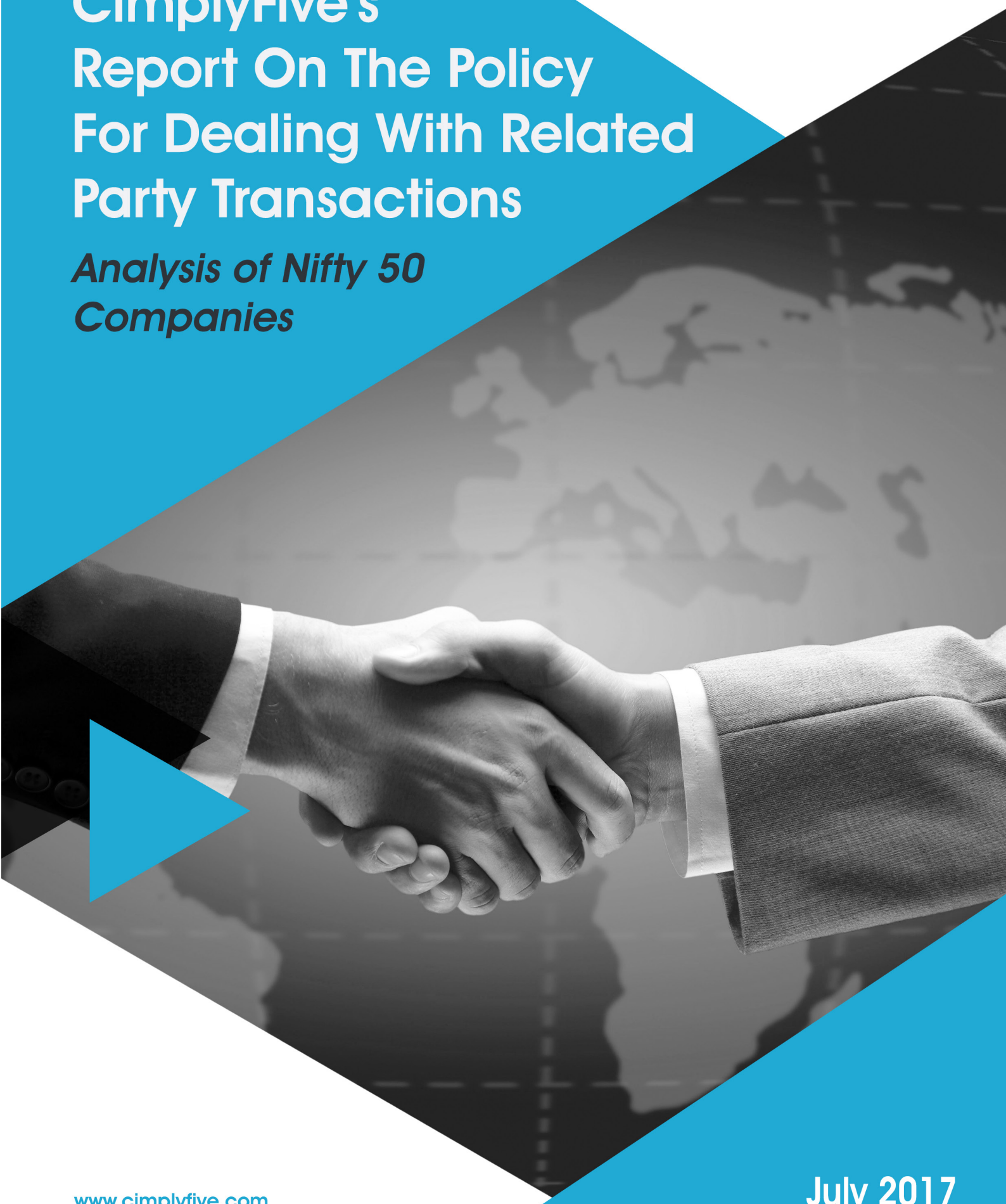
CimplyFive
COMPLIANCE SIMPLIFIED

CimplyFive's Report On The Policy For Dealing With Related Party Transactions

Analysis of Nifty 50 Companies



www.cimplyfive.com

July 2017

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General Information: CimplyFive has prepared this report to craft a model Policy on Dealing with Related Party Transactions by analysing the evolution of regulations, the existing mandates and the practices of the Nifty 50 companies. The intent of this report is to disseminate good governance practices among all Corporates in general and the CS and CA communities in particular. This report is not intended to act as a recommendation or condemnation of any practice, company or firm covered in this report.

Risk Warning: CimplyFive shall not be responsible for any loss or damage arising for anyone using any information contained in this report.

Source of Information: CimplyFive has used the version of the policy found in the website of Nifty 50 Companies in the month of May 2017.

Limitations: Competent professionals with adequate experience have undertaken this study. Further, a due process of checks and verifications to ensure accuracy of this report has been followed. This should have eliminated errors from this report. If any points in the nature of error are brought to our notice and we agree with the same, CimplyFive will rectify the report at the earliest and have the revised report available on its website www.cimplyfive.com. CimplyFive does not accept any loss or damage caused to any individual, company, professional or institution by use of this Report.

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Editorial Note: Why, What and Who

Dear Reader,

Ever since the advent of corporate entities, Related Party Transactions (RPT) has been a contentious issue. Separation of ownership and control combined with diffused ownership in companies provides a fertile ground for the unscrupulous elements to unjustly enrich themselves at the cost of shareholders who do not have a say in day-to-day running of the business. More than 200 years ago, Lord Cranworth in the landmark case of York Building Company vs. McKenzie highlighted the reason for RPTs invoking distrust in the year 1795, which is valid even today. He noted

> 'No man can serve two masters. He that is entrusted with the interest of others, cannot be allowed to make the business an object of interest to himself; because from the frailty of nature, one who has the power, will be too readily seized with the inclination to use the opportunity for serving his own interest at the expense of those for whom he is entrusted.'

A very critical and an interesting strand in the history of corporate law is the evolution of regulations pertaining to RPT, for mal-governance often manifests itself though RPTs. Despite its role in hampering good governance, RPTs are not banned anywhere in the world, as this 'cure' is more harmful than the 'disease' itself. For if RPTs were to be banned, the very existence of corporate entity as a form of business could be threatened.

Given the interdependence between RPT and corporate entity, a key element of corporate law and good governance practice is visible in regulation of RPTs. Hence any study of corporate law, good governance practices or corporate secretarial practice needs to frequently and in depth evaluate the current state of RPT regulation as practised. Evaluation of statutes provide insights of limited value, therefore we have in addition to statutes focused on the practices in the real world of corporate board rooms for only corporate practices reflect the true state of corporate governance and the health of corporate entities.

This study looks at the 'Policy on Dealing Related Party Transactions' of the Nifty 50 Companies as the policy is the primary means through which the RPT are administered by the company for identifying, monitoring, assessing and deciding the validity of RPTs. We have picked the Nifty 50 companies as they represent the elite of the corporate world. Based on this study we have attempted to create a model Policy on Dealing with Related Party Transactions for companies to consider and adopt, with or without modification.

This study is undertaken by CimplyFive Corporate Secretarial Services Private Limited, a company with the vision to 'leverage research and technology to eliminate procedural non-compliance for entities regulated by the Companies Act, 2013'. We look forward to your feedback to enrich this study.

Please share your valuable feedback with us at contact@cimplyfive.com.

Yours Sincerely,

Shankar Jaganathan
Founder & Chief Executive
CimplyFive Corporate Secretarial Services Private Limited
July 20, 2017

Dealing with Related Party Transactions: The Genesis

One of the earliest recorded disputes on RPT pertains to a transaction in 1757 AD that involved the East India Company and Robert Clive.[1] Following the Battle of Plassey, Robert Clive privately negotiated for himself an annual income of £30,000 for installing Mir Jaffar as the Nawab of Bengal. In 1765, the Chairman of East India Company, Laurence Sulivan who wanted to weed out corruption in the company, initiated the move to cancel this annual payment as unjustified, resulting in a fight for the control of East India Company bringing this related party transaction to the centre stage. As it looks, this does not seem to be the first disputed related party transaction as joint stock companies were in existence from 16th century, even though this is the most prominent and well cited RPT.

From the year 1844 when companies could be registered[2] under a specific law after fulfilling a set of conditions, Dealing with RPTs has gone through a whole range of controls. A major factor prodding on this evolution of RPT regulations is the conflicting economic theories that viewed RPTs from different perspective. While the Conflict of Interest Theory viewed it negatively, the Efficient Transaction Theory viewed RPTs positively. Their difference was in what they viewed as primary to the transaction. In Conflict of Interest Theory, the relationship between Directors and Shareholders was of paramount importance, however in the Efficient Transaction Theory the business and business outcome was placed in the centre stage; a manifestation of the philosophical debate about ends and means, which depending on the prevailing concerns would be justified either way.

Related Party Transactions Viewed through the lens of Economic Theory

Just as there are two sides to a coin, even on RPTs there are two conflicting economic theories, namely Conflict of Interest theory and Efficient Transaction Theory.

Conflict of Interest theory views RPT as potentially adverse to the interest of shareholders as it undermines Directors' fiduciary responsibility. Hence RPTs are to be dealt with on a different platter to the one used to authorize normal business transaction, if not banned altogether. The traditional method used to authorize RPTs was to remove the related party from their decision-making role and having only dis-interested individuals take the decision for the company regarding the RPTs.

In contrast, Efficient Transaction Theory views RPT as being beneficial to shareholders, as it views the alternative, especially for smaller firms, as between dealing with a related party or not dealing at all. Further RPTs could also provide collateral benefits in the form of greater trust or more favourable commercial terms or their willingness to work on longer gestation period projects of the Company that an unrelated party may not do.

Given these two extremes, corporate law has evolved to regulate RPTs rather than ban them all together. Occasionally on the backdrop of a large corporate scandal, proposals to ban RPT are proposed and debated at length given the damage they have inflicted on business confidence. However, in all most all cases, with the passage of time these proposals get diluted as the ease of doing business takes priority, resulting in mandating provisions that provide for higher disclosures and more stringent approval processes to prevent misuse of RPTs.

[1]Jaganathan S., Corporate Disclosures, The Origin of Financial and Business Reporting 1553-2007 AD, Routledge, Reprint 2017, p 227

[2]Earlier to 1844, companies could be created only by a special act of parliament. It was the First Companies Act, 1844 in UK that permitted companies to be formed by registration after fulfilling the set of prescribed conditions.

Listed in the table is a short summary of the evolution of RPT regulations. This list focuses on the developments in UK for the 19th century and subsequently to the evolution of RPT regulations in India in the 20th and the 21st century.

Evolution of Regulations for Related Party Transactions

Stage	Year/ Country	Status of RPT	Basis	Content
1.	1845 UK	**Directors disqualified on entering into RPT** but the Act silent on the effect of RPTs enforceability	Companies Clauses Consolidation Act, 1845	As per Section 86 a Director who held an office of profit or profited from any work done for the company would cease from voting or acting as a Director.
2.	1855 UK	**RPTs void Ab-initio**	Aberdeen Railway Co. vs. Blaikie Bros.	'The ground on which the disability or disqualification rests, is no other than the principle which dictates that a person can be both judge and party.'
3.	1856 UK	**RPT permitted if not invalidated by the Articles of Association**	The (UK) Companies Act, 1856	In this Act, a clause introduced in the model Articles of Association (which is optional for companies to adopt) that made Directors with RPTs vacate their office. Many companies that were incorporated during this period choose to delete this clause thereby permitting RPTs.
4.	1913 India	**Board to approve RPT after the Directors declared their interest**	The Indian Companies Act, 1913	Section 91 A requires a Director to provide disclosure of interest in any contract or arrangement entered into by or on behalf of the company.
5.	1936 India	**Disinterested Board to approve RPT with disclosure to shareholders**	The Indian Companies (Amendment)Act, 1936	Section 91 B prohibited an interested director from voting on any contract or arrangement in which he was directly or indirectly concerned or interested
6.	2013 India	**Disinterested shareholders to approve RPT with disclosures to shareholders**	The Companies Act, 2013	Section 188 of the Act, introduced the concept of interested shareholders.

Dealing with Related Party Transactions: A Brief Survey of Global Best Practices

We have looked at the corporate law enacted in the four commonwealth states (Australia, Ireland, South Africa and United Kingdom) and the listing agreements of NYSE and Nasdaq to identify unique features that could provide Indian Corporates with practices to build on that epitomizes the Gold Standard in Good Governance. Based on our analysis we find the following provisions to be worthy of consideration by regulators and emulation by companies that seek to uphold the highest standard of good governance:

1. **Australia-Objective of RPT regulation:** The act explicitly describes the objective of RPT regulations by stating it is designed to protect the interests of the shareholders as a whole whose interests could be diluted by giving financial benefits to related parties.

> **[Division 2- sec. 210 onwards]**
> "**Purpose**
> The rules in this Chapter are designed to protect the interests of a public company's members as a whole, by requiring member approval for giving financial benefits to related parties that could endanger those interests."

Cimplyfive's Learning
Explicitly spelling out the reason for regulating and providing for a different process to authorise RPTs is an illustration of exemplary transparency and gold standard of Good Governance.

2. **South Africa- Exemption granted to Related Parties:** The Act provides for Courts, Companies Tribunal or Panel to exempting any individual defined as a related party by this act, if sufficient evidence is shown to conclude that the persons act independently of the related party.

> **Section 2 (3)**
> 'With respect to any particular matter arising in terms of this Act, a court, the Companies Tribunal or the Panel may exempt any person from the application of a provision of this Act that would apply to that person because of a relationship contemplated in sub-section (1) if the person can show that, in respect of that particular matter, there is sufficient evidence to conclude that the person acts independently of any related or inter-related person.'

Cimplyfive's Learning
The provision to examine specific relationships and provide exemption based on the evidence submitted that the parties act independently is a suggestion worthy of consideration to be incorporated in the legislation.

3. **Australia –Exemptions granted to certain transactions:** The following types of transactions are granted exemption from RPT approval process:
   i. Transactions that are less favourable to the related party
   ii. Transactions with fully owned subsidiaries
   iii. Benefits given to members of the company that do not discriminate unfairly
   iv. Benefits given under a court order
   v. Payment of expenses or reimbursement of expenses incurred or to be incurred by an officer or employee in performance of their duties
   vi. Indemnities, insurance premium
   vii. Payment for legal costs for officers

Cimplyfive's Learning
Providing exemption to transaction with wholly owned subsidiaries, benefits given to related parties as a member of the company and for benefits given under a court order are also suggestions worthy of consideration to be incorporated in the legislation.

4. **Australia –Exemptions granted for small amount transactions to related parties:** The amount specified under this regulation is A$5000. Benefits given to related party up to A$5000 in total is exempt under the Australian Act.

> **Small amounts given to related entity**
> (1) Member approval is not needed to give a financial benefit to a related party in a financial year if the total of the following amounts or values is less than or equal to the amount prescribed by the regulations for the purposes of this section:
> (a) the amount or value of the financial benefit;
> (b) the total of all other amounts or values of financial benefits given to the related party, in the financial
>
> (2) In working out the total of the amounts or values referred to in paragraphs (1)(a) and (b):
> (a) add in all amounts or values of financial benefits given to the related party in the financial year by:
> (i) the public company or entity; and
> (ii) any entities controlled by the public company or entity; and
>
> (b) disregard:
> (i) amounts that have been repaid; and
> (ii) amounts that fall under any other exception in this Part.

For the purposes of this subsection, the time at which the entity must be controlled by the public company is the time at which the financial benefit is given.

Cimplyfive's Learning
In our view, the materiality threshold set in the Indian statutes which is the lower of 10% of turnover or Rs.100 crores is too lax in protecting the interest of shareholders or other stakeholders. We believe a much lower threshold would be the sign of good governance. Considering that Indian companies are required to report the median wages of their employees, we believe fixing the threshold by refering it to the median wage or a multiple of median wage would be the sign of good governance.

5. **NYSE Listed Company Manual: Options available on review of RPTs:** NYSE manual explicitly states the options available to the reviewing authority to either continue with the relationship or to eliminate it.

> **314.00 Related Party Transactions**
> "Following the review, the company should determine whether or not a particular relationship serves the best interest of the company and its shareholders and whether the relationship should be continued or eliminated."

Cimplyfive's Learning
Explicitly stating the options available to the decision making body of either approving as it is or with modifications or terminating the RPT promotes transparency and is a sign of good governance.

Evaluating the Policy on Dealing with Related Party Transactions of the Nifty 50 Companies: **Our Study**

Evaluation Methodology
Our evaluation of the Policy on Dealing with Related Party Transactions of the Nifty 50 companies is based on identifying eleven material clauses of the policy, which is categorized under two heads, Operational Clauses and Critical Clauses as listed below:

Operational Clauses
1. Reference to mandates
2. Definitions
3. Materiality Threshold
4. Internal administrative process
5. Review of Related Party Transactions
6. Administrative issues

Critical Clauses
1. Preamble / Objectives
2. Omnibus Approval
3. Effect of RPTs not approved
4. Criteria for approval
5. Disclosure Requirements

For each of the Nifty 50 companies in the month of May 2017 we downloaded from their website their Policy on Dealing with Related Party Transactions. In the version of the policy we downloaded, we analysed each of these eleven clauses to see if the content of these clauses was:

1. **Comprehensive or Substantial:** We classified a clause as comprehensive or substantial when the contents of the clause went beyond the letter of law and addressed the intent in the law, i.e. the spirit of law.
2. **Legalistic or Minimalist:** We classified a clause as legalistic or minimalist when the content of the clause reproduced the legal requirements without capturing the rationale or methods for implementing it.
3. **No Clause:** Where the Policy on Dealing with Related Party Transactions did not contain any of the eleven clauses, we have classified it as such.

Operational Clauses

1. Reference to mandates

RPTs in India are regulated by the provisions of the Companies Act, 2013 and the SEBI regulations. In our analysis, we observed some companies have rightly given reference to the Companies Act, 2013, the SEBI Listing Regulations, 2015, while others have retained reference to the earlier Listing Agreement.
A policy that is regularly reviewed and current would have been updated for references to the regulations as and when they change.

Observation
Of the 50 companies reviewed 19 companies referred to both the Companies Act, 2013 and the Listing Agreement, while 16 companies referred to the Companies Act, 2013 and the Listing Regulations, 2015. Details of all the 50 companies analysed is tabulated in the table below:

Reference	# of Companies
Companies Act, 2013 and Listing Agreement	19
Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015	16
Listing Agreement	6
SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015	4
Companies Act, 2013	3
No reference to mandates/ regulations	2
Total Companies	**50**

Example of a regularly reviewed and current policy: *GAIL (India) Limited.*
"This policy is framed as per requirements of Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Listing Regulations) and the Companies Act, 2013.This Policy shall supplement Company's other policies/ procedures/ practices/ Delegation of Powers etc. which require approval of the Transactions/ Contracts/ Arrangement in specified manner and by specified authority. If there are more than one set of requirements due to application of multiple laws and regulations, the endeavor will be based on the compliance principle which would meet the higher governance standards."

Example of incomplete reference to mandates/ regulations:
"This policy is framed as per requirements of Clause 49 of the Equity Listing Agreement entered by the Bank with the Stock Exchanges and intended to ensure that the dealings in Related Party Transactions meet proper reporting and approval norms as required by the statute.

The Audit Committee will review and may amend this policy from time to time. "

2. Definitions for words and phrases used in the Policy

For clarity, it is advisable to define the words or phrases used in the policy if their meaning is either more or less than what is understood in its normal usage. Our review of the policies revealed a wide range of practice, with some companies defining up to 17 words and phrases in contrast to some companies defining none.

Observation

Narration	Name of Company	# of Definitions
Maximum words and phrases defined	Bank of Baroda	17
Minimum words and phrases defined	Infosys Ltd.	1
No definitions	Hindustan Unilever Limited, ITC Limited, Tata power Limited, Reliance Industries Limited	0

List of 17 words and phrases defined in the Policy of Bank of Baroda: Arm's Length Transaction, Associate, Audit Committee or Committee, Board, Comparable Uncontrolled Price Method, Exposure, Key Managerial Person denotes, Material Related Party Transactions, Material Subsidiary, Office or Place of Profit, Related Party, Related Party Transaction, Significant transaction or arrangement, Special Resolution, Subsidiary, Transaction Net Margin Method, Turnover.

3. Materiality Threshold

Materiality threshold is a limit defined by the company for promoting ease of operations wherein transactions below this threshold with the Related Party do not require approval of the Board of Directors. Given that this is an exemption clause for RPTs, a low value for the threshold is a reflection of good corporate governance, while higher thresholds indicate dilution in good governance.

Further, materiality threshold limits set in law is only the maximum limit that a company can fix, with the company at liberty to fix lower thresholds, thereby standing up to a higher standard of governance.

Observation

Of the 50 companies analysed, 37 companies had fixed the threshold at 10% of the annual consolidated turnover of the company, i.e. the highest limit permitted under the law. In eight companies the limit fixed was by referring to the Listing Agreement, in four companies reference was to both Companies Act and the Listing Agreement and in one company there was no clause on Materiality Threshold.

Materiality Threshold- Reference	# of References
Exceeding 10% of the annual consolidated turnover of the company as per the last audited financial statements of the company	37
Reference to the provisions of the Listing Regulation	9
Reference to the provisions of the Listing Agreement	8
Reference to both the provisions –Companies Act & Listing Agreement	4
Reference to Rule 15 (3) of Companies (Meetings of Board and its Powers) Rules, 2014 or Companies Act	4
No Clause on Materiality Threshold	1
Total Companies	**63***

*In certain cases the companies have referred more than one material Threshold

Example of reference to 10% of consolidated turnover of the company: ***Oil & Natural Gas Corporation Ltd***
"Material Related Party transactions means those transactions entered into with ONGC by a related party, individually or taken together with previous transactions during a financial year, exceeds 10 percent of the annual consolidated turnover/Net worth etc. as per the last audited financial statements of the Company or 100 Crore whichever is lower in accordance with the MCA circular dated 14.08.2014 or any amendment thereof."

There is an apparent inconsistency between the Companies Act, 2013 provisions and the requirements of Listing Regulations, 2015. While the relative limit of 10% of the annual turnover is mentioned in both, the Companies Act in addition, fixes an absolute limit of Rs.100 crores and limits the threshold to the lower of 10% of turnover or Rs.100 crores. This reference to Rs.100 crores is missing in the Listing Regulations, 2015.

4. Internal Administrative Process

Companies are required to establish internal administrative process for the purpose of identification of Related Parties, for determining whether the transaction is in ordinary course of business, whether the transaction is at an arm's length basis and monitoring "Materiality" threshold and other relevant matters to ensure adherence to the policy in entering into transactions with Related Parties.

Observation

Of the 50 companies analysed, 11 companies have explained their internal administrative process for administering the Policy on dealing with RPT, while 17 companies have not included this clause in their policy. The remaining 22 companies have given generic description of the process.

Nature of Internal Administrative process described	# of Companies
Generic description	22
No Clause included	17
Comprehensive description	11
Total Companies	**50**

Example of a well-defined internal administrative process: ***Grasim Industries Ltd.***
"The Company's management shall institute appropriate administrative measures to ensure that all RPTs entered into by the Company are in compliance with applicable laws and this Policy. All persons dealing with the related party(ies) shall, irrespective of their level, be responsible for compliance with this Policy. The detailed processes relating to implementation of this Policy, as may be approved by the Audit Committee from time to time, shall be followed by all concerned. The Internal Auditors of the Company shall review the RPTs entered into by the Company on a periodic basis and report their observations to the Audit Committee. The Company Secretary shall be responsible to maintain/update the list of related parties (as required by applicable laws) and provide the same to all concerned. It is the duty of all employees of the Company to ensure that they do not deal with related parties under any kind of influence or coercion. The cases involving any unwarranted pressure should be promptly reported as per mechanism provided under the Whistle Blower Policy of the Company."

Example of a generic internal administrative process:
"Before the start of each financial year, the Company shall draw up a list of 'related parties' in accordance with the definition given in Clause 49 of the Listing Agreement. Any changes in the list during the financial year shall be made as and when the Company receives information in this regard from the Directors and Key Managerial Personnel. For this purpose, the Company shall devise an appropriate procedural mechanism."

5. Review of Related Party Transactions

Audit Committee of the Board of Directors is the designated authority for review of all RPTs. A good policy would define the review mechanism and provide guidance to the Audit committee of the information they would get and should they need it, the process for getting more information for taking a decision on the RPTs.

Observation

Only 19 companies have described their review process and mechanism for deciding on RPTs. 31 companies do not have any clause related to this.

Example of a well described review mechanism: Kotak Mahindra Bank

"All related party transactions will be placed before the Audit Committee for its review and approval. Any member of the Committee who is a related party will recuse himself or herself and refrain from discussion and voting on the approval of the related party transaction.

To review a related party transaction, the Committee will be provided with relevant material information of the related party transaction, including the terms of the transaction, the business purpose of the transaction, the benefits to the Bank, arm's length principles and any other relevant matters. In determining whether to approve a related party transaction, the Committee will consider the following factors, among others, to the extent relevant to the related party transaction:

- The fairness and arm's length or otherwise of the related party transaction after applying the same basis as if the transaction did not involve a related party;
- The business reasons for the Bank to enter into the related party transaction and the nature of alternative transactions, if any;
- Impact on independence of an independent director of related party transaction;
- Any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
- Whether the related party transaction would present an improper conflict of interest for any director or KMP of the Bank, taking into account the size of the transaction, the overall financial position of the director or other related party, the direct or indirect nature of the director's, KMP's or other related party's interest in the transaction and the ongoing nature of any proposed relationship and any other factors the Board/Committee deems relevant.
- Any other relevant information regarding the transaction.

If the Committee determines that a related party transaction should be brought before the Board, or if the Board in any case elects to review any such matter or it is mandatory under any law for the Board to approve the related party transaction, then the considerations set forth above shall apply to the Board's review and approval of the matter, with such modification as may be necessary or appropriate under the circumstances."

6. Administrative Issues

Capturing information on the custodian, approval date, approving authority, effective date of the policy, version reference and frequency of review is more of an administrative issue that makes the policy robust and easy to administer.

Observation

Our analysis of the policies of the 50 companies shows the following:.

Administrative Issues	Mentioned by # of Companies	Names of Companies
Custodian/ Owner	3	Bharati Airtel Limited, Bharati Infratel Limited, Tata Steel Limited
Approval Date	12	ACC Limited, Ambuja Cements Limited, Asian Paints limited, Baja Auto Limited, Bharati Airtel Limited, Bharati Infratel Limited, Grasim Industries Limited, Housing Development Finance Corporation Limited, Lupin Limited, Reliance Industries Limited, Sun Pharmaceutical Industries Limited, Tata Steel Limited
Approving authority	36	ACC Limited, Ambuja Cements Limited, Asian Paints limited Baja Auto Limited, Bharati Airtel Limited, Bharati Infratel Limited, Cipla Limited, Bosch Limited, Coal India Limited, Dr. Reddy's Laboratories Limited, Eicher Motors Limited, GAIL Limited, Grasim Industries Limited, HCL Technologies Ltd., HDFC Bank Limited, Hero MotoCorp Limited, Hindustan Unilever Limited, Housing Development Finance Corporation Limited, ICICI Bank Limited, Indian Oil Corporation Limited, IndusInd Bank Limited, Infosys Limited, Kotak Mahindra Bank Limited, Larsen & Toubro Limited, Lupin Limited, Mahindra & Mahindra Limited, Oil & Natural Gas Corporation Limited, Power Grid Corporation of India Limited, Reliance Industries Limited, State Bank of India, Sun Pharmaceutical Industries Limited, Tata Motors Limited, Tata Power Company Limited, Tata Steel Limited, Yes Bank, Zee Entertainment Enterprises Limited
Effective Date	17	ACC Limited, Ambuja Cements Limited, Asian Paints Limited, Axis bank Limited, Bharati Airtel Limited, Bharati Infratel Limited, Cipla Limited, Hindustan Unilever Limited, Housing Development Finance Corporation Limited, IndusInd Bank Limited, Larsen & Toubro Limited, NTPC Limited, Sun Pharmaceutical Industries Limited, Tata Steel Limited, Tech Mahindra Limited, Wipro Limited, Zee Entertainment Enterprises Limited
Version reference	4	Bharati Airtel Limited, Bharati Infratel Limited, Housing Development Finance Corporation Limited, Tech Mahindra Limited

Administrative Issues	Mentioned by # of Companies	Names of Companies
Frequency of Review	38	ACC Limited, Adani Ports and Special Economic Zone Limited, Ambuja Cements Limited, Asian Paints Limited, Aurobindo Pharma Limited, Axis bank Limited, Bajaj Auto Limited, Bank of Baroda, Bharat Petroleum Corporation Limited, Bharati Airtel Limited, Bharati Infratel Limited, Bosch Limited, Cipla Limited, Coal India Limited, Dr. Reddy's Laboratories Limited, Eicher Motors Limited, GAIL(India) Limited, HDFC Bank Limited, Hero MotoCorp Limited, Hindustan Unilever Limited, Housing Development Finance Corporation Limited, ICICI Bank Limited, Indiabulls Housing Finance Limited, Indian Oil Corporation Limited, IndusInd Bank Limited, Infosys Limited, Kotak Mahindra Bank Limited, Lupin Limited, Mahindra & Mahindra Limited, Oil & Natural Gas Corporation Limited, Power Grid Corporation of India Limited, State Bank of India, Sun Pharmaceutical Industries Limited, Tata Motors Limited, Tata Power Company Limited, Tata Steel Limited, Yes Bank, Zee Entertainment Enterprises Limited

Custodian/Owner:
Some of the examples of the custodian are- General Group Counsel & CS, Company Secretary, Vice President Finance, India & South East Asia and the Company Secretary.

Approval Date:
The oldest policy in Nifty 50 companies is 19th July, 2014 by Reliance Industries Limited and the latest is on 20th October, 2015 by ACC Limited.

Approving Authority:
Some of the examples of Approving Authority are - Chairman of Audit Committee and BOD, Chairman-Board of Directors, Chairman-Audit Committee, Chairman-Central Board of SBI.

Frequency of Review:
Out of the 38 companies that have mentioned frequency of review of the policy, 34 companies have selected event based reviews for amending the policy and the remaining four companies have mentioned an annual review as the minimum period in which the policy will be reviewed. The remaining 12 companies did not have a clause for review of the policy.

Nifty 50 Companies Analysed: Critical Aspects

We have assessed the quality of the Policy on Dealing with Related Party Transactions by looking at the five critical clauses in the policy, namely –Objective of the Policy, Basis for giving Omnibus Approvals, Effect of RPTs Not Approved, Criteria for Granting Approvals to RPTs and Disclosures Required.

- **Substantive, Legalistic or No clause:** used for the three clauses -Objective of the Policy, Basis for Giving Omnibus Approval and Effect of RPTs Not Approved
- **Comprehensive, Minimalist or No clause:** used for the two clauses-Criteria for Granting Approvals, Disclosures

I. Objective of the Policy:

Substantive	Legalistic	No Clause
12 Companies	36 Companies	2 Companies

> **Substantive clause example:** ***Reliance Industries Limited.***
> "Reliance Industries Limited (the "Company" or "RIL") recognizes that related party transactions can present potential or actual conflicts of interest and may raise questions about whether such transactions are consistent with the Company's and its stakeholders' best interests."

> **Legalistic clause example:**
> "The Board of Directors has adopted the Related Party Transaction Policy and Procedures with regard to Related Party Transactions as defined below. This policy is to regulate transactions between the Company and its Related Parties based on the applicable laws, rules and regulations."

II. Omnibus Approval:

Substantive	Legalistic	No Clause
5 Companies	37 Companies	8 Companies

> **Substantive clause example:** ***Bosch Limited.***
> "The Audit Committee would grant omnibus approval only if it is satisfied of the need of such approval and that it meets the criteria set out hereinabove (Para 5) for approval of Related Party Transactions.
>
> The Audit Committee shall lay down the criteria for granting the omnibus approval in line with this Policy and such approval shall be applicable in respect of transactions which are repetitive in nature.
>
> In the case of frequent / regular / repetitive transactions which are in the normal course of business of the Company, the Audit Committee may grant standing pre-approval / omnibus approval. While granting the approval, the Audit Committee shall satisfy itself of the need for the omnibus approval and that the same is in the interest of the Company. The omnibus approval shall specify the following:

a. Name of the related party.
b. Nature of the transaction.
c. Period of the transaction.
d. Maximum amount of the transactions that can be entered into.
e. Indicative base price / current contracted price and formula for variation in price, if any.
f. Such other conditions as the Audit Committee may deem fit.

Such transactions will be deemed to be pre-approved and may not require any further approval of the Audit Committee for each specific transaction. The thresholds and limitations set forth by the Committee would have to be strictly complied with, and any variation thereto including to the price, value or material terms of the contract or arrangement shall require the prior approval of the Audit Committee.

Further, where the need of the related party transaction cannot be foreseen and all prescribed details (as aforementioned) are not available, the Audit Committee may grant omnibus approval subject to the value per transaction not exceeding Rs.1,00,00,000/- (Rupees One Crore only). The details of such transaction shall be reported at the next meeting of the Audit Committee for ratification.

Further, the Audit Committee shall, on a quarterly basis, review and assess such transactions including the limits to ensure that they are in compliance with this Policy. The omnibus approval shall be valid for a period of one year" and fresh approval shall be obtained after the expiry of one year.

Legalistic clause example:
"The Audit Committee grants omnibus approval for recurring transactions with related parties. The Audit Committee would review on a quarterly basis the aforesaid Related Party Transactions entered into by the Bank pursuant to each of the omnibus approval given. The approval is valid for a period of one year."

III. Effect of RPTs not approved:

Substantive	Legalistic	No Clause
15 Companies	16 Companies	19 Companies

Substantive clause example: ***Tata Motors Limited/ Tata Steels Limited/ Tata Power Limited.***
"In the event the Company becomes aware of a transaction with a related party that has not been approved in accordance with this Policy prior to its consummation, the matter shall be reviewed by the Audit Committee. The Audit Committee shall consider all of the relevant facts and circumstances regarding the related party transaction, and shall evaluate all options available to the Company, including ratification, revision or termination of the related party transaction. The Audit Committee shall also examine the facts and circumstances pertaining to the failure of reporting such related party transaction to the Audit Committee under this Policy and failure of the internal control systems, and shall take any such action it deems appropriate.

In any case, where the Audit Committee determines not to ratify a related party transaction that has been commenced without approval, the Audit Committee, as appropriate, may direct additional actions including, but not limited to, discontinuation of the transaction or seeking the approval of the shareholders, payment of compensation for the loss suffered by the related party etc. In connection with any review/approval of a related party transaction, the Audit Committee has authority to modify or waive any procedural requirements of this Policy."

Legalistic clause example:
"A Related Party Transaction entered into without prior approval of the Audit Committee shall not be deemed to violate this policy, or be invalid or unenforceable, so long as the transaction is brought to the Audit Committee for ratification as promptly as reasonably practical after it is entered into and such transaction is ratified."

IV. Criteria for approval: :

Comprehensive	Minimalistic	No Clause
8 Companies	40 Companies	2 Companies

Comprehensive clause example: ***Axis Bank.***

"All Material Related Party Transactions shall require approval of the shareholders through ordinary resolution and the Related Parties shall abstain from voting on such resolutions. The approval policy framework is given below:

- Audit Committee- All Related Party Transactions
- Board Approval- All Related Party Transactions referred by Audit Committee for approval of the Board to be considered and Related Part Transactions as required by the statute
- Shareholders' Approval- Approval by Ordinary Resolution for:
    i. Material Related Party Transaction
    ii. Related Party Transactions not in Ordinary Course of Business or not on Arm's Length basis and crosses threshold limit as prescribed under the statute

Related Party Transactions will be referred to the Audit Committee for review and prior approval. Any member of the Committee who has a potential interest in any Related Party Transaction will recuse himself or herself and abstain from discussion and voting on the approval of the Related Party Transaction.

In determining whether to approve, ratify, disapprove or reject a Related Party Transaction, the Audit Committee, shall take into account all the factors it deems appropriate.

To review a Related Party Transaction, the Audit Committee is provided with all relevant material information of the Related Party Transaction, including the terms of the transaction, the business purpose of the transaction, the benefits to the Bank and to the Related Party, and any other relevant matters.

The information provided specifically covers the following:

i. The name of the related party and nature of relationship;
ii. The nature, duration of the contract and particulars of the contract or arrangement;
iii. The material terms of the contract or arrangement including the value, if any;
iv. Any advance paid or received for the contract or arrangement, if any;
v. The manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract;
vi. Whether all factors relevant to the contract have been considered, if not, the details of factors not considered with the rationale for not considering those factors;
vii. The persons/authority approving the transaction; and
viii. Any other information relevant or important for the Committee to take a decision on the proposed transaction."

Minimalistic clause example:

"Every Related Party Transaction entered into with effect from 1st October 2014 shall be subject to approval of the Audit Committee. The approval of the Audit Committee can be granted by way of a circular resolution.

The Board shall approve such Related Party Transactions as are required to be approved under The Companies Act, 2013 and/or listing agreement and/or transactions referred to it by the Audit Committee.

Where any director is interested in any Related Party Transaction, such director will abstain from discussion and voting on the subject matter of the resolution relating to such Transaction.
Further, all Material Related Party Transactions shall require approval of shareholders of the Company through special resolution (unless it is exempted pursuant to the provisions of listing agreement) and the Related Parties shall abstain from voting on such resolution(s)."

V. Disclosures:

Comprehensive	Minimalistic	No Clause
3 Companies	37 Companies	10 Companies

Comprehensive clause example: ***Lupin Limited.***

- "Every Director and KMP shall disclose the parties in which they are deemed to be interested.
- Every Director and KMP shall promptly notify the Secretarial Department of any material transaction or relationship that could reasonably be expected to give rise to a conflict of interest.
- Each related party transaction, which requires approval of the Board, shall be referred to in the Board's report in the prescribed form together with justification for entering into such contract or arrangement. The Company shall also maintain the Register in the prescribed form.
- The Company shall disclose to the Stock Exchanges details of material transactions, if any, with related parties on a quarterly basis together with compliance report on Corporate Governance.
- The Company shall disclose the policy on dealing with related party transactions on its website and a web-link thereto shall be provided in the Annual Report."

Minimalistic clause example:

"The Company (including the management) shall ensure strict compliance with all its disclosure obligations in relation to related party transactions as required under the Act, the Listing Agreement and AS-18. This Policy will also be uploaded on the website and the web-link to the Policy will be inserted in the Annual Report every year."

VI. Summary of Company Ratings:

Based on the criteria in the earlier two sections, we have rated the Policy on Dealing with Related Party Transactions of the Nifty 50 Companies on the five parameters identified. Given below is the tabulation of the Nifty 50 Companies categorized by the number of substantive/ comprehensive clauses they have in their Policy for Dealing with RPTs.

Count of Substantive /Comprehensive Clauses in their Policy

No of Substantive/ Comprehensive clauses	# of Companies
0 out of 5	19
1 out of 5	21
2 out of 5	9
3 out of 5	1
4 out of 5	0
5 out of 5	0

A further analysis of the Nifty 50 companies on the five critical clauses in their Policy on Dealing with RPTs showed 28 companies had all the five critical clauses contained in their policy, with the balance 22 companies having one or more of these critical clauses missing, as tabulated below.

Count of Critical Clauses in their Policy

No of Substantive/ Comprehensive clauses	# of Companies
All the 5	28
4 out of 5	12
3 out of 5	4
2 out of 5	4
1 out of 5	2
0 out of 5	0

Listing of companies with their score on substantive /comprehensive clauses and the count of critical clauses is given in the following table.

Nifty 50 Companies: Assessment of their Policy on Dealing with Related Party Transactions

Name of Companies	Five Critical Clauses in the Policy	
	Count of Critical Clauses	Of which, Substantive / Comprehensive Clausess
ACC Ltd.	1	0
Adani Ports and Special Economic Zone Ltd.	5	0
Ambuja Cements Ltd.	1	0
Asian Paints Ltd.	4	0
Aurobindo Pharma Ltd.	5	1
Axis Bank Ltd	5	2
Bajaj Auto Ltd.	2	0
Bank of Baroda	5	2
Bharat Petroleum Corporation Ltd.	5	0
Bharti Airtel Ltd.	5	1
Bharti Infratel Ltd	5	1
Bosch Ltd.	5	2

Name of Companies	Five Critical Clauses in the Policy	
	Count of Critical Clauses	Of which, Substantive / Comprehensive Clausess
Cipla Ltd.	2	0
Coal India Ltd..	3	0
Dr. Reddy's Laboratories Ltd..	5	0
Eicher Motors Ltd.	4	0
GAIL (India) Ltd.	5	1
Grasim Industries Ltd	4	0
HCL Technologies Ltd..	4	3
HDFC Bank Ltd.	5	2
Hero MotoCorp Ltd.	5	1
Hindalco Industries Ltd.	4	0
Hindustan Unilever Ltd.	5	1
Housing Development Finance Corporation Ltd.	5	2
I T C Ltd.	2	0
ICICI Bank Ltd.	4	0
Indiabulls Housing Finance Ltd.	5	1
Indian Oil Corporation Ltd.	5	1
IndusInd Bank Ltd.	5	1
Infosys Ltd.	4	0
Kotak Mahindra Bank Ltd.	3	1
Larsen & Toubro Ltd.	3	1
Lupin Ltd.	5	2
Mahindra & Mahindra Ltd.	5	1
Maruti Suzuki India Ltd.	4	0
NTPC Ltd.	5	2
Oil & Natural Gas Corporation Ltd.	4	1
Power Grid Corporation of India Ltd.	5	0

Name of Companies	Five Critical Clauses in the Policy	
	Count of Critical Clauses	Of which, Substantive / Comprehensive Clausess
Reliance Industries Ltd.	2	1
State Bank of India	5	1
Sun Pharmaceutical Industries Ltd.	5	1
Tata Consultancy Services Ltd.	4	0
Tata Motors Ltd.	5	1
Tata Power Co. Ltd.	5	1
Tata Steel Ltd.	5	2
Tech Mahindra Ltd.	4	1
UltraTech Cement Ltd.	4	0
Wipro Ltd.	3	1
Yes Bank Ltd.	5	1
Zee Entertainment Enterprises Ltd.	5	2

Related Party Transactions: The Law in India

Companies Act 2013

The Companies Act, 2013 requires that all Related Party Transactions must be reported to the Audit Committee of the Company for its approval. Transactions which are not in the ordinary course of business or are not at arm's length or both, to be approved by the Board and if required by the shareholders as well.

Section 2 (76)

"related party", with reference to a company, means–

(i) a director or his relative;
(ii) a key managerial personnel or his relative;
(iii) a firm, in which a director, manager or his relative is a partner;
(iv) a private company in which a director or manager or his relative is a member or director;
(v) a public company in which a director or manager is a director and hold along with his relatives, more than two per cent of its paid-up share capital;
(vi) any body corporate whose Board of Directors, managing director or manager is accustomed to act in accordance with the advice, directions or instructions of a director or manager;
(vii) any person on whose advice, directions or instructions a director or manager is accustomed to act;
Provided that nothing in sub-clause (vi) or (vii) shall apply to the advice, directions or instructions given in a professional capacity.
(viii) any company which is–
A. a holding, subsidiary or an associate company of such company; or
B. a subsidiary of a holding company in which it is also a subsidiary;
(ix) such other person as may be prescribed.

Section 177. Audit Committee

(4) Every Audit Committee shall act in accordance with the terms of reference specified in writing by the Board which shall, inter alia, include,-
(iv) approval or any subsequent modification of transactions of the company with related party.

Provided that the Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the company subject to such conditions as may be prescribed;

Companies (Meetings of Board and its Powers) Rules, 2014

Rule 6A. Omnibus approval for related party transactions on annual basis:

All related party transactions shall require approval of the Audit Committee and the Audit Committee may make omnibus approval for related party transactions proposed to be entered into by the company subject to the following conditions, namely: -

(1) The Audit Committee shall, after obtaining approval of the Board of Directors, specify the criteria for making the omnibus approval which shall include the following, namely: -
(a) maximum value of the transactions, in aggregate, which can be allowed under the omnibus route in a year;
(b) the maximum value per transaction which can be allowed;
(c) extent and manner of disclosures to be made to the Audit Committee at the time of seeking omnibus approval;
(d) review, at such intervals as the Audit Committee may deem fit, related party transaction entered into by the company pursuant to each of the omnibus approval made.
(e) transactions which cannot be subject to the omnibus approval by the Audit Committee.

(2) The Audit Committee shall consider the following factors while specifying the criteria for making omnibus approval, namely: –
(a) repetitiveness of the transactions (in past or in future);
(b) justification for the need of omnibus approval.

(3) The Audit Committee shall satisfy itself for transactions of repetitive nature and that the company.

(4) The omnibus approval shall contain or indicate the following: –
(a) name of the related parties:
(b) nature and duration of the transaction;
(c) maximum amount of transaction that can be entered into;
(d) the indicative base price or current contracted price and the formula for variation in the price, if any; and
(e) any other information relevant or important for the Audit Committee to take a decision on the proposed transaction:

Provided that where the need for related party transaction cannot be foreseen and aforesaid details are not available, audit committee may make omnibus approval for such transactions subject to their value not exceeding rupees one crore per transaction.

(5) Omnibus approval shall be valid for a period not exceeding one financial year and shall require fresh approval after the expiry of such financial year.

(6) Omnibus approval shall not be made for transactions in respect of selling or disposing of the undertaking of the company.

(7) Any other conditions as the Audit Committee may deem fit.

Section 188. Related Party Transactions

(1) Except with the consent of the Board of Directors given by a resolution at a meeting of the Board and subject to such conditions as may be prescribed, no company shall enter into any contract or arrangement with a related party with respect to—
(a) sale, purchase or supply of any goods or materials;
(b) selling or otherwise disposing of, or buying, property of any kind;
(c) leasing of property of any kind;
(d) availing or rendering of any services;
(e) appointment of any agent for purchase or sale of goods, materials, services or property;
(f) such related party's appointment to any office or place of profit in the company, its subsidiary company or associate company; and
(g) underwriting the subscription of any securities or derivatives thereof, of the company.

Provided that no contract or arrangement, in the case of a company having a paid-up share capital of not less than such amount, or transactions not exceeding such sums, as may be prescribed, shall be entered into except with the prior approval of the company by a resolution:

Provided further that no member of the company shall vote on such resolution, to approve any contract or arrangement which may be entered into by the company, if such member is a related party

Provided also that nothing in this sub-section shall apply to any transactions entered into by the company in its ordinary course of business other than transactions which are not on an arm's length basis.

Provided also that the requirement of passing the resolution under first proviso shall not be applicable for transactions entered into between a holding company and its wholly owned subsidiary whose accounts are consolidated with such holding company and placed before the shareholders at the general meeting for approval.

Explanation.— In this sub-section,—

(a) the expression "office or place of profit" means any office or place—
  (i) where such office or place is held by a director, if the director holding it receives from the company anything by way of remuneration over and above the remuneration to which he is entitled as director, by way of salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;
  (ii) where such office or place is held by an individual other than a director or by any firm, private company or other body corporate, if the individual, firm, private company or body corporate holding it receives from the company anything by way of remuneration, salary, fee, commission, perquisites, any rent-free accommodation, or otherwise;

(b) the expression "arm's length transaction" means a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

(2) Every contract or arrangement entered into under sub-section (1) shall be referred to in the Board's report to the shareholders along with the justification for entering into such contract or arrangement.

(3) Where any contract or arrangement is entered into by a director or any other employee, without obtaining the consent of the Board or approval by a resolution in the general meeting under sub-section (1) and if it is not ratified by the Board or, as the case may be, by the shareholders at a meeting within three months from the date on which such contract or arrangement was entered into, such contract or arrangement shall be voidable at the option of the Board and if the contract or arrangement is with a related party to any director, or is authorised by any other director, the directors concerned shall indemnify the company against any loss incurred by it.

(4) Without prejudice to anything contained in sub-section (3), it shall be open to the company to proceed against a director or any other employee who had entered into such contract or arrangement in contravention of the provisions of this section for recovery of any loss sustained by it as a result of such contract or arrangement.

(5) Any director or any other employee of a company, who had entered into or authorised the contract or arrangement in violation of the provisions of this section shall,—
  in case of listed company , be punishable with imprisonment for a term which may extend to one year or
  (i) with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees, or with both; and
  in case of any other company, be punishable with fine which shall not be less than twenty-five thousand
  (ii) rupees but which may extend to five lakh rupees.

Companies (Meetings of Board and its Powers) Rules, 2014

Rule 15. Contract or Arrangement with Related Party

A company shall enter into any contract or arrangement with a related party subject to the following conditions, namely:-

(1) The agenda of the Board meeting at which the resolution is proposed to be moved shall disclose-

(a) the name of the related party and nature of relationship;
(b) the nature, duration of the contract and particulars of the contract or arrangement;
(c) the material terms of the contract or arrangement including the value, if any;
(d) any advance paid or received for the contract or arrangement, if any;
(e) the manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract;
(f) whether all factors relevant to the contract have been considered, if not, the details of factors not considered
(g) with the rationale for not considering those factors; and
  any other information relevant or important for the Board to take a decision on the proposed transaction.

(2) Where any director is interested in any contract or arrangement with a related party, such director shall not be present at the meeting during discussions on the subject matter of the resolution relating to such contract or arrangement-

(3) Except with the prior approval of the company by a resolution, a company shall not enter into a transaction or transactions, where the transaction or transactions to be entered into,

(a) as contracts or arrangements with respect to clauses (a) to (e) of sub-section (1) of section 188, with criteria as mentioned below –
   (i) sale, purchase or supply of any goods or materials, directly or through appointment of agent, amounting to ten per cent or more of the turnover of the company or rupees one hundred crore, whichever is lower, as mentioned in clause (a) and clause (e) respectively of sub-section (1) of section 188;

   (ii) selling or otherwise disposing of or buying property of any kind, directly or through appointment of agent, amounting to ten per cent or more of net worth of the company or rupees one hundred crore, whichever is lower, as mentioned in clause (b) and clause (e) respectively of sub-section (1) of section 188;

   (iii) leasing of property of any kind amounting to ten per cent or more of the net worth of the company or ten per cent or more of turnover of the company or rupees one hundred crore, whichever is lower, as mentioned in clause (c) of sub-section (1) of section 188;

   (iv) availing or rendering of any services, directly or through appointment of agent, amounting to ten per cent or more of the turnover of the company or rupees fifty crore, whichever is lower, as mentioned in clause (d) and clause (e) respectively of sub-section (1) of section 188:

Explanation.-
It is hereby clarified that the limits specified in sub-clauses (i) to (iv) shall apply for transaction or transactions to be entered into either individually or taken together with the previous transactions during a financial year.

(b) is for appointment to any office or place of profit in the company, its subsidiary company or associate company at a monthly remuneration exceeding two and half lakh rupees as mentioned in clause (f) of subsection (1) of section 188; or

(c) is for remuneration for underwriting the subscription of any securities or derivatives thereof, of the company exceeding one per cent. of the net worth as mentioned in clause (g) of sub-section (1) of section 188.

Explanation.-
(1) The Turnover or Net Worth referred in the above sub-rules shall be computed on the basis of the Audited Financial Statement of the preceding Financial year.

(2) In case of a wholly owned subsidiary, the resolution passed by the holding company shall be sufficient for the purpose of entering into the transactions between the wholly owned subsidiary and the holding company.

(3) The explanatory statement to be annexed to the notice of a general meeting convened pursuant to section 101 shall contain the following particulars, namely:—
   (a) name of the related party ;
   (b) name of the director or key managerial personnel who is related, if any;
   (c) nature of relationship;
   (d) nature, material terms, monetary value and particulars of the contract or arrangement;

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015
These regulations are applicable only to listed companies. It requires listed entities to formulate a policy on materiality of related party transactions and on dealing with related party transactions.

Regulation 23. Related Party Transaction
(1) The listed entity shall formulate a policy on materiality of related party transactions and on dealing with related party transactions.

(2) All related party transactions shall require prior approval of the audit committee.

(3) Audit committee may grant omnibus approval for related party transactions proposed to be entered into by the listed entity subject to the following conditions, namely-
   (a) the audit committee shall lay down the criteria for granting the omnibus approval in line with the policy on related party transactions of the listed entity and such approval shall be applicable in respect of transactions which are repetitive in nature;

   (b) the audit committee shall satisfy itself regarding the need for such omnibus approval and that such approval is in the interest of the listed entity;

   (c) the omnibus approval shall specify:
      (i) the name(s) of the related party, nature of transaction, period of transaction, maximum amount of transactions that shall be entered into,
      (ii) the indicative base price / current contracted price and the formula for variation in the price if any; and
      (iii) such other conditions as the audit committee may deem fit:
      Provided that where the need for related party transaction cannot be foreseen and aforesaid details are not available, audit committee may grant omnibus approval for such transactions subject to their value not exceeding rupees one crore per transaction.

   (d) the audit committee shall review, at least on a quarterly basis, the details of related party transactions entered into by the listed entity pursuant to each of the omnibus approvals given.
      Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

(4) All material related party transactions shall require approval of the shareholders through resolution and the related parties shall abstain from voting on such resolutions whether the entity is a related party to the particular transaction or not.

(5) The provisions of sub-regulations (2), (3) and (4) shall not be applicable in the following cases:
   (a) transactions entered into between two government companies;
      transactions entered into between a holding company and its wholly owned subsidiary whose accounts
   (b) are consolidated with such holding company and placed before the shareholders at the general meeting for approval.

(6) The provisions of this regulation shall be applicable to all prospective transactions.

(7) For the purpose of this regulation, all entities falling under the definition of related parties shall abstain from voting irrespective of whether the entity is a party to the particular transaction or not.

(8) All existing material related party contracts or arrangements entered into prior to the date of notification of these regulations and which may continue beyond such date shall be placed for approval of the shareholders in the first General Meeting subsequent to notification of these regulations.

Regulation 46. Website

(2) The listed entity shall disseminate the following information on its website:
   (g) Policy on dealing with related party transactions.

Regulation 53. Annual Report

The annual report of the listed entity shall contain the disclosures as specified in Companies Act, 2013 along with the following:

(f) related party disclosure as specified in Para A of Schedule V

Schedule- V. Annual Report
The annual report shall contain the following additional disclosures:

A. Related Party Disclosure:
1. The listed entity shall make disclosures in compliance with the Accounting Standard on "Related Party Disclosures".
2. The disclosure requirements shall be as follows:

Sr. No.	In the accounts of	Disclosures of amounts at the year end and the maximum amount of loans/ advances/ Investments outstanding during the year.
1	Holding Company	•Loans and advances in the nature of loans to subsidiaries by name and amount. •Loans and advances in the nature of loans to associates by name and amount. •Loans and advances in the nature of loans to firms/companies in which directors are interested by name and amount
2	Subsidiary	Same disclosures as applicable to the parent company in the accounts of subsidiary company
3	Holding Company	Investments by the loanee in the shares of parent company and subsidiary company, when the company has made a loan or advance in the nature of loan.

For the purpose of above disclosures directors' interest shall have the same meaning as given in Section184 of Companies Act, 2013.

3.The above disclosures shall be applicable to all listed entities except for listed banks.

C. Corporate Governance Report: The following disclosures shall be made in the section on the corporate governance of the annual report.

(10) Other Disclosures:

(a) disclosures on materially significant related party transactions that may have potential conflict with the interests of listed entity at large;

(f) web link where policy on dealing with related party transactions;

Accounting Standard 18 (AS-18) Related Party Disclosures

21. Name of the related party and nature of the related party relationship where control exists should be disclosed irrespective of whether or not there have been transactions between the related parties.

23. If there have been transactions between related parties, during the existence of a related party relationship, the reporting enterprise should disclose the following: (i) the name of the transacting related party; (ii) a description of the relationship between the parties; (iii) a description of the nature of transactions; (iv) volume of the transactions either as an amount or as an appropriate proportion; (v) any other elements of the related party transactions necessary for an understanding of the financial statements; (vi) the amounts or appropriate proportions of outstanding items pertaining to related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and (vii) amounts written off or written back in the period in respect of debts due from or to related parties

26. Items of a similar nature may be disclosed in aggregate by type of related party except when seperate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the

Dealing with Related Party Transactions: A Model Policy

Custodian	Designation of the person entrusted with keeping the policy current
Approved by	Final approving authority –Board of Directors of the Company
Approved on	Date of the Board Meeting where the Policy is approved
Effective Date	Date in the policy from which the policy will become effective
Version	Start from 1.0 and keep updates numbered chronologically
Next Review	On the 1st of April each year or at such shorter frequency as changes in regulations necessitate

I Preamble

_____ Limited recognizes that related party transactions can present potential or actual conflicts of interest and may raise concerns on whether such transactions are consistent with the Company's and its shareholders' best interests.

In order to promote good governance and provide transparency by ensuring that there is no conflict of interest in conducting the business, the Board of the Company, acting upon the recommendation of its Audit Committee has adopted the following policy and procedures with respect to Related Party Transactions of the Company. This policy at a minimum is in accordance with the provisions of the Companies Act, 2013 read with the Rules framed thereunder and Regulation 23 of Listing Regulations, 2015 (as amended from time to time).

II Terms & References

All terms used in this Policy but not defined herein shall have the meaning assigned to such term in the Companies Act and the Rules thereunder and the Listing Agreement, as amended from time to time.

III Dealing with Related Party Transactions

Related Party Transactions are prohibited in the company, unless approved or ratified by the Audit Committee and / or the Board of Directors of the Company in accordance with this Policy.

In dealing with Related Party Transactions, the Company will follow the following approach:

1. Identification of Related Parties

The Company Secretary shall keep a database of Related Parties containing the names of individuals and Companies declared by the Directors based on the latest definition of Related Party.

The functional departments shall submit to the head of Finance & Accounts and the Company Secretary, the details of proposed transaction (except those for which omnibus approval has been granted by the Audit Committee as explained subsequently) with draft agreement or other supporting documents justifying that the transactions are on arm's length basis at prevailing market rate. Based on this information, the Company Secretary will process it with the Audit Committee for their approval.

2. *Review of Related Party Transactions*

All the transactions with Related Parties shall be referred by the Company Secretary to the Audit Committee for review at its scheduled quarterly meetings or as may be called upon by the Audit Committee from time to time along with all relevant information of such transactions.

The Audit Committee may refer any of the Related Party Transactions brought before it or it being mandatory under any law, for approval of the Board. The Board may on its own accord also decide to review any Related Party Transaction.

3. *Criteria for approval*

a) The approving authority shall take into account among other factors as it may deem appropriate, whether such contract or arrangement is entered into on terms no less favourable to the Company than terms generally available to an unaffiliated third party under the same or similar circumstances; the results of an appraisal, if any and the extent of the Director or KMP's interest in such contract or arrangement.

b) The Committee / Board will be provided with all relevant material information about the Related Party Transaction, including the terms of the transaction, arm's length justification, the business purpose of the transaction and any other relevant matters. In determining whether to approve a Related Party Transaction, the Committee / Board, amongst others, will consider the following factors to the extent relevant in the matter:

(1) Whether the terms of the Related Party Transaction are fair and on arm's length basis to the Company and would apply on the same basis if the transaction did not involve a Related Party;
(2) Whether there are any compelling business reasons for the Company to enter into the Related Party Transaction and the nature of alternative transactions, if any;
(3) Whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
(4) Whether the Related Party Transaction would present an improper conflict of interest for any director or Key Managerial Personnel of the Company.

c) No Director shall participate in any discussion or approval of contracts or arrangements w.r.t. Related Party Transaction in case such director is concerned or interested.

d) The transactions or arrangements which are specifically dealt under the separate provisions of the laws and executed under separate approvals / procedures shall not be covered under this Policy. Example of such transactions are as follows:

(1) Any transaction pertaining to appointment and remuneration of Directors and KMPs that has already been approved by the Nomination and Remuneration Committee of the Company or the Board;
(2) Transactions that have been approved by the Board under the specific provisions of the Companies Act, e.g. inter-corporate deposits, borrowings, investments with or in wholly owned subsidiaries or other Related Parties;
(3) Issues of shares / securities to related party;
(4) Any benefits, interests etc. arising to related party solely from the ownership of Company's shares at par with other holders e.g. Dividends, Right Issues, Stock Split, Bonus shares, etc.
(5) Shares based incentive plans for the benefits of Directors or KMPs approved by the Shareholders including ESOPs.
(6) CSR Contribution.

e) Where necessary, the Independent Directors may seek external professional advice in determining whether a transaction is in the ordinary course of business or at arm's length basis.

4. *Approval of Related Party Transactions*

(i) *Approval of Audit Committee*

All Related Party Transactions shall be subject to the prior approval of the Audit Committee of the Company.

Omnibus Approval

The Audit Committee may, subject to applicable regulatory provisions including Companies Act, 2013, Regulation 23 of Listing Regulations, 2015 and provisions of this policy, grant omnibus approval to Related Party Transactions subject to satisfaction of the following conditions:

(a) Such related party transactions are repetitive in nature.
(b) Specific need of such omnibus approval.
(c) The approval shall specify the name/s of the related party, nature of transaction, period of transaction, maximum amount of transaction that can be entered into, the indicative base price/current contracted price and the formula for variation in the price, if any and such other condition as the Audit Committee may deem fit.

The Audit Committee shall on quarterly basis review the details of the Related Party Transactions entered into by the Company pursuant to the omnibus approval.

Validity Period: Such omnibus approvals shall be valid for a period not exceeding one year and shall require fresh approvals after the expiry of one year.

(ii) Approval of Board

The following Related Party Transactions shall be subject to prior approval of the Board of Directors:

(a) If the Committee is of opinion that a particular Related Party Transaction should be brought before the Board, or if the Board in any case decides to review any such transaction.
(b) Where it is mandatory under any law for Board to approve the Related Party Transactions.
(c) Related Party Transactions, in which the directors or the Key Managerial Personnel, are concerned or interested.
(d) Related Party Transactions which are not:
    (1) in the ordinary course of business; or
    (2) conducted at an arm's length basis

(iii) Approval of Shareholders

The following Related Party Transactions shall require prior approval of Shareholders of the Company through ordinary resolution:

(a) All Material contracts and arrangements w.r.t. Related Party Transactions. All entities falling under the definition of related parties shall abstain from voting on such shareholders' resolution irrespective of whether the entity is a party to the particular transaction or not.
(b) Related Party Transactions exceeding the threshold limits as may be prescribed by the Ministry of Corporate Affairs from time to time and which is either not:
    (1) in the ordinary course of business; or
    (2) conducted at an arm's length basis
(c) The related parties who are concerned / interested in the transactions shall abstain from voting on such shareholder's resolution.

5. Related Party Transactions not approved under this Policy

If a Related Party Transaction is entered into by the Company without being prior approval under this Policy, the same shall be reviewed by the Committee. The Committee shall evaluate the transaction along with the reason why such transaction was entered into without bringing it to the notice of the Audit Committee and decide such action as it may consider appropriate including ratification, revision or termination of the RPT.

In connection with any review of a RPT, the Committee has authority to propose to the Board to modify or waive any procedural requirements of this Policy as may be required along with the reasons for the same.

6. Disclosures

- Every Related Party Transaction with proper justification for it shall be disclosed in the Directors Report.
- Details of all Material Transactions with Related Parties shall be disclosed quarterly along with the compliance report on Corporate Governance.
- The Company shall disclose the policy on dealing with Related Party Transactions on its website and also in the Annual Report.
- The Policy will be communicated to all operational employees and other concerned personnel of the Company
- This Policy on Dealing with Related Party Transactions shall be displayed on the company's website under the section –Investors –Corporate Governance- Policy on Dealing with Related Party Transactions.

7. Periodicity of review

The custodian of this policy shall submit to the Audit Committee of the Company proposals for additions, deletions, modifications or change as and when required by changes in legislation or regulations or emerging business practices as soon as it is feasible to incorporate the change to make the Policy current and effective in dealing with all RPTs. Further, even where no change is required, at annual intervals, this policy shall be evaluated by the custodian and a proposal submitted to the Audit Committee confirming that no change is required.

Dealing with Related Party Transactions: **A Model Process**

An ideal process for Dealing with Related Party Transactions should ensure that all the related parties are identified at the earliest, their details shared with all the functional departments, all the proposed transactions with the related parties are identified and given to the Company Secretary for tabling it in the Audit Committee meeting and obtaining the directions of the Audit Committee on how the proposed transaction is to be dealt with. A comprehensive set of activities for this purpose should include the following performed at different levels of the organisation:

Step 1: Identification of Related Parties

1.1 On April 1st each year, the Company Secretary shall send out a communication to all the Directors and KMP to declare the entities and individuals who are related to them.

1.2 Based on the disclosure of interest received from Directors and KMPs, the Company Secretary shall maintain the Register of Related Parties listing all the related parties as defined in the Policy for Dealing with RPTs.

Step 2: Identification of Related Party Transactions

2.1 At periodic intervals, which shall not be later than one week from the date of disclosures received from the Director and KMPs, the Company Secretary shall share in writing the list of Related parties with all the functional departments who enter into commercial arrangements or provide and/or receive financial benefits with the express instructions to forward any proposed transaction that is being contemplated with the any of the related party.

2.2 Further, all the functional departments are provided a format in which any proposed transaction with the related party should be reported to the Company Secretary. This format should capture all the information that is required to be presented to the Audit Committee for obtaining their decision on the RPT.

2.3 The Company Secretary on receipt of the proposed transactions to be entered into with a Related Party shall tabulate all the information required to be submitted to the Audit Committee and table it in the subsequent Audit Committee meeting.

Step 3: Review by Audit Committee

3.1 Based on the information provided, the Audit Committee reviews all the related party transactions and determine if the transaction is in the ordinary course of business and meets the arm's length requirements.

3.2 Based on historical trends, at the express request of the functional department, the Audit Committee may grant omnibus approval for recurring transactions with related parties with a validity of one year from the date of approval.

3.3 The Audit Committee would review on a quarterly basis the aforesaid Related Party Transactions entered into by the Bank pursuant to each of the omnibus approval.

Step 4: Approval Mechanism

4.1 All RPTs identified by the Secretarial team and put up to the Audit committee shall be considered by the audit committee for granting their approval.

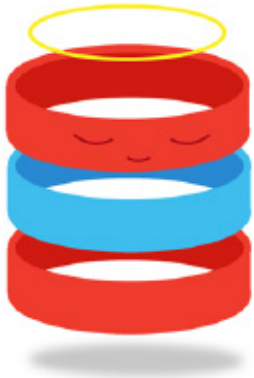
4.2 All RPTs considered by the Audit Committee shall be put up to the Board of Directors for their consideration along with their Recommendation.

4.3 RPTs which are:

i. Material RPTs based on their size, or
ii. RPTs not in the ordinary course of business, or
iii. RPTs not entered into on Arm's length basis

Shall be proposed to the Shareholders for getting their approval.

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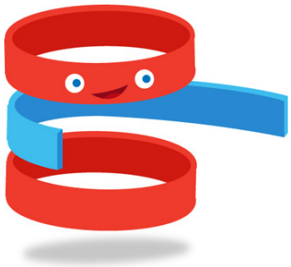
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