

Policy for Related Party Transactions

Contents

1.	Area of application.....	3
2.	Basis	3
3.	Purpose	3
4.	Responsibility	3
5.	Definition of ‘related party’ as per Companies Act, 2013	4
6.	Related Party Transactions as per Companies Act, 2013	5
7.	‘Arm’s Length Transaction’ as per Companies Act, 2013	7
8.	Process for obtaining Omnibus approval from Audit Committee on annual basis ..	7
9.	Process for approval and determining ‘Arm’s Length’	8
10.	Approval of transactions under Section 185 of the Companies Act, 2013	10
11.	Disclosure Requirements	12
12.	Amendment to the Policy.....	12

1. Area of application

This Policy is applicable to all employees of Volkswagen Finance Pvt. Ltd. (VWFPL).

2. Basis

This policy is based on the requirements of the Circular on Revised Regulatory Framework for NBFCs dated November 10, 2014 and the Companies Act, 2013

3. Purpose

This Objective of this Policy is to establish requirements for the disclosure of:

- Related party relationships and
- Transactions between Volkswagen Finance Pvt Ltd. and its related parties

4. Responsibility

RACI Matrix

Task/ Position	All Depts	Compliance	Legal	Controlling	Accounting	Both MDs	Audit Committee/ Board of Directors and Shareholders
Initiation of New transaction	R	I	I	I	I	A	A
Identification of Related Party and nature of relationship with VWF	I	R	I	I	I	I	NA
Nature of transaction and contract duration	R	I	I	I	I	I	NA
Contract Value	R	I	I	I	I	I	NA
Method of pricing and commercial terms	R	I	I	A	A	I	NA

Justification of Arm's Length Transaction and Ordinary course of business	R	I	I	I	A	I	I
Quarterly reporting on the Related Party Transactions	I	R	I	I	R	I	A
Presentment and approval of all related party transactions to Board and Shareholders as per the Companies Act, 2013	NA	R	NA	NA	NA	NA	A
Change in Policy	NA	I/R	NA	NA	R	A	A

R- Responsibility, I- Information, A-Approval

5. Definition of 'related party' as per Companies Act, 2013

'Related Party' with reference to a company means-

- (1) a director or his relative;
- (2) a key managerial personnel or his relative;
- (3) a firm, in which a director, manager or his relative is a partner;
- (4) a private company in which a director or manager or his relative is a member or director;
- (5) 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;
- (6) 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;
- (7) any person on whose advice, directions or instructions a director or manager is accustomed to act;

Provided that nothing in clauses (6) and (7) shall apply to the advice, directions or instructions given in a professional capacity.

(8) a director other than an independent director or key managerial personnel of the holding company or his relative with reference to a company, shall be deemed to be a related party;

'relative', with reference to any person, means anyone who is related to another, if-

- (a) they are members of a Hindu Undivided Family;
- (b) they are husband and wife; or
- (c) Father including step-father
- (d) Mother including step-mother
- (e) Son including step-son
- (f) Son's wife
- (g) Daughter
- (h) Daughter's husband
- (i) Brother including step-brother
- (j) Sister including step-sister

6. Related Party Transactions as per Companies Act, 2013

Section 188 of the Companies Act, 2013 describes in detail the related party transactions as follows:

- (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 maybe 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 (exempted to private companies)
 - Provided also that nothing contained in the second proviso shall apply to a company in which ninety per cent. or more members, in number, are relatives of promoters or are related parties

- 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-

- 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;
 - 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.

7. 'Arm's Length Transaction' as per Companies Act, 2013

Arm's length transaction" has been defined under section 188 of the Companies Act 2013, to mean a transaction between two related parties that is conducted as if they were unrelated, so that there is no conflict of interest.

8. Process for obtaining Omnibus approval from Audit Committee on annual basis

The approval or any subsequent modification of transactions of the company with related parties is included in the terms of reference of Audit Committee as per Section 177(4)(iv) of the Companies Act, 2013.

Omnibus approval for related party transactions on annual basis:

All related party transactions as per Companies Act, 2013 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 at the first Board Meeting of the Company held in every Financial Year, after obtaining approval of the Board of Directors, specify the criteria for making the omnibus approval for transactions with related parties (as defined in point no. 5 above) proposed to be entered for that financial year. The criteria 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 on the need for omnibus approval for transactions of repetitive nature and that such approval is in the interest of 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) Audit Committee may put such other condition as it may deem fit while granting omnibus approval.
- (8) Prior approval of Audit Committee is required in case the transaction with related party (as defined under Companies Act, 2013) is not covered under omnibus approval or is exceeding the limits/conditions imposed while granting such omnibus approval.

9. Process for approval and determining 'Arm's Length'

- (1) Compliance department shall at the starting of every year or on account of any change during the year share the list of related party as per Companies Act, 2013 with the Accounts Department and Risk Department.
- (2) Accounts Department shall at the starting of every year or on account of any change during the year present a list of all the transactions as per Companies Act, 2013 proposed to be entered into by the Company with related parties on estimate basis. The Compliance department would in turn present the same to the Audit Committee who would deliberate and discuss on the nature of the above transactions and provide approval.
- (3) Any employee/ department intending to enter into a contract or arrangement shall present to Accounts Department. for prior approval along with the justification for entering into such contract(s) or arrangement(s). If the Accounts Department arrives at a conclusion that the transaction is not in the ordinary course of business and / or not at arm's length then the said employee/ department intending to enter into a contract or arrangement shall present to Compliance department disclosures in the following format BEFORE entering into the contract or arrangement:
 - 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) whether the transaction is in the ordinary course of business
- e) any advance paid or received for the contract or arrangement, if any
- f) the manner of determining the pricing and other commercial terms, both included as part of contract and not considered as part of the contract
- g) 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
- h) any other information relevant or important for the Board to take a decision on the proposed transaction

The Compliance department would in turn present the same to the Audit Committee and the Board of Directors who would deliberate and discuss on the nature of the above transactions and provide approval.

Any employee/ department except with the PRIOR approval of the company by a resolution in the shareholders meeting 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 agents amounting to ten per cent. or more of the turnover of the company 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 agents amounting to ten per cent. or more of the turnover of the company 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 as mentioned in clause (c) of sub-section (1) of section 188;
- (iv) availing or rendering of any services directly or through appointment of agents amounting to ten per cent. or more of the turnover of the company as mentioned in clause (d) and clause (e) of sub-section (1) of section 188;

Explanation:-

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) 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 sub-section (1) of section 188; or
- (c) remuneration for underwriting the subscription of any securities or derivatives thereof, of the company exceeding one percent. 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 clauses shall be on the basis of the Audited Financial Statement of the preceding Financial year.
- (2) In case of wholly owned subsidiary, the special resolution passed by the holding company shall be sufficient for the purpose of entering into the transactions between wholly owned subsidiary and holding company.
- (4) This document would need to be duly authorised by the Head of Department who is initiating the transaction and Accounts department to confirm whether the party is a related party and approve the same.
- (5) Accounts department shall provide on quarterly basis the list of related party transactions pursuant to the Companies Act, 2013 to the Compliance dept. to be placed before the Audit Committee/ Board of Director / Shareholders Meeting for its review with the comment that the contract or arrangement is/ is not in the ordinary course of business and/ or at / at not Arm's Length and/or exceeding the prescribed limits. Accounts department shall also provide for review at such interval as the Audit Committee may direct, update on transactions entered during the period pursuant to each of the omnibus approval granted by the audit committee
- (6) The employee/ department would need to document and justify as to how the pricing of the transaction is at 'Arm's Length'.

The pricing at 'Arm's Length' can be supported by:

- Comparing the terms of the related party transaction to those of an identical or similar transaction with one or more unrelated parties.
- Engaging an external expert to determine a market value and to confirm market terms and conditions for the transaction.

10. Approval of transactions under Section 185 of the Companies Act, 2013

(1) No company shall, directly or indirectly, advance any loan, including any loan represented by a book debt to, or give any guarantee or provide any security in connection with any loan taken by,—

(a) any director of company, or of a company which is its holding company or any partner or relative of any such director; or

(b) any firm in which any such director or relative is a partner.

(2) A company may advance any loan including any loan represented by a book debt, or give any guarantee or provide any security in connection with any loan taken by any person in whom any of the director of the company is interested, subject to the condition that—:

(a) a special resolution is passed by the company in general meeting:

Provided that the explanatory statement to the notice for the relevant general meeting shall disclose the full particulars of the loans given, or guarantee given or security provided and the purpose for which the loan or guarantee or security is proposed to be utilised by the recipient of the loan or guarantee or security and any other relevant fact; and

(b) the loans are utilised by the borrowing company for its principal business activities.

Explanation.-For the purposes of this sub-section, the expression “any person in whom any of the director of the company is interested” means—:

(a) any private company of which any such director is a director or member;

(b) any body corporate at a general meeting of which not less than twenty-five per cent. of the total voting power may be exercised or controlled by any such director, or by two or more such Directors, together; or

(c) any body corporate, the Board of Directors, managing director or manager, whereof is accustomed to act in accordance with the directions or instructions of the Board, or of any director or Directors, of the lending company.

(3) Nothing contained in sub-sections (1) and (2) shall apply to—

(a) the giving of any loan to a managing or whole-time director—

(i) as a part of the conditions of service extended by the company to all its employees; or

(ii) pursuant to any scheme approved by the members by a special resolution; or

(b) a company which in the ordinary course of its business provides loans or gives guarantees or securities for the due repayment of any loan and in respect of such loans an interest is charged at a rate not less than the rate of prevailing yield of one year, three years, five years or ten years Government security closest to the tenor of the loan; or

(c) any loan made by a holding company to its wholly owned subsidiary company or any guarantee given or security provided by a holding company in respect of any loan made to its wholly owned subsidiary company; or

(d) any guarantee given or security provided by a holding company in respect of loan made by any bank or financial institution to its subsidiary company:

Provided that the loans made under clauses (c) and (d) are utilised by the subsidiary company for its principal business activities.]

11. Disclosure Requirements

The Company shall disclose the details of related party transactions in its Annual Report as per requirements of applicable accounting standards and applicable provisions of Companies Act, 2013.

12. Amendment to the Policy

Any amendment to this policy shall be approved by the Board of Directors.