

ICICI Securities Limited

Policy on Related Party Transactions

The Companies Act, 2013 ('Companies Act' or 'the Act') has introduced sections 177, 184 and 188, which contain provisions regarding related party transactions. These sections, along with the relevant Rules framed under the Companies Act, have introduced certain compliance and approval requirements regarding the related party transactions. Further, Regulation 23 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (Regulation 23) has also introduced certain approval requirements regarding the related party transactions. Regulation 23 requires the listed companies to formulate a policy on dealing with related party transactions.

Accordingly, the Board of Directors ('the Board') of ICICI Securities Limited ('the Company') has adopted the following policy with regard to related party transactions.

The policy for related party transactions covers the following salient aspects:

- I. Definition and identification of 'related parties'
- II. Approval of transactions with related parties by the Audit Committee, the Board and the shareholders.
- III. Threshold limits for related party transactions
- IV. Reporting of the related party transactions
- V. Review of the policy

I. Definition and identification of related parties

The term "related party" for the purpose of this policy shall mean "related party" as defined in the Companies Act and Indian Accounting Standard (Ind AS) 24. Definitions as per the respective regulations are given below.

a. Under Companies Act:

As per Section 2(76) of the Companies Act, 'related party' with reference to a company means:

- i. a director or his relative. Section 2(77) of the Act defines 'relative' as one who is related to another if:
 - A. they are members of a Hindu Undivided Family (HUF); or
 - B. they are husband and wife; or
 - C. one person is related to the other as father (including step-father), mother (including step-mother), son (including step-son), son's wife, daughter, daughter's husband, brother (including step-brother), sister (including step-sister).
- ii. a key managerial personnel (KMP) or his relative. In terms of Section 2(51) of the Act, 'KMP' in relation to a company means:

- A. the Chief Executive Officer or the managing director or the manager;
- B. the company secretary;
- C. the whole-time director;
- D. the Chief Financial Officer;
- E. such other officer, not more than one level below the directors who is in whole-time employment, designated as key managerial personnel by the Board; and
- F. such other officer as may be prescribed.

iii. a firm, in which a director, manager or his relative is a partner.

In terms of Section 2(53) of the Act, 'manager' means an individual who, subject to the superintendence, control and direction of the Board of Directors, has the management of the whole, or substantially the whole, of the affairs of a company, and includes a director or any other person occupying the position of a manager, by whatever name called, whether under a contract of service or not.

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 holds 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-clauses (vi) and (vii) shall apply to the advice, directions or instructions given in a professional capacity;

viii. any body corporate which is -

- A. a holding, subsidiary or an associate company of such company;
- B. a subsidiary of a holding company to which it is also a subsidiary; or
- C. an investing company or the venturer of the company.

For the purpose of this clause, "the investing company or the venturer of a company" means a body corporate whose investment in the company would result in the company becoming an associate company of the body corporate.

ix. a director other than an independent director or key managerial personnel of the holding company or his relative with reference to a company

In clauses (vi) and (vii) above, there is a criterion of 'accustomed to act' for identification of related parties. While Companies Act does not contain guidance on this criterion, the following general propositions would be considered:

- a general conduct indicating that one is in the habit of carrying out the instructions or directions of the third person concerned, which may involve non-exercise of own discretion or judgment by the concerned person (or Board of Directors) and acting in accordance with the directions or instructions of the third person

- holding of more than 50% voting power or control over the composition of majority of board of directors by any body corporate or individual, directly or indirectly. In such cases the Board of the former company can be deemed to be accustomed to act in accordance with the directors or instructions of the latter.

b. Under Ind AS 24:

Related party relationships are described under Ind AS 24, as follows:

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
 - (i) has control or joint control over the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions applies:
 - (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Close members of the family of a person are those family members who may be expected to influence or be influenced by, that person in their dealings with the entity including:

- a) that person's children, spouse or domestic partner, brother, sister, father and mother;
- b) children of that person's spouse or domestic partner; and
- c) dependents of that person or that person's spouse or domestic partner.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The related party relationships described under Ind AS 24 are more comprehensive and substantially cover the relationships identified under Companies Act.

c. Under Regulation 23

An entity shall be considered as related to the company if:

- i. such entity is a related party under Section 2(76) of the Companies Act, 2013; or
- ii. such entity is a related party under the applicable accounting standards; or
- iii. Any person or entity belonging to the promoter or promoter group of the Company and holding 20% or more of shareholding in the Company shall be deemed to be a related party.

II. Approval of transactions with related parties by the Audit Committee, the Board and the shareholders

A. Approval of related party transactions by the Audit Committee

- i. All the transactions which are identified as related party transactions should be pre-approved by the Audit Committee before entering into such transaction. The Audit Committee shall consider all relevant factors while deliberating the related party transactions for its approval.
- ii. Any member of the Committee who has a potential interest in any related party transaction shall not vote to approve the relevant related party transaction. A related party transaction which is (i) not in the ordinary course of business, or (ii) not at arm's length price, would require approval of the Board of Directors or of shareholders as discussed subsequently.
- iii. The Audit Committee may grant omnibus approval for related party transactions which are repetitive in nature and subject to certain criteria/conditions as required under Regulation 23 and chapter XII, rule 6A of the Companies (Meetings of Board and its Powers) Rules, 2014 and such other conditions as it may consider necessary in line with this policy and in the interest of the Company. Such omnibus approval shall be valid for one financial year.
- iv. The Audit Committee may, in case of transaction, other than transactions referred to in section 188, and where Audit Committee does not approve the transaction, make its recommendations to the Board.
- v. A related party transaction entered into by the Company, which is not under the omnibus approval or otherwise pre-approved by the Committee, will be placed before the Committee for ratification. In case of transactions of an amount not exceeding Rupees One Crore, entered into by a director or officer of the Company without obtaining the approval of the Audit Committee and it is not ratified by the Audit Committee within three months from the date of the transaction, such transaction shall be voidable at the option of the Audit Committee and if the transaction is with the related party to any director or is authorised by any other

director, the director concerned shall indemnify the company against any loss incurred by it.

- vi. Provisions of clause (iv) of Section 177(4) of the Act shall not apply to a transaction, other than a transaction referred to in section 188, between a holding company and its wholly owned subsidiary company.
- vii. Omnibus approval shall not be made for transactions in respect of selling or disposing of an undertaking of the company.

B. Approval of related party transactions by the Board of Directors

Under Companies Act, the consent of the Board of Directors is required, by a resolution at a meeting of the Board, for entering into transactions with related parties within the thresholds specified in section 188 of the Act. However, the requirement of Board approval is applicable only for transactions which are not in ordinary course of business or not on an arm's length basis.

Further, the transactions which are not approved by the Audit Committee will be placed before the Board of Directors for its consideration, along with the recommendations of the Audit Committee.

For this purpose –

a. Ordinary course of business

The term 'ordinary course of business' has not been defined in the Companies Act. For the Company, most of the transactions with related parties are usually in the ordinary course of business, like brokerage and commission on distribution of financial products, advisory services, availing credit facilities, investment in fixed deposits, provision of services and sharing of common infrastructure, dividend payouts, *etc.*

The following points will be considered for evaluation of a transaction being in the ordinary course of business:

- i. whether the transaction is normal or otherwise unremarkable for the business. For example, while sale, purchase or lease of fixed assets would generally be a part of normal course of business, a sale of all or a portion of a line of business may not be in ordinary course of business, unless the amounts are insignificant;
- ii. whether the transaction is frequent/regular;
- iii. whether the transaction is a source of income for the business, *i.e.*, it is part of an activity involved in the generation of revenue, in which case it is more likely to be in the ordinary course of business; and

iv. transactions that are part of the standard industry practice, even though the Company may not have done it in the past.

b. Arm's length basis:

In terms of the Companies Act, 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.

For the purpose of compliance with arm's length principle, an effective approach is a comparison with pricing of transactions with independent parties, which may involve comparison of the terms (a) with those of an identical or similar transaction with one or more unrelated parties; or (b) with known market terms for identical or similar transactions. However, different types of transactions may require other methods for assessing arm's length pricing.

Accordingly, the transactions with related parties which are deemed to be not in the ordinary course of business or not at an arm's length basis will be placed before the Board of Directors of the Company for its consideration and approval, along with justification for the transaction.

C. Approval of related party transactions by shareholders

If a related party transaction is (i) a material transaction as per Regulation 23 or (ii) not in the ordinary course of business, or not at arm's length price and exceeds certain thresholds prescribed under section 188 of the Act, it shall require shareholders' approval by a resolution. In such a case, any member who is a related party, shall not vote on resolution passed for approving such related party transaction. However, 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, do not require approval of shareholders.

III. Threshold limits for related party transactions

Regulation 23 of the SEBI (Listing Obligations and Disclosure Requirements) (Amendment) Regulations, 2018 require the Related Party Policy to prescribe clear thresholds for related party transactions. The thresholds approved by the Board for related party transactions are detailed as below:

1. The maximum value of a single transaction or transactions in aggregate with a single related party in a financial year would not exceed ten percent of the annual consolidated turnover of the Company, as per the last audited financial statements of the Company.
2. The maximum value of transactions with respect to payments made for brand usage or royalty by the Company whether considered individually or taken together with previous transactions during the financial year shall not exceed two percent of the annual consolidated turnover of the Company as per the last

audited financial statements of the Company.

3. The thresholds under the Policy shall not be applicable to transactions specifically approved by the Shareholders under relevant regulatory provisions.

For this purpose –

“Turnover” has been defined as the gross amount of revenue recognised in the profit and loss account from sale, supply or distribution of goods or on account of services rendered, or both, by the company during a financial year. Accordingly, for the Company, the ‘turnover’ will be considered as the ‘Total income’, *i.e.*, Total revenue from operations + Other income.

IV. Reporting of the related party transactions

The Companies Act, Indian Accounting Standard 24 and Regulation 23 place the following reporting requirements on an entity, which will be duly complied with by the Company:

- i. a note on transactions with related parties, along with the pricing justifications to be placed at the Audit Committee every quarter for its review, in compliance with the requirements of sections 177 and 188 of the Act.
- ii. disclosure of related parties and transaction with related parties as per Ind AS 24 in the notes to account forming part of Financials of the Company.
- iii. every contract or arrangement, which is required to be approved by the Board/shareholders under this Policy, to be referred to in the Board’s report to the shareholders along with the justification for entering into such contract or arrangement.
- iv. the details of material transactions with related parties to be included in the corporate governance reports which are required to be submitted to the stock exchanges on a quarterly basis.
- v. reporting of details of material contracts or arrangements or transactions in Form AOC-2 forming part of Board’s report. In this regard, since materiality has not been defined for this purpose under the Act, the same threshold limits will be used as defined under the Act for transactions requiring shareholders’ approval.
- vi. submitting within 30 days from the date of publication of its standalone and consolidated financial results for the half year, disclosures of related party transactions on a consolidated basis, in the format specified in the relevant accounting standards for annual results to the stock exchanges and publish the same on its website. This clause is applicable with effect from half year ending March 31, 2019.
- vii. submit disclosures of transactions of the Company with any person or entity belonging to the promoter/promoter group which hold(s) 10% or more shareholding in the Company, in the format prescribed in the relevant accounting standards for annual results. This clause is applicable with effect from April 1, 2019.

V. Review of the policy

The policy shall be reviewed every year or as and when warranted due to regulatory requirements.