In April 2021, the Securities and Exchange Commission approved amendments to the New York Stock Exchange’s rule governing the review and evaluation of related party transactions.

Before the amendments, Section 314.00 of the NYSE Listed Company Manual required that an appropriate group within the company review and evaluate related party transactions. The NYSE considered a company’s audit committee or another comparable body as appropriate groups to conduct a review and evaluation. Although what constituted a related party transaction was not defined by the NYSE, most companies historically applied the requirements of Section 314.00 to related party transactions that had to be disclosed under Item 404 of Regulation S-K. Item 404 generally requires disclosure of any transaction with a director, officer or significant shareholder if the amount involved in the transaction exceeds $120,000 and the related person had or will have a direct or indirect material interest in the
As amended, Section 314.00 now specifically requires the audit committee or another independent body of the board of directors to conduct a prior review of all related party transactions for potential conflicts of interest and to prohibit a related party transaction if it determines the transaction to be inconsistent with the interests of the company and its shareholders. The amendments also define “related party transaction” as a transaction required to be disclosed pursuant to Item 404 of Regulation S-K (but without applying the $120,000 transaction value threshold).

NYSE-listed companies must make sure that their policies and procedures require the review and pre-approval of related party transactions by the audit committee or another independent body of the board of directors. Additionally, the scope of transactions that require review and pre-approval may increase without reference to the $120,000 transaction value threshold historically applied by most NYSE-listed companies. Companies should review their audit committee charter and corporate governance guidelines to ensure compliance with the amended rule.

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