

## **GUIDELINES ON OPERATING FRAMEWORK ON RELATED PARTY TRANSACTIONS**

### **(I) Preamble:**

IL&FS Financial Services Limited (IFIN) is a Non-Banking Finance Company (NBFC) having CIN no U65990MH1995PLC093241, providing a wide range of financial and advisory services. The Company specializes in infrastructure financing transactions, with a combination of Investment Banking skill sets comprising of Debt Syndication, Corporate advisory Lending and Investment capabilities

The Board of Directors (the “Board”) of IL&FS Financial Services Limited (the “Company” or “IFIN”) has adopted the following guidelines and procedures with regard to Related Party Transactions (“RPT”) as detailed below

These guidelines will be applicable to the Company. The guideline aims to regulate transactions between the Company and its Related Parties within the framework of the applicable law

### **(II) Purpose:**

This guideline is framed pursuant to the requirement of the Companies Act, 2013 (“Act”) and Rules made thereof and intends to ensure the management of conflict of interest vide following proper approval and reporting mechanism for related party transaction

The Guideline aims at observance of regulatory norms as specified under the Act and set forth herein the procedures for related party transactions that must be reviewed and approved or ratified by the competent authority as the case may be

<b>(III) Definition:</b> 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
Associate	means a company in which the other company has a significant influence and which is neither a subsidiary nor a joint venture of the Company.
Board of Directors or Board	the collective body of the directors of the company
<sup>1</sup> Exempt RPT	<p>is a RPT which is in the Ordinary Course of Business and on an Arm's Length basis</p> <p>There could be deviations in exempt RPT with Group Companies under the following circumstances :</p> <ul style="list-style-type: none"> <li>(a) Economic Reasons including Corporate Debt Restructuring, Financial Conditions and other extraordinary circumstances</li> <li>(b) Obligations of IFIN as a Promoter / Joint Venture Partner of a Project and a Consortium Member</li> <li>(c) Regulatory enactments / obligations, if any</li> <li>(d) <sup>2</sup>Any transactions with respect to deputation of employees and reimbursements of employee services &amp; relevant administrative cost, to / from holding Company, its subsidiaries (direct and indirect) associates and subsidiaries / associates of the Company thereof, be treated as reimbursement of expenses. Such transactions shall be approved by MD &amp; CEO of the Company since they are reimbursement of expenses &amp; will be outside the purview of Framework for Related Party Transactions</li> </ul>
Interested Director	means a director who is in any way, whether by himself or through any of his relatives or firm, body corporate or other association of individuals in which he or any of his relatives is a partner, director or a member, interested in a contract or arrangement, or proposed contract or arrangement, entered into or to be entered into by or on behalf of a Company
Key Managerial Personnel	means : <ul style="list-style-type: none"> <li>(a) the Chief Executive Officer or the managing director or the manager;</li> <li>(b) the Company Secretary;</li> <li>(c) the Whole-time director;</li> <li>(d) the Chief Financial Officer</li> </ul>

<sup>1</sup> Inserted vide Board Approval dated May 14, 2015

<sup>2</sup> Inserted vide Board Approval dated January 30, 2017

<p>Non Exempt RPT</p>	<p>is a RPT :</p> <p>Which are not in the Ordinary Course of Business or not on Arm’s Length basis</p> <p>will be considered as the Non - Exempt RPT and such Non Exempt RPT shall adhere with the approval procedures as laid down in the Guidance Note</p>
<p>Ordinary Course of Business</p>	<p>The business activities including all types of payments, services availed and/or rendered to Related Parties shall be deemed to be considered in the Ordinary Course provided it fulfils any of the following parameters:</p> <ul style="list-style-type: none"> <li>(i) Main and ancillary/ incidental Business as defined in Memorandum of Association (MoA)</li> <li>(ii) Business Practice precedent</li> <li>(iii) Regulatory obligations</li> <li>(iv) Covenant obligations</li> <li>(v) Reputational Risk element</li> <li>(vi) Frequency of the transaction undertaken and purpose of the same</li> <li>(vii) Ensuring business confidentiality and continuity of inter-dependent business of the Group</li> </ul> <p>In the absence of any specific regulatory guidelines/ definition on the “Ordinary Course of Business”, the above provision would be recommendatory guidelines for review of related party transactions and accordingly from point no (i) to (vii) would form part of the Ordinary Course of Business</p> <p><sup>3</sup>All types of payments, services availed and/or rendered as per the frequency and nature of transaction undertaken</p>
<p>Related party</p>	<ul style="list-style-type: none"> <li>(i) a director or his relative;</li> <li>(ii) a key managerial personnel or his relative;</li> <li>(iii) a firm, in which a director, manager or his relative is a partner;</li> <li>(iv) a private company in which a director or manager or his relative is a member or director;</li> </ul>

<sup>3</sup> Inserted vide Board Approval dated May 14, 2015

	<p>(v) a public company in which a director or manager is a director and holds along with his relatives, more than two per cent of its paid-up share capital;</p> <p>(vi) anybody 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;</p> <p>(vii) any person on whose advice, directions or instructions a director or manager is accustomed to act:</p> <p>Provided that nothing in sub-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;</p> <p>(viii) any company which is—</p> <ul style="list-style-type: none"> <li>• a holding, subsidiary or an associate company of such company; or</li> <li>• a subsidiary of a holding company to which it is also a subsidiary;</li> </ul> <p>(ix) such other person as may be prescribed;</p>
Relative	<p>means relative as defined under the Companies Act, 2013 and includes anyone who is related to another, if –</p> <p>(a) They are members of a Hindu undivided family;</p> <p>(b) They are husband and wife ; or</p> <p>(c) Father (including step-father)</p> <p>(d) Mother ( including step-mother)</p> <p>(e) Son ( including step-son)</p> <p>(f) Son’s wife</p> <p>(g) Daughter</p> <p>(h) Daughter’s husband</p> <p>(i) Brother ( including step-brother)</p> <p>(j) Sister (including step-sister)</p>
Related Party Transactions (RPT)	<p>Mean such transactions as specified under Section 188 between the related parties</p>
<sup>4</sup> Management	<p>Management means KMPs and Functional/Department Heads</p>

<sup>4</sup> Inserted vide Board Approval dated May 14, 2015

**(IV) Scope:**

Pursuant to the provisions of Section 188 of the Companies Act, 2013 and the Rules made thereunder, the Company shall not enter into any contract or arrangement with a related party with respect to the following transactions except in the manner as provided under the approval process as mentioned in these guidelines:

<b>Transactions</b>	<b>Threshold Limits</b>
Sale, Purchase or Supply of goods/materials directly or through appointment of agent	> 10% of the turnover  (or)  ₹ 100 crores  Whichever is lower
Selling or otherwise disposing of, or buying, property of any kind directly or through appointment of agent	> 10% of the networth  (or)  ₹100 crores  Whichever is lower
Leasing of property of any kind	> 10% of the networth (or)  >10% of the turnover (or) ₹ 100 crores  Whichever is lower
Availing or rendering of any services directly or through appointment of agents	> 10% of the turnover  (or)  ₹50 crores  Whichever is lower
Relates to appointment to any office or place of profit in the company, its subsidiary company or associate Company	Monthly remuneration >two and half lakh rupees
The remuneration for underwriting the subscription of any securities or derivatives thereof of the company	>1% of the Networth

(V) **Operational Framework:**

The RPT would be identified in the following manner:

(1) **Identification of Related Parties:**

The Company shall identify related parties as defined under Clause III of the guidelines with respect to the given specific transactions. The list of related parties needs to be updated periodically

<sup>5</sup>The list of Related Parties would be updated by Secretarial Department of the Company upon receipt of disclosures from the Directors, Key Managerial Personnel of the Company and Holding Company. The List would accordingly be updated in the system

(2) **Identification of Transactions:**

In consideration of the threshold limits and the nature of transaction as given in Clause IV, the applicability of provision of Law and transaction approval procedures to be ascertained.

(3) **Parameters of applicability of Ordinary Course of Business and transaction pricing at Arm's Length:**

(a) The Company generally undertakes transactions with related parties in its ordinary course of business and at arms' length basis and such transaction do not require prior approval of the Board of Directors under the purview of Section 188 of the Companies Act, 2013. However, such transactions need to be approved by the Audit Committee

(b) <sup>6</sup>The parameters for Arm's length be gauged based on any one or more of the following criteria:

- (i) Market Price if readily available and if the market exists for the same
- (ii) Price charged by the Company to Unrelated Parties
- (iii) <sup>7</sup>Valuations by an Independent Valuer
- (iv) Obtaining two or three quotes from Unrelated Parties for similar transactions, subject to the availability of the same
- (v) Regulatory and other Obligations including Transfer Pricing norms as required under the Provisions of Income Tax Act, 1961

<sup>5</sup> Inserted vide Board Approval dated May 14, 2015

<sup>6</sup> Inserted vide Board Approval dated May 14, 2015

<sup>7</sup> Inserted vide Board Approval dated April 25, 2017

(c) Arm's Length criteria/process to be observed:

- (i) The Company has a unified approval framework which is followed across the group, in line with the framework each transaction is routed through all the relevant departments with the objective of seeking inputs on various aspects of the transaction
- (ii) In order to ensure compliance with the principle of arms' length pricing in terms of section 188 of Companies Act 2013, Originator of such approval memorandum or transactions or the Head of the transaction origination Department shall provide comparative analysis of the similar transaction with an unrelated party
- (iii) <sup>8</sup>In consideration of the market conditions, complexity and / or efforts required for executing / undertaking the transactions, the subject consideration to the Company for such transaction can vary upto (+/-) 20% of the amount mentioned in the initial approval document (CAM, AAM etc) with prior approval of the Managing Director of the Company
- (iv) The responsibility of ensuring that the transactions with related party are undertaken at arm's length basis rests with the Head of the respective Department of originating the transaction(c) Any transactions with the Related Parties shall primarily be reviewed by the RPT Reviewers. The team of Reviewers shall comprise of:
  - (i) Chief Financial Officer
  - (ii) Company Secretary,
  - (iii) Legal Head,
  - (iv) Chief Risk Officer
  - (v) and such other person as may deem appropriate in the given situation/ transaction having relevant expertise and experience to assess the RPT

The Reviewers shall review the proposed RPT within the parameters defined herein and accordingly shall advise the course of action for the proposed RPT:

<b>(1)</b>	<b>Originator's Responsibilities</b>	<p>Originators seeking approval of RPT shall comment/provide :</p> <ul style="list-style-type: none"> <li>(a) Whether the proposed Transaction is a RPT within the meaning of Section 188</li> <li>(b) <u>If yes:</u> Name/s of the Related Party(ies) and the nature of the relationship</li> <li>(c) Provide the justification for entering into the RPT (Commercial/ Ordinary Course of Business and Arm's Length)</li> </ul>
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<sup>8</sup> Inserted vide Board Approval dated January 30, 2017

(2)	<b>RPT Evaluation by the Reviewers</b>	<p>With respect to each transaction sent for approval; Reviewers shall comment and confirm the following :</p> <ul style="list-style-type: none"> <li>- Whether the proposed transaction is a RPT within the meaning of Section 188</li> <li>- Justification for the intended RPT (Commercial/Ordinary Course of Business and the sufficiency of the documentation for Arm's Length )</li> <li>- Whether the transaction is covered under the omnibus approval given by the Audit Committee for the financial year</li> </ul> <p>In assessing a Related Party Transaction, the RPT Reviewers shall consider such factors as it deems appropriate including but not limited to the following:</p> <ul style="list-style-type: none"> <li>(i) the business reasons for the Company to enter into the Related party transaction;</li> <li>(ii) the commercial reasonableness of the terms of Related Party Transaction;</li> <li>(iii) materiality of the Related Party Transaction to the Company;</li> <li>(iv) whether the terms of Related Party Transaction are fair to the Company and on the same basis as would apply if the transactions did not involve a Related Party</li> <li>(v) the extent of Related Party's interest in the Related Party Transaction</li> <li>(vi) the actual or apparent conflict of interest of related party participating in the related party transaction and</li> <li>(vii) regulatory guidelines, if any</li> </ul>
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<p>(3)</p>	<p><b>Assessment of RPTs</b></p>	<p>(a) If in the opinion of any of the Reviewers the proposed transaction requires further support to the justifications provided by the Originator, such transaction will be referred back to the Originator seeking additional information / justification</p> <p>(b) The Reviewers shall review each transaction initiated by the Originator, including re-submissions and if the Reviewers are unanimous in their view that proposed RPT is an Exempt RPT, they may recommend the same to the Committee of Directors for the approval</p> <p>(c) If in the unanimous opinion of the Reviewers, the intended transaction is not an Exempt RPT, such transaction may be rejected or be referred to the Committee of Directors for review</p> <p>(d) The members of the Committee of Directors may recommend the RPT for approval of Audit Committee, Board of Directors or Shareholders as the case may be</p> <p>In case where it is assessed that the transaction does not meet the criteria of Ordinary Course of Business or Arms' Length Price, such transaction shall be referred for the approval of the Board of Directors or Shareholder, as the case may be, in terms of Section 188 of the Companies Act'2013</p>
<p>(4)</p>	<p><b>Approval of the RPTs by CoD</b></p>	<p>The Committee of Directors, upon receipt of the comments from the Reviewers, shall review the RPT, documentary substantiation and comments/recommendation and may take the following actions :</p> <p>(a) Approve the RPTs for execution, or</p> <p>(b) Send the RPT back to the Reviewers for seeking additional justification or substantiation, or</p> <p>(c) Reject the RPT, or</p> <p>(d) Recommend the RPT for approval of Audit Committee, Board of Directors or Shareholders as the case may be</p>

(5)	<b><sup>9</sup>Omnibus Approval by the Audit Committee</b>	<p>The Audit Committee may make an omnibus approval for related party transactions proposed to be entered into by the Company after considering the justification for the need of omnibus approval and as per the criteria specified in this regard by the Audit Committee</p> <p>The omnibus approval shall contain the following:</p> <ul style="list-style-type: none"> <li>(a) name of the related parties;</li> <li>(b) nature and duration of the transaction;</li> <li>(c) maximum amount of transaction that can be entered into;</li> <li>(d) the indicative base price or current contracted price and the formula for variation in the price, if any; and</li> <li>(e) any other information relevant or important for the Audit Committee to take a decision on the proposed transaction:</li> </ul> <p>The 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</p>
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(4) **Approval Process:**

- (a) In case the nature of contract and arrangement to be entered with the related parties is as specified in Clause IV, and has been referred by the RPT reviewer for approval, the transactions need to be reviewed in the context of the following criteria and accordingly the Company shall adhere to the specific approval process as provided herein below:

Sr No	Particulars / Criteria	Audit Committee Approval	Board Approval	Shareholders' Approval
(i)	Transaction in the Ordinary Course of Business AND at arm's length basis	√ <b>(No prior approval Required) - Omnibus approval may be taken)</b>	×	×

<sup>9</sup> Inserted vide Board Approval dated February 03, 2016

(ii)	Transaction within the threshold limit and either not in the Ordinary course of business <b>OR</b> not at arm's length basis	√ <b>(Omnibus approval may be taken)</b>	√ <b>(prior approval)</b>	×
(iii)	Transaction exceeding the threshold limit and either not in the Ordinary course of business <b>OR</b> not at arm's length basis	√ <b>(Omnibus approval may be taken)</b>	√ <b>(prior approval)</b>	√ <b>(prior approval)</b>

- (b) In case the specified transactions are proposed to be entered with IL&FS, the resolution passed by the holding company, i.e. IL&FS shall be sufficient for the purpose of entering into the related party transaction between the Company and holding company. The Company will not be required to pass a resolution separately

The Indicative list of Related Party Transactions of the Company is annexed as Annexure I

**(VI) Ratification of Transactions:**

In the event the Company becomes aware of a Related Party Transaction which has not been approved as required under these guidelines 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 Committee shall also examine the facts and circumstances pertaining to the failure of reporting such Related Party Transaction and shall accordingly recommend to the Board such actions as it deems appropriate. The Board shall decide the final course of actions in such an event

Any transaction referred for rectification by the Audit Committee shall be rectified or approved within 90 days from the arrangement/ contract Date

**(VII) RPT Reporting:**

The Company shall report every contract or arrangement entered into with related party along with justification wherever applicable, in the Board's Report

**(VIII) Governing Clause:**

This guideline will be governed and reviewed in line with the applicable provisions of the Companies Act, 2013 with respect to Related Parties and Rules made thereunder including any modification made in the Act or Rules, if any from time to time

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