



Punjab Skills Development Fund

Transactions and Contracts with the Related Parties Policy

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1. Introduction

The Punjab Skills Development Fund (PSDF), also referred to as “the Fund”, understands the significance of trust and confidence of its sponsors, the public at large and other stakeholders of the PSDF. In order to preserve the transparency and to ensure that no conflict of interest exist causing apprehension in the minds of its stakeholders, the Fund has adopted and will implement the “Transactions and Contracts with the Related Parties Policy”, herein after referred to as “the Policy”, throughout the PSDF.

2. Purpose

The objective of the Policy is to ensure that transactions and contracts of the Fund with the associated companies and other related parties are as per the requirements the relevant applicable laws and regulations for the time being enforced.

3. Scope

The Policy applies to the Fund, its Directors, Key Management Personnel (as defined in the “definitions” section) and employees, whether contractual or temporary, and requires all such persons to comply with the relevant applicable laws and regulations at all time.

Every individual covered under the Policy is responsible for ensuring that their declarations are kept up to date at all times.

The laws and regulations applicable on the PSDF include, but are not limited to, the following:

- Companies Act, 2017 (section 205, 208 & 209);
- Public Sector Companies (Corporate Governance) Rules 2013 (rules 9);
- Companies (Related Party Transactions and Maintenance of Related Records) Regulations, 2018 (“the Regulations”); and
- Relevant International Financial Reporting Standards (IAS 24).

4. Definitions

1. “**PSDF**” means Punjab Skills Development Fund, also referred to as “**The Fund**”;
2. “**Board**” is The Board of Directors of the Fund;
3. “**CEO**” stands for the Chief Executive Officer of the PSDF;
4. “**CFO**” stands for the Chief Financial Officer of the PSDF;

5. **“Related Party”** is a person or an entity which is:
- i. A related as per the section 208(c) of the Act;
 - ii. A related party under the applicable relevant International Financial Reporting Standard.

In the context of PSDF, related parties include:

- i. All government department and agencies;
- ii. Directors and key management personnel;
- iii. Entities over which the Directors can exercise influence;
- iv. Other than those entities which falls under the exceptions mentioned in paragraph 11 of IAS 24.

6. **“Key managerial personnel”**, in relation to PSDF, means:

- i. The Chief Executive Officer;
- ii. The Company Secretary/ Chief Financial Officer; and
- iii. The Chief Operating Officer; and
- iv. The Heads of Departments and managers of the PSDF.

“manager” means an individual who, subject to the superintendence, control and direction of the Board, has the management of the whole of the affairs of PSDF, and includes a director or any other person, by whatever name called, whether under a contract of service or not.

7. **“Arm’s length transaction” means** a transaction between related parties carried out in following manner;

- a. the parties to the transaction were unrelated in any way;
- b. the parties were free from any undue influence, control or pressure;
- c. the relevant related party was not a part of the decision-making process;
- d. through its relevant decision-makers, each party was sufficiently knowledgeable about the circumstances of the transaction, sufficiently experienced in business and sufficiently well advised to be able to form a sound business judgement as to what was in its interests; and
- e. each party was concerned only to achieve the best available commercial result for itself in all the circumstances

5. Roles and responsibilities

- **The Board**

Apart from the responsibilities of the Board as stated in the Board Charter and the Regulations, the responsibilities of the Board in respect of this Policy, includes, but are not limited to, the following:

- i. To approve and implement this policy

- ii. To evaluate the related party transactions and contracts against business rationale;
- iii. To review and approve related party transactions and contracts on the recommendation of the Audit Committee;
- iv. To set general criteria to approve transactions or arrangement with related parties at various levels;
- v. To approve the pricing methods for the related parties;
- vi. To ensure appropriate procedures for the identification and disclosure of the related party exists in the Fund;
- vii. To authorize Audit Committee to provide direction to a director or employee, in case where they are uncertain if a transaction is a related party transaction or not;
- viii. to fix the responsibility for identification and disclosure of related party transactions;
- ix. To ensure the financial accounts presents appropriate disclosures of the related party transactions and contracts, as per the requirements of Internal Financial Reporting Standards;
- x. To ensure that the Fund meets its legal and regulatory obligations in relation to related party transactions.
- xi. To educate and train management and relevant employees, through the Human Resource Department, so that they can identify and report the related party transactions to the board or other authorized persons;

- **Directors and the Key Management Personnel**

The Directors and the Key Management Personnel are required to inform the Fund about their existing and/or potential related party relationship as required under the Policy;

The management should always be additionally responsible for considering the business rationale before carrying out any transactions or contracts with the related parties and to ensure the compliance with the conflict of interest policy .

- **Audit Committee**

The responsibilities of the Audit Committee, along with those stated in the Audit Committee Charter, include following:

- i. To determine the existence of related party relationships and to evaluate the related party relationship, transactions and contracts in accordance with the Policy;
- ii. To review and approve the related party transactions and contracts before recommendation to the Board;
- iii. To include the requirement to provide training on the related party policy in the orientation session of the Directors of PSDF;
- iv. To recommend to the Board all related party transactions and contracts and their pricing methods as required under the Policy.

- **Chief Financial Officer/ Company Secretary**

The CFO/ Company Secretary is responsible, including his other duties, to maintain the record of all related party transactions and contracts, as required in the Policy, and present it to the Audit Committee. CFO/Company Secretary will also be responsible for providing trainings to the Directors of related party policy.

- **Human Resource Department**

The Human Resource Department should be responsible for providing training to key management personnel and employees so that they can identify and report the related party transactions to the Company Secretary/ Chief Financial Officer.

6. Risks posed by related party transactions and the Mitigation Strategy

- **Risks**

The potential risks of the related party transactions and contracts includes, but are not limited to, the following:

- Related party transactions with the lack of information on what equivalent arm's length terms would have been can make it difficult to determine;
 - (i) if cost efficiencies (or inefficiencies) are being created; and
 - (ii) whether the Fund has chosen the most efficient supplier and hence whether any inefficiencies are affecting input costs and therefore, income of the Fund.
- The presence of related party transactions may adversely affect quality of service provided to stakeholders if the relationship means quality is traded off in favor of other interests of the related parties. This may result in failure of the Fund to achieve its objective in a true and fair manner.
- Furthermore, the presence of the related parties may carry a higher risk of misstatement in respect of:
 - (i) Risks of inappropriate accounting;
 - (ii) Risks from non-identification or non-disclosure;
 - (iii) Risks of fraud;
 - (iv) Risk of giving undue influence and undue favor to the other party;
 - (v) Risks about the ability of the company to continue in business as a going concern – if the Fund interest is constantly subordinated to that of related parties.

- **Risk Mitigation Strategy**

The rest of the policy deals with the ways to mitigate the above-mentioned risks created by the presence of related party transactions and contracts.

7. Identification of Potential Related Party Transactions and Contracts

- Each Director and the key managerial Personnel is responsible for providing notice to the Company Secretary/ CFO of any potential related party transaction and/or contract involving him/her or his/her relative, including any additional information about the transaction or contract required under the Policy.
- The record of all related party disclosure of interest should be maintained by the Fund, as described in the Policy, and should be placed before the Audit Committee on quarterly basis.
- The Fund encourages to receive such notice of any potential related party transaction or contract in advance so that the Audit Committee has sufficient time to obtain and review information about the proposed transaction or contract.

8. Carrying out related party transactions or contract

- The management is required to consider business rationale before carrying out any transactions or contracts with the entity's related parties.
- The management and all company's employees are expected to follow specific requirements of 'Code of Conduct' while carrying out related party transactions or contract to resolve any conflict of interest.
- The record of the Company should be updated whenever a related party transaction or contract is carried out.

9. Evaluation of related party relationships and transactions and contracts

- The Audit Committee will determine whether the transaction or contract does, in fact, constitute a related party relationship requiring compliance with the Policy.
- Audit Committee shall recommend to the Board, the pricing methods for related party transactions or contracts that were made on the terms equivalent to those that prevail in arm's length transaction, only if such terms can be substantiated.
- The Board should evaluate all related party relationships, transactions and contracts against business rationale of the same.

10. Approval of Related Party Transactions and contracts

- All related party transactions and contracts should require prior approval of the Audit Committee.
- The Audit Committee should evaluate the related party relationship, transactions and contracts in accordance with the Policy;
- The record of all related party transactions, upon the recommendation of the Audit committee, shall be placed before the Board of Directors for their review and approval. The minimum information which should be circulated and disclosed to the Directors are detailed in Annexure – IV.
- The related party transactions that are not executed at arm's length price shall be placed separately before the Board along with necessary justification for review and recommendation to the Board.
- In case where majority of the directors are interested in related party transactions or contract, the matter should be dealt as agreed by the Directors through their mutual consultation. The decision reached should be recorded in writing, along with its justification.
- The Board shall approve the pricing methods for related party transactions that were made on the terms equivalent to those prevailing in arm's length transaction, only if such terms can be substantiated.

11. Pricing of the related party

- The transactions between PSDF and related parties should be measured at arm's length prices.
- Where the Company decides to use a price other than the arm's length price, the Board should approve the transactions or contracts on the recommendation of the Board Audit Committee. The reasons for using a price other than the arm's length price will be recorded in writing and the disclosure be made in the financial statements as per the policy.

12. General Approval

The Fund may seek a general mandate from its Board for recurrent related party transactions of revenue or trading nature or those necessary for its day-to-day operations such as the purchase and sale of supplies and materials, but not in respect of the purchase or sale of assets, undertakings or businesses. A general mandate is subject to annual renewal.

13. Record of the related party transactions and contracts

The Fund should maintain one or more registers with regards to transactions undertaken with related parties and contracts or arrangements in which directors are interested and should enter therein, in Annexure-1 of the Policy, the particulars of:

- Contracts or arrangements, in which any director is, directly or indirectly, concerned or interested, as mentioned under section 205 of the Act; and
- Contracts or arrangements with a related party with respect to transactions to which section 208 of the Act applies.

14. Disclosure

- Every director shall, within a period of (30) thirty days of his appointment, disclose to the Fund the particulars relating to his concern or interests which are required to be recorded in the form specified in Annexure — II. The director giving notice of the interest shall cause it to be disclosed at the meeting of the Board held immediately after the date of the notice.
- Every Key Management Personnel should, at the time of their appointment and thereafter every year or when a change therein occurs, disclose to the Fund the particulars relating to his concern or interests, which will constitute a related party relationship, in the form specified in Annexure — III.
- The above requirement should also apply, in case there is any change in the status of the related party.
- The Fund should provide appropriate disclosures of the related party relationships in the financial statements of the Fund as per the requirements of International Financial Reporting Standards (IAS 24).

15. Failure to obtain timely approval

- In case the management of the Fund was unable to obtain timely approval of the related party transaction or contract, whether due to failure to identify the party or due to any other reason, the management should immediately perform the identification procedures on the related party as per the Policy.
- The transactions and active contracts that have taken place before the effective date of this policy should be evaluated and the approvals should be obtained, as per the Policy. All previous transactions and contracts, along with their impacts on the financial statements should be presented to the Audit committee and the Board for the purpose of evaluation, approval and subsequent ratification. Thereafter, all other requirements of the Policy should be applied accordingly.

- Such contracts or transactions 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 authorized by any other Directors, the Directors concerned shall indemnify PSDF against any loss incurred by it.
- If the failure was due to non-disclosure of the related party by the Director and the key managerial personnel or any other employee of the Fund, the Audit committee may decide to take a disciplinary action against the person for recovery of any loss sustained by PSDF as a result of such contract or transaction.

16. Review

This policy should be reviewed by the Board and may be changed, modified or abrogated at any time on recommendation of the Audit Committee of the Board.

17. Effective Date

This policy is effective from _____ and any subsequent revisions shall be effective from the date of communication after approval.

18. Annexes

Annexure I

Register of contracts or arrangements with related party or in which directors are interested [Pursuant to sections 208 (3) and 209 (1)]

A. Contracts or arrangements with any related party under section 208 or in which any director is concerned or interested under section 205

| Date of contract or arrangement | Name of the party with which contract is entered into | Principal terms and conditions | Reference of specific items - (a) to (f) under subsection (1) of section 208, if applicable | Amount of contract or arrangement |
|---------------------------------|---|--------------------------------|---|-----------------------------------|
| (1) | (2) | (3) | (4) | (5) |

| Name of the interested director | Nature of concern or interest or change therein and relation with the party | Monetary value of interest, if reasonably quantifiable, | Extent of interest, if its monetary value is not reasonably quantifiable | Whether the transaction is at arm's length basis. If not, a brief on deviation from arm's length |
|---------------------------------|---|---|--|--|
| (6) | (7) | (8) | (9) | (10) |

| Date of approval at the meeting of the board | No. of directors present in the meeting | Directors voting in favour | Directors voting against | Directors remaining neutral |
|--|---|----------------------------|--------------------------|-----------------------------|
| (11) | (12) | (13) | (14) | (15) |

| Date of members' approval, if any | Upon cessation of the Contract / Arrangement, it's status to be mentioned in this column | Remarks |
|-----------------------------------|--|---------|
| (16) | (17) | (18) |

B. Name of the bodies corporate, firms or other association – as specified pursuant to subsection (2) of section 209, in which any director is having any concern or interest Names

| Names of the companies /bodies corporate/ firms/ association | Name of the interested director | Nature of interest or concern / change in interest or concern | Shareholding (if any) [No. of shares & percentage] | Date on which interest or concern arose / changed |
|--|---------------------------------|---|--|---|
| (1) | (2) | (3) | (4) | (5) |

Signature: _____

Chief Executive / Company Secretary/ Whole-time Director
 Date: Place:

**Annexure – II
 Director’s notice**

To
 The Board of Directors
 Punjab Skills Development Fund

Dear Sir(s)/Madam(s)

Pursuant to the provisions of sub-section (2) section 209 of the Companies Act, 2017, I _____, son/daughter/spouse of _____, having CNIC No. or Passport No. in case of foreigner _____ resident of _____, being a director in the company hereby give notice of my interest or concern in the following company(s), bodie(s) corporate, firms or other associations: -

| Sr. No. | Names of the companies /bodies corporate/ firms/ association | Nature of interest or concern / change in interest or concern | Shareholding (if any) [No. of shares & percentage] | Date on which interest or concern arose / changed |
|---------|--|---|--|---|
| (1) | (2) | (3) | (4) | (5) |

Signature:
 Name and Designation:
 Date:
 Place:

Annexure – III
Other than Director’s notice

To
 The Company Secretary
 Punjab Skills Development Fund

Dear Sir(s)/Madam(s)

Pursuant to the provisions of sub-section (1)(c) section 208 of the Companies Act, 2017, I _____, son/daughter/spouse of _____, having CNIC No. or Passport No. in case of foreigner _____ resident of _____, being _____ in the company hereby give notice of my interest or concern in the following company(s), bodie(s) corporate, firms or other associations: -

| Sr. No. | Names of the companies /bodies corporate/ firms/ association | Nature of interest or concern / change in interest or concern | Shareholding (if any) [No. of shares & percentage] | Date on which interest or concern arose / changed |
|---------|--|---|--|---|
| (1) | (2) | (3) | (4) | (5) |

Signature:
 Name and Designation:
 Date:
 Place:

Annexure – IV

Information to be disclosed to the Directors

Following minimum information shall be circulated and disclosed to the directors along with agenda for board's meeting called for approval of related party transactions, namely:

- Name of related party;
- Names of the interested or concerned persons or directors;
- Nature of relationship, interest or concern along with complete information of financial or other interest or concern of directors, managers or key managerial personnel in the related party;
- Detail, description, terms and conditions of transactions;
Amount of transactions
- Timeframe or duration of the transactions or contracts or arrangements
- Pricing policy
- Recommendations of the audit committee, where applicable
- Any other relevant and material information that is necessary for the board to make a well informed decision regarding the approval of related party transactions.