented by Market Infrastructure

⁴⁵ Akshaya Kamalnath & Lin Lin, *Corporate Governance, Technology, and the Law — Perspectives from China and India*, European Corporate Governance Institute Law Working Paper No. 855/2025 (July 1, 2025), <https://ssrn.com/abstract=5332397>.

⁴⁶ SEC, *Artificial Intelligence at the SEC*, <https://www.sec.gov/ai> (last visited Apr. 23, 2026);

⁴⁷ SEC Press Release, *SEC Launches Artificial Intelligence Task Force* (Aug. 1, 2025), <https://www.sec.gov/newsroom/press-releases/2025-ai-task-force>.

⁴⁸ Securities and Exchange Board of India, *Proposed Amendments with Respect to Assigning Responsibility for the Use of Artificial Intelligence Tools by Market Infrastructure Institutions, Registered Intermediaries and Other Persons Regulated by SEBI*, Consultation Paper (Nov. 13, 2024).

Institutions, SEBI has been improving its capabilities in terms of AI and ML,⁴⁹ with the creation of Connection Research and Analysis Cell in the Integrated Surveillance Department that focuses on detecting relational connections among complicated corporate structures.⁵⁰ The upcoming amendments proposed by SEBI to use AI tools by regulated entities from November 2024 suggest that there is a shift towards an accountable form of AI-enabled decision making with respect to compliance-related issues. Nonetheless, the most significant constraint in using AI in RPT monitoring in both countries lies not in the technology itself, but in the lack of high-quality structured data related to RPTs. It is noteworthy that most RPT disclosures have a narrative nature and are provided in proxy statements and annual reports.⁵¹

5. Conclusion

Regulation of RPTs in India and the US exemplifies the difference between the two regulatory approaches. While material RPTs have to be sanctioned by the audit committee and shareholders in India, no related party can vote using the majority of the minority principle. In contrast, the US framework comprises Regulation S-K Item 404, Sarbanes-Oxley Act, 2002, and ASC 850, where the emphasis is on post facto reporting rather than prohibitory rules.

Both systems suffer from inherent deficiencies. For instance, the difference between the Companies Act and SEBI (LODR) in India negates any preventive action. Additionally, there is reactive enforcement in India, evidenced in the RHFL case. Meanwhile, any unfair RPT is allowed under the US regime, provided that it is disclosed, evident from the Super Micro Computer case.

It has been observed empirically that better disclosure deters RPTs and decreases the cost of capital. Nonetheless, disclosure alone would not ensure fairness without arm's-length requirements. It is best to adopt a hybrid approach consisting of mandatory approval of material RPTs, combined with disclosure and executive certification. Needed policy changes would involve changing the U.S.-derived materiality threshold, use of AI for standardization of monitoring, and resolving Indian regulatory contradictions.

⁴⁹ Securities and Exchange Board of India, *Reporting for Artificial Intelligence (AI) and Machine Learning (ML) Applications and Systems Offered and Used by Market Infrastructure Institutions*, Circular No. SEBI/HO/MIRSD/DOS2/CIR/P/2019/10 (Jan. 4, 2019).

⁵⁰ Securities and Exchange Board of India, Annual Report 2020–2021, at 78 (2021) (describing establishment of Connection Research and Analysis Cell within the Integrated Surveillance Department, December 2020).

⁵¹ Dirk Beerbaum & Maciej Piechocki, *supra* (documenting the narrative disclosure gap across Item 404 and financial statement channels).